Monthly Report April 2016

La Francaise JKC China Equity

NAV per Share:	Class I	Class GP	Class P	Class Q
	USD 49.20	USD 49.09	USD 74.98	USD 101.09
	EUR 35.56	EUR 35.54	EUR 73.35	

Market and management comments

THE WORD OF THE MANAGER

With the US dollar under continuing pressure as US GDP numbers for Q1 were particularly disappointing and as the Federal Reserve is keeping a prudent approach towards monetary tightening, we are seeing liquidity flows moving back towards Chinese equity markets. The spectacular impact of the stimulus measures undertaken by the Chinese government over the past months is the other driving force behind this recent shift in global flows. Whether it is sustainable or not is the key question. The recent surge of property prices in Tier 1 cities that is largely fueled by investors (as opposed to occupiers) is certainly boosting the construction sector, but for how long? Shenzhen, Shanghai, Tianjin and Beijing prices are up 80%, 60% 40% and 40% respectively year-on-year. As the government started to implement cooling-off measures in Shenzhen, hot money moved towards the onshore commodities futures market. Towards the end of April, futures contracts on steel reinforcement bars representing more than one year of China's production changed hand in a single day, driving up prices by 57% since the start of the year. This speculation on commodities was happening at the time when the domestic bond market (all denominated in RMB) was going through its biggest correction of the past 13 months which itself followed the biggest rally ever seen in that market. These speculative bubbles moving from one asset class to another are direct consequences of the strict exchange control measures that were put in place in January that prevent money to flow into Hong Kong, Macau or anywhere else outside China: A huge amount of liquidity resulting from the fact that China enjoys the highest savings rate in the world as well as a massive trade surplus is being trapped within the country and keeps on rotating between a limited number of asset classes. Letting the air out of the balloon is not on the agenda as maintaining a closed capital account is crucial for the stability of the RMB: We have all seen what happened last August and again in January this year to global equity markets when small depreciations of the RMB were allowed to happen. The fact that the US dollar keeps on depreciating is the main reason why we believe the stimulation of the economy can keep on going without having short to medium term negative consequences: The Chinese government has used this opportunity to devalue its currency without many people noticing. At the start of the year the RMB was supposed to remain stable against a trade-weighted basket of 13 currencies (the so-called CFETS basket) while it would gradually depreciate against the US dollar. The fact that the US dollar has changed course 180 degrees (thank you Mrs. Yellen!) has allowed the RMB to depreciate so far this year by 3.7% against the CFETS basket while it appreciated by 0.2% against the US dollar. The more the US dollar keeps on dropping, the more China's central bank will let its currency depreciate against the CFETS basket and the lesser pressure there will be coming from an ever-growing national debt level. Talking about debt, it was interesting to see the banking regulator CBRC lower the provisioning requirement of all Chinese banks from 150% of Non-Performing Loans (NPL) to 130%-140% (depending on the banks) at a time when NPLs are rising and when precautionary measures should raise the provisioning requirements, not cut them. This is the way the Chinese government is helping the Chinese banks navigate through a deterioration of their loan books. For instance ICBC announced a 1% increase in profit in the first quarter of this year with a provision ratio of 141% of NPL. Had the bank maintained its provisioning ratio at 150% where it was last December, profits would have declined by 18% in Q1. Given the ever-increasing amount of liquidity in the economy and the fact that the financial system remains by and large a closed circuit, we are not concerned yet by the rising level of debt coming from the current stimulation of the economy. Japan with its 20 years of deflation, no growth, 450% of debt/GDP ratio and with no sign of any pending financial crisis is the best comparable. And we remain truly impressed by the reactivity of the Chinese economy to policy measures.

