Monthly Report December 2016

La Francaise JKC China Equity

NAV per Share:	Class I	Class GP	Class P	Class Q
	USD 50.63	USD 50.50	USD 76.77	USD 104.54
	EUR 36.01	EUR 36.01	EUR 73.90	

Market and management comments

2016 REVIEW

Despite Chinese equities having had a lacklustre performance in 2016 in Hong Kong and a negative performance in Shanghai and Shenzhen, the Chinese economy did actually quite well in 2016. The combination of shutting down the capital account while implementing cuts in overcapacity at the start of the year had a number of positive economic implications. It kept liquidity within the country (outflow of capital remained largely under control) while local governments were busy refinancing roughly 20% of their outstanding debt through the domestic bond market. The banking regulator clamped down on the peer-to-peer financial sector while supply-side reforms managed to turn deflationary pressure on prices into an inflationary one. Commodity producers and transformers realised that they had more to gain than to lose by cutting production volumes and benefiting from the resulting impact on selling prices. The stimulation of the economy through infrastructure spending at the start of the year had the expected impact over the second half of the year. The property sector did very well in 2016. It shows once again how reactive a planned economy with a closed capital account and a one-party system can be. The day the Chinese economy stops reacting to policies implemented by Beijing is when the world should really start to worry about China. This clearly has not happened yet and any fear of hard landing seems particularly misplaced, especially at a time when the Purchasing Price Index that measures the price of goods at factory gates has moved back into positive territory after five years of negative numbers. This is a direct indicator of industrialists re-stocking on raw materials and overcapacity being cut leading to lesser price competition. At the same time, profits and cash flows accelerated in Q2 and Q3 throughout most sectors, the commodity and material sectors showing the strongest turnaround.

So why did Chinese equities perform so poorly this year? Until October, the MSCI China was actually showing gains, despite a difficult start of the year when the Chinese government devalued its currency by 2%. The downturn in the fourth quarter had little to do with the macro picture of China, which was good, but everything to do with the surge of the US dollar and the impact of the US presidential election. The inflationary pressure that is expected from steep cuts in US tax rates has led US Treasury bonds' yield to spike. Rotation out of emerging markets equities and into US equities accelerated after the election of Donald Trump. It will probably carry on as long as the US dollar index and US Treasuries' yield keep on rising.

THE FUND

The fund underperformed the MSCI China index by 5.8% in 2016 after outperforming by 4.8% in 2015. This underperformance accrued largely during the first quarter as we completely missed the oil price rally that took place in February/March and that saw the barrel of oil move from USD26 to USD41 in four weeks. Oil producers represent 5.3% of the benchmark and we had no exposure at that time.

Good picks this year included Xinyi Glass and Kweichow Moutai, two core holdings that gained 56% and 53% respectively, as well as our investments in Tongda, QTech, AAC Technologies, Nexteer and Beijing Enterprise Water that contributed altogether 4.9% of absolute performance. Biggest detractors hit us in the first quarter of the year when ZTE was investigated by the US government for having sold telecommunication equipment to Iran despite an ongoing embargo and when Wasion Group misled the market with unrealistic earnings forecasts. Despite having had a maximum authorised exposure to Tencent of 10% throughout the year, its strong performance of +24.4% in 2016 cost us in relative performance as its weighting in the index stood between 13% and 14% throughout the year.

2017 OUTLOOK

After such a good run in the second half of 2016 we expect the Chinese economy to slow down in 2017. The impact of stimulus measures will fade away, a high base effect will start to affect statistics and home purchase restrictions that were re-introduced in 22 cities of China to cool down property prices will start having an impact. But as long as the capital account remains closed, the central bank should be able to keep a good handle on internal liquidity and adjust it through the use of repos and reverse repos without too much external interference. This is all the more critical at a time when the central government's priority for 2017 is to slow down debt formation. Given the unexpected success the government had with its supply-side reforms in 2016, we believe it will carry on cutting overcapacity. This will in turn have a continuing positive impact on commodities prices, on inflation and will help banks reduce their level of non-performing loans as a large part of the banks' NPLs are related to ailing State-Owned Enterprises within the commodities and material space. In other words, we are reasonably confident that the macro picture of China will be good in 2017, albeit not as good as the second half of 2016. Corporates should do reasonably well as a result.

