Monthly Report November 2016

La Francaise JKC China Equity

NAV per Share:	Class I	Class GP	Class P	Class Q
	USD 52.99	USD 52.86	USD 80.40	USD 109.34
	EUR 37.84	EUR 37.80	EUR 77.68	

Market and management comments

THE WORD OF THE MANAGER

The month of November was eventful, to say the least, as the election of Donald Trump has shed a new light to our investment universe. The inflationary pressure that may result from a massive infrastructure program in the US (assuming it does happen) has already translated in a substantial spike in US Treasury Bonds yield and in commodities prices. The 30-year down-cycle of US interest rates may be coming to an end. This is happening at a time when the "supply-side" reforms implemented in China in order to cut overcapacity in basic material and coal is having an impact that no-one would have predicted at the start of the year when they had been announced. Under the combined effect of the US elections and a sudden shortage of raw material supply in China, commodity prices have shot up (thermal coal price has doubled in 12 months, coking coal price has tripled), providing President Xi Jinping with a timely window of opportunity. It is a window of opportunity as the Chinese government is committed to slowing down debt formation, necessarily triggering deflationary forces. The surge in commodity prices we have seen recently allows a number of loss-making state-owned enterprises to finally make profits, generate free cash flows and deleverage after years of misery, lowering the pressure of non-performing loans on the banking sector at a time when the banking sector will see its growth slow down. This is the reason why the Chinese government must be glad to see the deflationary pressure of the past years turning into an inflationary pressure driven by commodity prices. It is also why it probably does not want to see commodity prices go back where they were six months ago. This is also an incentive to extend supply-side reforms to additional sectors as industrialists have realised that there is more to gain through price increases than to lose from cuts in production volumes. The Purchasing Price Index that measures prices at factory gates finally became positive after having been in negative territory for four years. It means industrialists have been restocking on commodities at a higher price after having depleted their low-cost inventories of raw materials. As long as the PPI remains in positive territory, the risk of a hard landing of the Chinese economy remains at bay. As mentioned above, to reduce the pace of debt formation has become the top priority for next year. We are already seeing the central bank in action as it is actively draining liquidity through reverse repos operations, leading to a rise in the overnight inter-bank SHIBOR rate. This is effectively a tightening of monetary policy that is conducted within the frame of a closed capital account to keep liquidity at home.

At the corporate level, Q3 results released by Chinese companies were in general good, and for certain sectors excellent. Earnings of non-financial companies have increased by 13.3% YoY for the first nine months and have accelerated during the third quarter in many industries. Operating cash flows as a percentage of revenues have reached 9.9%, their highest level since Q1 2010. The average net debt to equity ratio currently stands at 33% compared with 40% a year ago.

Back to the US elections, one common fear is the threat that the new president made during his campaign about setting up import tariffs as high as 45% on goods coming from China. Seeking remedies from the World Trade Organization is the obvious way of dealing with the matter, both countries being members. A more radical way would be for China to impose all kinds of sanctions on US companies doing business in China, in which case we would argue that the damages of a trade war would be far greater on the US side than they would be on the Chinese side. This is why we are not overly concerned by the rhetoric of Mr. Trump. On the other hand we are far more concerned by the paradigm shift a surge in US rates and a continuing appreciation of the US dollar would trigger on countries that have lived of quantitative easing for years hoping that low interest rates would stay low forever.

MACRO ANALYSIS

November's official Purchasing Managers Indices (PMIs) beat expectations. It increased to 51.7 compared with 51.2 in October when analysts had expected this number to come down to 51.0. This, in our view, is a reflection of the better outlook seen by large State Owned Enterprises that comprise the biggest part of the sample used to compute this index on the back of the commodities rebound discussed above. The Caixin-Markit PMI that is privately-run and that covers largely mid-sized companies fell from 51.2 in October to 50.9 in November, in line with estimates. New exports orders and employment sub-PMIs both increased, indicating a recovery in external demand and job creation. The price component of both PMIs increased significantly, indicating that the Purchasing Price Index discussed above will keep on rising when the number is announced on 9th December.

These strong numbers are most likely not sustainable. Not only is the higher base effect going to have a negative impact at some point next year, but Home Purchase Restrictions that have started being implemented over the quarter will start to have downstream consequences transpiring through macro numbers. This will be further amplified by the impact of a tighter monetary policy meant to slow down debt formation, leading in our views to "short term pain in return for long term gain".

THE FUND

La Francaise JKC China Equity saw its NAV per share drop by 2.4% in November when the MSCI China Free index dropped by 1.2%.
The cash position of the fund was 1.3% at the end of the month.

THE PORTFOLIO

We were clearly caught by surprise by the results of the US elections. Not only had we not anticipated the outcome, but we were miles away from anticipating that this outcome would trigger a powerful surge of the US dollar and in US Treasuries' yield. The part of our portfolio that consists in defensive stocks offering high dividend yields performed badly as a surge in US Treasuries' yield is typically very negative for fixed income and for equities that could be somewhat assimilated to fixed income. We were also underweight commodities which had a spectacular run following Mr. Trump's election.

Whether the new US president will deliver on his infrastructure program remains to be seen as sources of financing remain unclear. Guessing the future direction of US Treasuries, of US inflation, of the US dollar and the impact on commodities worldwide is impossible at this stage and will remain probably so until Mr. Trump's inauguration on 20th January next year. This is why we have decided to hedge our risks by raising our exposure to materials close to the benchmark and by reducing our exposure to high-yielding stocks.