MACRO ANALYSIS

As highlighted above, recent macro numbers were good as the economy reacted swiftly to stimulus measures. While GDP was "calculated" at 6.7% in Q1 with a deflator of +0.5% (vs 6.8% in Q4 2015 with a deflator of -0.5%), less controversial numbers were also good. Electricity consumption went up by 3.2% YoY in Q1 and accelerated to +5.6% YoY in March. Focusing on the industrial sector, electricity consumption went from -2.1% YoY in January +February (to avoid the impact of Chinese New Year) to +4.5% YoY in March. Industrial production reached a 9-month high of +6.8% YoY in March vs +5.4% in February. Fixed assets investments accelerated from +10.2% YoY in January +February to +11.1% YoY in March. Retail sales also accelerated to +10.5% in March in nominal terms and +9.7% in real terms. Foreign exchange reserves increased by $10.3bn in March taking into account the impact of the US dollar drop on the non-USD portion of the FX reserves. If we exclude it, FX reserves actually dropped by $35bn, a very manageable decrease. Our favorite indicator – the Producer Price Index – is also in fast recovery mode, from -5.3% in January to -4.9% in February and to -4.3% in March. Exports have rebounded from -17.8%YoY in January +February to +11.5% YoY in March when imports have also rebounded from -13.8% YoY to -7.6% YoY in USD terms. It is important to stress that imports in volumes have never stopped growing.

THE FUND

La Francaise JKC China Equity saw its NAV per share drop by 1.4% in April when the MSCI China Free index dropped by 0.2%.
The cash position of the fund was 6.0% at the end of the month.

THE PORTFOLIO

The staggering rebound of oil price in March from $36 to $46 a barrel has left us wrong-footed as we have been massively underweight energy stocks over the past 18 months. Oil stocks represent 7.4% of the benchmark and are responsible for half of the underperformance this month. The oil rally is even more surprising that the meeting in Doha that was aimed at finding an agreement between oil producers to cut output was a total failure, highlighting if need be the level of distrust that exists between Saudi Arabia and Iran (which did not even show up). Part of the underperformance is also related to ZTE, the second largest telecom equipment manufacturer of China (after Huawei, unlisted) which we have owned since January 2014. The US Trade Department accused ZTE to have sold telecom equipment that incorporated US components to Iran when Iran was under US embargo. After a month of trading suspension, the US Trade Department requested that the senior management of ZTE be replaced. It gave temporary export licences to US suppliers until the end of June and is expected to impose sanctions that could range from a fine to a total ban over the purchase of US components. Given the size of ZTE (it is an USD9bn company) and the strategic importance it has for the Chinese government, it has become a diplomatic issue that we believe will be resolved through a fine. When trading resumed on 7th April, the share dropped by 10%, and further dropped by another 4.5% by the end of the month. We remain confident that the matter will be resolved in a positive way in the coming weeks and have decided to hold on to our position. The only addition to the portfolio this month was Goodbaby, a company we used to own several years ago and that just went through two years of successful restructuring. It is one of the largest manufacturers in the world of baby prams and children's car seats.

Performance summary (past 5 years unless specified otherwise)

Monthly return	**-1.4%**
Return (3-month)	5.0%
Return since inception	143.2%
Compound return (2-year annualized)	-7.7%
Maximum cumulative gains	45.7%
Maximum cumulative losses	-32.4%
Maximum monthly gain	17.2%
Maximum monthly loss	-15.4%
% up months	53.3%
% down months	46.7%
Sharpe ratio (2-year annualized)	-0.4

Risk summary

Standard deviation (2-year annualized)	22.1%
VAR % (monthly @ 95% confidence level)	10.5%
Alpha (%)	-6.7
Beta	0.8
Top 5 stock holdings	28.8%
Top 10 stock holdings	44.3%
Top 20 stock holdings	67.8%
Total net cash position	6.0%

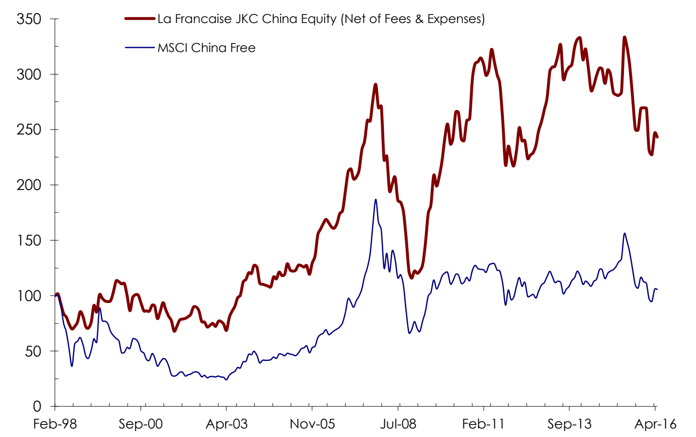
Top 10 holdings (as at 30th April 2016)