Unfortunately geopolitics may spoil the party. Donald Trump and his team of advisors seem to be ready to give a hard time to China, whether it is through the implementation of 45% import tariffs, a requalification of the "One China Policy" by the US which may have consequences on the relationship between China and Taiwan or by labelling China a "currency manipulator" like it did between 1992 and 1994. Since the US joined the WTO in 1994 it has not labelled any country a "currency manipulator". Doing so today may trigger trade sanctions on both sides that could easily spin out of control. Then comes the trajectory of US rates that keeps on driving up the US dollar and keeps on pulling money away from emerging markets and emerging currencies. How long this will last is anyone's guess but for sure a rising dollar index that is now back to its 2002 level will start to have a painful impact on the US trade balance and the US economy at large.

Performance summary (past 5 years unless specified otherwise)

Monthly return	**-4.5%**
Return (3-month)	-8.8%
Return since inception	150.1%
Compound return (2-year annualized)	-6.1%
Maximum cumulative gains	45.7%
Maximum cumulative losses	-25.0%
Maximum monthly gain	17.2%
Maximum monthly loss	-13.9%
% up months	58.3%
% down months	41.7%
Sharpe ratio (2-year annualized)	-0.3

Risk summary

Standard deviation (2-year annualized)	22.3%
VAR % (monthly @ 95% confidence level)	10.6%
Alpha (%)	-1.2
Beta	0.9
Top 5 stock holdings	30.5%
Top 10 stock holdings	46.4%
Top 20 stock holdings	68.8%
Total net cash position	4.5%

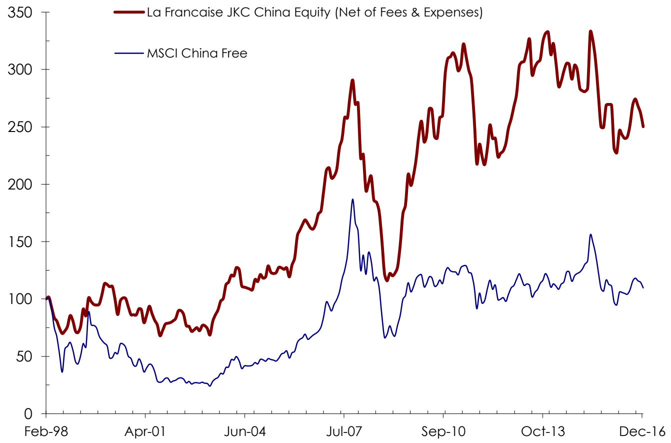
Top 10 holdings (as at 31st December 2016)

Name	Industry	
Tencent Holdings Ltd	Internet Software & Services	9.9%
Alibaba Group Holding-Sp Adr	Internet Software & Services	7.3%
New Oriental Educatio-Sp Adr	Education Services	4.7%
China Construction Bank-H	Diversified Banks	4.5%
Ind & Comm Bk Of China-H	Diversified Banks	4.2%
China Mobile Ltd	Wireless Telecommunication Ser	3.9%
Aac Technologies Holdings In	Electronic Manufacturing Servi	3.7%
Cnooc Ltd	Oil & Gas Exploration & Produc	2.9%
China Communications Servi-H	Integrated Telecommunication S	2.8%
Shenzhou International Group	Apparel, Accessories & Luxury	2.7%