Performance summary (past 5 years unless specified otherwise)

Monthly return	**-2.4%**
Return (3-month)	-2.7%
Return since inception	161.8%
Compound return (2-year annualized)	-6.7%
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)	22.5%
VAR % (monthly @ 95% confidence level)	10.7%
Alpha (%)	-4.0
Beta	0.9
Top 5 stock holdings	30.8%
Top 10 stock holdings	47.5%
Top 20 stock holdings	72.6%
Total net cash position	1.3%

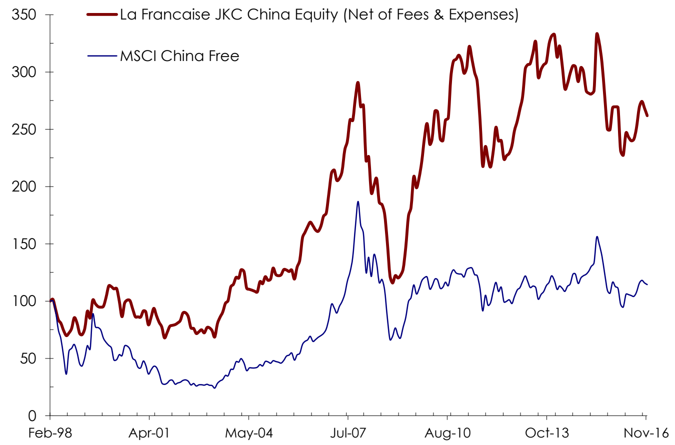
Top 10 holdings (as at 30th November 2016)

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	5.2%
Aia Group Ltd	Life & Health Insurance	4.4%
Shanghai Fosun Pharmaceuti-H	Pharmaceuticals	4.0%
China Mobile Ltd	Wireless Telecommunication Ser	3.7%
Tongda Group Holdings Ltd	Electronic Components	3.5%
Aac Technologies Holdings In	Electronic Manufacturing Servi	3.4%
China Construction Bank-H	Diversified Banks	3.1%
Ind & Comm Bk Of China-H	Diversified Banks	3.0%

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	
Year	28.2	19.4	-14.7	-5.2	-2.6

Cumulative performance (since inception - Class GP USD)



La Francaise JKC China Equity

Monthly Report November 2016

Fund's AUM: USD 55.2 million
China strategy AUM: USD 160.9 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

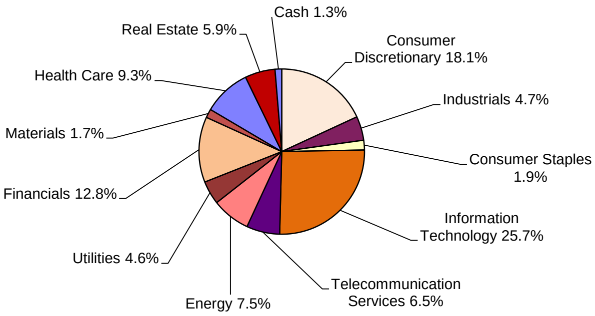
Risk is assessed and monitored on a permanent basis by JK Capital Management and Degroof Gestion Institutionnelle-Luxembourg .
Valuation of the portfolio is performed independently by Banque Degroof Luxembourg.

Currency hedging

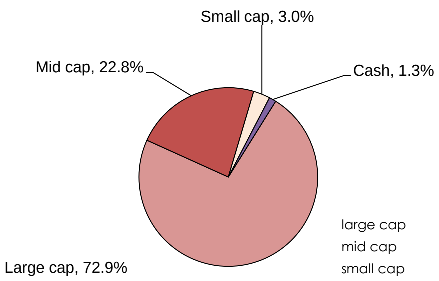
Euro-denominated shares in the fund are hedged against fluctuations in the Euro/USD exchange rate to give the opportunity to Euro-based investors to avoid any unwanted currency risk exposure. As a result, performances of Euro and USD classes of shares are very similar (however not identical due to the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



large cap	> US$5bn
mid cap	US$1 to 5bn
small cap	< US$1bn

Portfolio valuation

2017 (e) PE	13.2
2017 (e) Profit Growth	15.6%
PE to Growth	0.84
Dividend Yield (ex-cash)	2.0%

Portfolio breakdown

Equities	98.7%
Cash	1.3%
Number of holdings	42

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

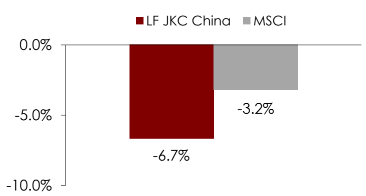
Comparison with reference index

	LF JKC China	MSCI
November 2016	-2.4%	-1.2%
3 months	-2.7%	-1.0%
YTD 2016	-2.6%	3.0%
2015	-5.2%	-10.0%
2014	-14.7%	4.7%
3 Years	-21.0%	-6.3%
Since inception	161.8%	14.4%
Compound return over past 2 years	-6.7%	-3.2%
Sharpe ratio over past 2 years	-0.3	-0.1
Sortino ratio over past 2 years	-0.4	-0.2
Information ratio over past 2 years	-0.4	
Standard deviation over past 2 years	22.5%	23.9%

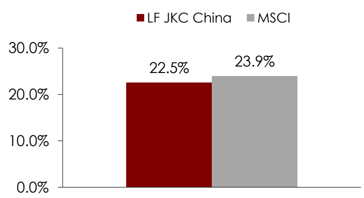
Fund's Identification Codes:

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

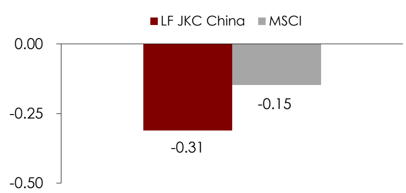
Compound return over past 2 years



Standard deviation over past 2 years



Sharpe ratio over past 2 years



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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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