Name	Industry	
Tencent Holdings Ltd	Internet Software & Services	9.7%
China Mobile Ltd	Wireless Telecommunication Ser	6.6%
Nexteer Automotive Group Ltd	Auto Parts & Equipment	4.8%
China Overseas Land & Invest	Real Estate Development	4.0%
Baidu Inc - Spon Adr	Internet Software & Services	3.7%
Ping An Insurance Group Co-H	Life & Health Insurance	3.3%
Beijing Enterprises Water Gr	Water Utilities	3.2%
Xinyi Glass Holdings Ltd	Auto Parts & Equipment	3.1%
Shanghai International Air-A	Airport Services	3.0%
Alibaba Group Holding-Sp Adr	Internet Software & Services	2.9%

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	
Jun	1.3	-9.4	3.1	-5.5	
Jul	1.0	2.2	2.2	-9.3	
Aug	2.9	1.3	-0.3	-10.4	
Sep	5.4	0.8	-4.3	-0.2	
Oct	3.5	5.1	4.2	7.7	
Nov	4.1	2.1	-1.1	0.3	
Dec	4.0	0.4	-5.7	-0.2	
Year	28.2	19.4	-14.7	-5.2	-9.6

Cumulative performance (since inception - Class GP USD)



La Francaise JKC China Equity

Monthly Report April 2016

Fund's AUM: USD 73 million

China strategy AUM: USD 172.4 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

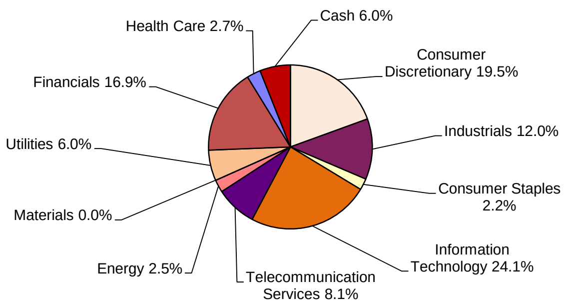
Risk is assessed and monitored on a permanent basis by JK Capital Management and Degroof Gestion Institutionnelle-Luxembourg .
Valuation of the portfolio is performed independently by Banque Degroof Luxembourg.

Currency hedging

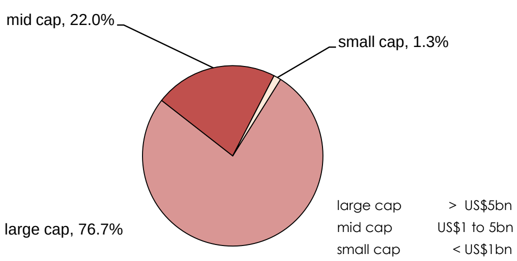
Euro-denominated shares in the fund are hedged against fluctuations in the Euro/USD exchange rate to give the opportunity to Euro-based investors to avoid any unwanted currency risk exposure. As a result, performances of Euro and USD classes of shares are very similar (however not identical due to the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

2016 (e) PE	12.9
2016 (e) Profit Growth	16.0%
PE to Growth	0.81
Dividend Yield (ex-cash)	2.7%

Portfolio breakdown

Equities	94.0%
Cash	6.0%
Number of holdings	39

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
Listed on the Luxembourg Stock Exchange	