Monthly performances (%) net of fees

Year	2012	2013	2014	2015	2016
Jan	6.8	8.7	-5.9	-0.8	-13.9
Feb	8.5	1.2	3.1	-0.2	-1.8
Mar	-4.7	0.3	-5.4	1.1	8.5
Apr	0.1	3.1	-6.6	17.2	-1.4
May	-6.7	2.9	1.5	-2.1	-1.3
Jun	1.3	-9.4	3.1	-5.5	0.6
Jul	1.0	2.2	2.2	-9.3	3.9
Aug	2.9	1.3	-0.3	-10.4	7.3
Sep	5.4	0.8	-4.3	-0.2	2.0
Oct	3.5	5.1	4.2	7.7	-2.2
Nov	4.1	2.1	-1.1	0.3	-2.4
Dec	4.0	0.4	-5.7	-0.2	-4.5
Year	28.2	19.4	-14.7	-5.2	-7.0

Cumulative performance (since inception - Class GP USD)



La Francaise JKC China Equity

Monthly Report December 2016

Fund's AUM: USD 51.3 million
China strategy AUM: USD 152.2 million

Fund description and manager's strategy

The fund's objective is to provide investors with exposure to China's long term growth through investments in companies operating out of China, listed predominantly but not necessarily in Hong Kong, while benefiting from a volatility that will be lower than the average volatility of Chinese indices.
The fund is a multi-cap fund focusing on bottom up stock picking of listed companies having their operations in China and on the basis of ground due diligence and compelling valuations using a value-driven investment methodology.

Countries of registration

La Francaise JKC China Equity is a UCITS IV SICAV authorised for distribution in France, Italy, Switzerland, Luxembourg, Belgium, Sweden, Finland, Spain, Germany, Austria, Singapore and Peru.*

* Not all share classes are authorised in every jurisdiction, specifically:
- In Luxembourg, France, Switzerland, Italy and Singapore all share classes are authorised (in Singapore only to institutional investors).
- In Spain, Belgium and Sweden the I Eur, I USD, P Eur and P USD share classes are authorised
- In Finland and Austria the I Eur and P Eur share classes are authorised.
- In Germany only the I Eur and I USD share classes are authorised.
- In Peru only the I USD share class is authorised.

Risk management

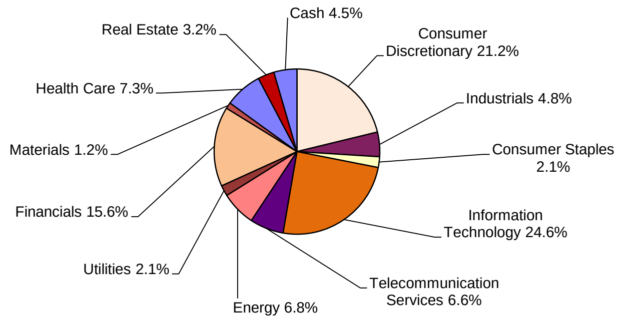
Risk is assessed and monitored on a permanent basis by JK Capital Management and Degroof Gestion Institutionnelle-Luxembourg .
Valuation of the portfolio is performed independently by Banque Degroof Luxembourg.

Currency hedging

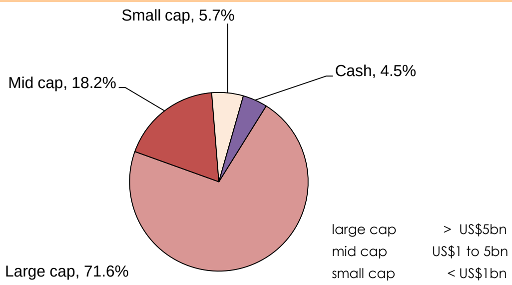
Euro-denominated shares in the fund are hedged against fluctuations in the Euro/USD exchange rate to give the opportunity to Euro-based investors to avoid any unwanted currency risk exposure. As a result, performances of Euro and USD classes of shares are very similar (however not identical due to the cost of hedging and to tracking errors) whatever the volatility of the Euro/USD exchange rate.