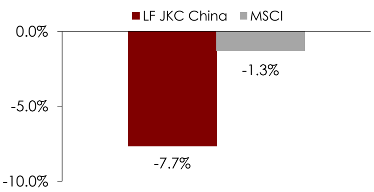
Comparison with reference index

	LF JKC China	MSCI
April 2016	-1.4%	-0.2%
3 months	5.0%	8.5%
YTD 2016	-9.6%	-4.9%
2015	-5.2%	-10.0%
2014	-14.7%	4.7%
3 Years	-23.3%	-6.6%
Since inception	143.2%	5.7%
Compound return over past 2 years	-7.7%	-1.3%
Sharpe ratio over past 2 years	-0.4	-0.1
Sortino ratio over past 2 years	-0.4	-0.1
Information ratio over past 2 years	-0.7	
Standard deviation over past 2 years	22.1%	24.5%

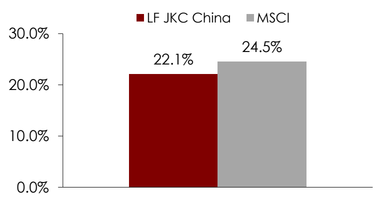
Fund's Identification Codes:

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

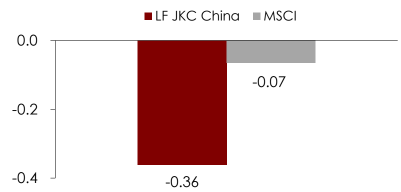
Compound return over past 2 years



Standard deviation over past 2 years



Sharpe ratio over past 2 years



Contact details

JK CAPITAL MANAGEMENT LTD.

An affiliate of LA FRANÇAISE investing together

Address: Suite 1101 Chinachem Tower, 34-37 Connaught Road Central, Hong Kong

Telephone: +852 2523 8020 | Fax: +852 2523 4142 | Email: info@jkcapitalmanagement.com

www.jkcapitalmanagement.com

La Francaise JKC China Equity

Disclaimer

This document is marketing information. The elements contained in this document have been prepared solely for the purpose of information and do not constitute an offer, or any invitation, to buy or sell any financial instrument or to participate in any trading strategy. While particular attention was paid to the content of this document, no guarantee, warranty or representation, express or implied, is given as to the accuracy, correctness or completeness thereof.
Please note that the value of investments may rise or fall and that past performance results are no indication of future results. Investors may not receive the amounts invested upon redemption. Investments in foreign currencies may generate a currency risk, and the return in any reference currency may increase or decrease as a result of currency fluctuations. The fund is exposed to several types of risks which are listed in the fund's KIID.
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.

The issuer of this document is JK Capital Management Ltd, a Hong Kong Limited Company, located at Suite 1101, Chinachem Tower, 34-37 Connaught Road Central, Hong Kong, Phone: +852 2523 8020 – Fax: +852 2523 4142. JK Capital Management Ltd is regulated by the SFC as an investment management company with registration number AEP547. This presentation must not be copied, reproduced, distributed or passed on to any person at any time without the prior consent of JK Capital Management Ltd.

The tax treatment of the fund depends on the personal circumstances of each client and can be subject to future changes. You should consult your financial advisor before investing.

The fund may not be offered, sold or delivered within the United States. This product may be subject to restrictions with regard to certain persons or in certain countries under national regulations applicable to such persons or countries. Notably, this presentation is exclusively intended for persons who are not US persons, as such term is defined in regulations of the US Securities Act of 1933, as amended (the Securities Act) and who are not physically present in the United States.

For more detailed information on the investment fund, please refer to the prospectus and the Key Investor Information Document ("KIID") which should be read before any investment. In relation to the investment fund and share classes mentioned in this document, the latest prospectus, the KIID and the annual and semi-annual reports have been published containing all the necessary information about the product, the costs and the risks attached to any investment. The latest versions are available at www.jkcapitalmanagement.com or www.lafrancaisegroup.com or upon request to either JK Capital Management Ltd, Suite 1101, Chinachem Tower, 34-37 Connaught Road Central, Hong Kong, contact: info@jkcapitalmanagement.com; or La Française AM, 128 boulevard Raspail, 75006 Paris – France, contact-valeurmobilieres@lafrancaise-group.com. Do not take unnecessary risks.

The distribution and the offering of funds in certain jurisdictions may be restricted by law. Persons into whose possession of this document may come are required to inform themselves about and to comply with any relevant restrictions.

For Switzerland
Funds authorized by the Swiss Financial Market Supervisory Authority (FINMA) for public distribution in Switzerland: for interested parties, fund regulations or the articles of incorporation, the key investor information document (KIID) and the full prospectus, in their current versions, as well as the annual and semi-annual reports are provided free of charge at the representative office in Switzerland (ACOLIN Fund Services AG, Stadelhoferstrasse 18, CH- 8001 Zurich, www.acolin.ch). Paying agent in Switzerland is NPB Neue Privat Bank AG, Limmatquai 1, 8022 Zurich.

For Finland
Funds registered in Finland have been authorized for public distribution in Finland by the Financial Supervisory Authority (FIN-FSA).
In relation to the investment fund and share classes mentioned in this document, the latest prospectus, the KIID and the annual and semi-annual reports (whose latest versions are available on www.jkcapitalmanagement.com or www.lafrancaise-group.com) have been published containing all the necessary information about the product, the costs and the risks which may occur. Do not take unnecessary risk.

For Germany
Funds registered in Germany have been authorized for public distribution in Germany by the Federal Financial Supervisory Authority (BaFin).
In relation to the investment fund and share classes mentioned in this document, the latest prospectus, the KIID and the annual and semi-annual reports (whose latest versions are available on www.jkcapitalmanagement.com or www.lafrancaise-group.com or upon request to info@jkcapitalmanagement.com or contact-valeurmobilieres@lafrancaise-group.com) have been published containing all the necessary information about the product, the costs and the risks which may occur. Do not take unnecessary risk.

For Luxembourg
Funds registered in Luxembourg have been authorized for public distribution in Luxembourg by the Commission de Surveillance du Secteur Financier ("CSSF").
In relation to the investment fund and share classes mentioned in this document, the latest prospectus, the KIID and the annual and semi-annual reports (whose latest versions are available on www.jkcapitalmanagement.com or www.lafrancaise-group.com or upon request to info@jkcapitalmanagement.com or contact-valeurmobilieres@lafrancaise-group.com) have been published containing all the necessary information about the product, the costs and the risks which may occur. Do not take unnecessary risk.

For Sweden
Funds registered in Sweden have been authorized for public distribution in Sweden by the Swedish Financial Supervisory Authority (Fiansinspektionen).
In relation to the investment fund and share classes mentioned in this document, the latest prospectus, the KIID and the annual and semi-annual reports (whose latest versions are available on www.jkcapitalmanagement.com or www.lafrancaise-group.com or www.morningstar.se or from our Paying Agent SKANDINAVISKA ENSKILDA BANKEN AB Sergels Torg 2, SE-106 40 Stockholm, Sweden) have been published containing all the necessary information about the product, the costs and the risks which may occur. Do not take unnecessary risk.

For Italy
Funds registered in Italy have been authorized for public distribution in Italy by the Commissione Nazionale per le Società e la Borsa (CONSOB).
In relation to the investment fund and share classes mentioned in this document, the latest prospectus, the KIID and the annual and semi-annual reports (whose latest versions are available on www.jkcapitalmanagement.com or www.lafrancaise-group.com, or www.fundinfo.com or from our Paying Agent BNP PARIBAS Securities Services, Via Ansperto no. 5 20123 Milan, Italy) have been published containing all the necessary information about the product, the costs and the risks which may occur. Do not take unnecessary risk.

For Spain
Funds registered in Spain have been authorized for public distribution in Spain by the Comision Nacional del Mercado de valores (CNMV)
In relation to the investment fund and share classes mentioned in this document, the latest prospectus, the KIID and the annual and semi-annual reports (whose latest versions are available on www.jkcapitalmanagement.com or www.lafrancaise-group.com or can be obtained from Allfunds Bank SA Calle Estafeta 6- Complejo Plaza de la Fuente, Edificio 3, La Moraleja, Spain) have been published containing all the necessary information about the product, the costs and the risks which may occur. Do not take unnecessary risk.