Hedging is implemented by Degroof Gestion Institutionnelle-Luxembourg , the risk manager of the fund, using monthly forward EUR/USD contracts, daily checks and adjustments and using a tracking error objective, calculated over a period of 52 weeks and accounting for new subscriptions or share sale, of 0.8%.

Industry breakdown



Market capitalisation breakdown



Portfolio valuation

2017 (e) PE	12.3
2017 (e) Profit Growth	16.7%
PE to Growth	0.74
Dividend Yield (ex-cash)	2.0%

Portfolio breakdown

Equities	95.5%
Cash	4.5%
Number of holdings	40

La Francaise JKC China Equity - Product features

Portfolio Managers	Fabrice Jacob / Joel Chow
Launch Date	February 1998
Reference index	MSCI China Free ("MSCI")
Investment Manager	JK Capital Management Limited based in Hong Kong
Entry/Exit	Daily
Management Fees	1.5% per annum (0.75% for Class Q, 2.2% for Class P) plus performance incentive of 15% (7.5% for Class Q) subject to high-water mark
Management company	La Française AM International
Custodian	Banque Degroof Luxembourg
Administrator	Banque Degroof Luxembourg
Auditor	KPMG
Tranches	Class I EUR- Institutional EUR Class I USD- Institutional USD Class GP EUR- Private Banking EUR Class GP USD- Private Banking USD Class P EUR- Retail EUR Class P USD- Retail USD
Minimum investments	Class I- EUR 150,000/USD 200,000 Class GP- EUR 5,000/USD 6,000 Class P- EUR 500/USD 500 Class Q - USD 20m
Legal Structure	SICAV-UCITS IV
Domicile	Luxembourg

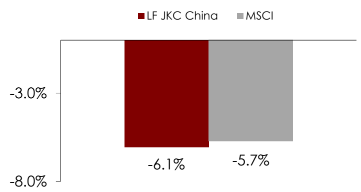
Comparison with reference index

	LF JKC China	MSCI
December 2016	-4.5%	-4.1%
3 months	-8.8%	-7.1%
2016	-7.0%	-1.2%
2015	-5.2%	-10.0%
2014	-14.7%	4.7%
3 Years	-24.8%	-7.0%
Since inception	150.1%	9.7%
Compound return over past 2 years	-6.1%	-5.7%
Sharpe ratio over past 2 years	-0.3	-0.3
Sortino ratio over past 2 years	-0.3	-0.3
Information ratio over past 2 years	-0.1	
Standard deviation over past 2 years	22.3%	24.0%

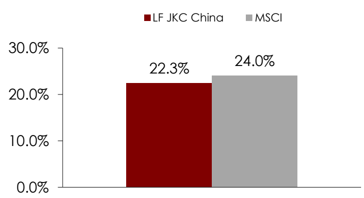
Fund's Identification Codes:

Bloomberg ticker	JKCCHIN LX Equity
ISIN code Class I EUR Institutional	LU0547182096
ISIN code Class I USD Institutional	LU0438073230
ISIN code Class GP EUR Private Banking	LU0421713362
ISIN code Class GP USD Private Banking	LU0415808285
ISIN code Class P EUR Retail	LU0611873836
ISIN code Class P USD Retail	LU0611873919
ISIN code Class Q USD	LU0724637227

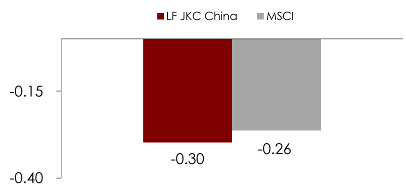
Compound return over past 2 years



Standard deviation over past 2 years



Sharpe ratio over past 2 years



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La Francaise JKC China Equity

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The fund is a UCITS (Undertakings for Collective Investment in Transferable Securities).

Source for performance figures: JK Capital Management Ltd, Bloomberg. Issuance and redemption commissions and taxation on capital gains, if any, are not included in the performance figures. Figures presented are for the GP USD share class (LU0415808285) and are based on net performance, ie after deduction of management fees and performance fees. Performance may differ for other share classes.

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