La Francaise JKC Asia Equity

Monthly Report December 2016

NAV per Share:	Class I	Class GP	Class P
	EUR 87.86	EUR 84.86	EUR 91.90
	USD 91.26	USD 86.87	USD 94.34

Market and management comments

2016 REVIEW
In our 2016 outlook report written twelve months ago, we noted that three key factors to drive markets across Asia would be the US Fed's policy, the oil price (and in general commodities prices) and the economic situation in China. We stated that US rate hikes would be gradual, that central banks across Asia would keep a loose monetary environment, that oil price would stay low and that the Chinese government would manage to circumvent many economic obstacles by reforming its state-owned enterprises and by cutting overcapacities. Looking back, our statements were largely true with the exception of our views on the oil price.

Markets started the year on an extremely negative tone somehow triggered by a slump in China's A share market and a 2% devaluation of its currency. There were concerns about a less-than-robust recovery of the US economy, further economic slowdown in Europe and the long-lasting fear of a hard landing in China. Policy rates moving deeper into negative territory across Europe and in Japan left the impression that central bankers were getting desperate to kick-start their respective economies through untested monetary policies, which was not particularly reassuring. Towards the end of the year, however, markets started to factor in a complete U turn on many fronts. The US economy is now expected to accelerate, inflation to pick up resulting in bond yields reversing their multiple year downward trend. The oil price more than doubled from its recent trough and major commodities rallied sharply on the back of expectations of a strong US fiscal stimulus. As for China, the market started to realize that the Chinese economy did quite well in 2016 with noticeable achievements with reforms and stimulation through infrastructure spending. Towards the end of the year, the result of the US presidential election was a game-changer that triggered strong outflows from emerging markets into the US market as the perspective of a strong US dollar driven by inflation-triggered rate hikes became impossible to ignore.

In 2016, three countries under our coverage went through difficult political situations. Thailand adopted a new constitution that now prevents any party from gaining power without the blessing of the military. In Malaysia, the 1MDB scandal continued to escalate as an increasing number of foreign law enforcement agents started to investigate the case while Prime Minister Najib managed to secure his position by eliminating anyone on his path. In South Korea, President Park was suspended from office amidst impeachment proceedings as a result of a corruption scandal. Two countries, Taiwan and the Philippines, faced delicate situations as their newly elected presidents chose to adopt policies that antagonise their allies, the US in the case of the Philippines and China in the case of Taiwan. On the positive side, three countries made considerable progress by implementing tough measures. China's supply side reforms managed to convince State-Owned Enterprises that cutting capacity can improve profitability and cash flows. In Indonesia, President Widodo obtained a major success with his flagship tax amnesty program. Finally in India, the introduction of a bankruptcy law, the approval by the parliament of a Goods and Services Tax reform and the demonetization of 500 and 1,000 rupees notes that was typically used to keep "black money" greatly helped to improve the country's long term outlook.

THE FUND
The fund underperformed the MSCI AC Asia ex Japan index by 5.8% in 2016 after having outperformed by 9.1% in 2015. The main detractors were found in China with poor performance coming from our property and insurance exposure. On the other hand our technology exposure in Korea and Taiwan did well, and so did most of our Indian stock picks. We suffered from the stand-off between the Korean and Chinese governments resulting from the purchase by Korea of US anti-missile equipment. Our Korean cosmetic companies that did so well in 2015 took the blow in 2016 when tourism and duty-free shopping got impacted.

2017 OUTLOOK
The single most important factor that will drive global markets in 2017 should be policies coming from Washington. Should President Trump announce a strong fiscal stimulus, the reflationary excitement would likely carry on, with further US dollar strengthening and US Treasuries' yield rising, leading to continuous rotation out of emerging markets equities and into US equities. However, we believe that it is perhaps too early to claim the end of the low global interest rate environment. The amount of debt that results from nine years of quantitative easing around the globe is such that central bankers will most likely hesitate before they switch to monetary tightening as many countries would be pushed towards default. The global economy being far more leveraged than it was in the 80's, the debt overhang will remain deflationary. This is why the prevailing consensus that the world is arguably moving back into inflation and that the interest rates cycle has permanently reversed tends to push us into the contrarian camp. Being sceptical in front of such a powerful consensus may look awkward at this stage. To forecast policies directions from governments and central banks and their inflection points is not an easy job. We do not intend to do so. Instead, as fundamental stock pickers, we keep on focusing on structural themes and bottom-up stories. After all, as Charlie Munger put it, "micro-economics is what we do and macro-economics is what we put up with".

In terms of outlook for each country across our region, we are most comfortable with China and India, both having big domestic markets, strong local liquidity and less external vulnerability. India is moving at full steam with its reform program, with Mr. Modi paying little interest to anyone who objects to his plans. China has its own agenda, a closed capital account to protect its currency and a strong leadership that will not rock the boat ahead of the political transition scheduled for the end of 2017. China will not get its economic priorities distracted by Washington, whatever pressure the Congress may want to impose.

If the US dollar keeps on rising, Indonesia will show its vulnerability as its sovereign debt is largely owned by foreign investors. However it is a direct beneficiary of higher commodities prices.
Malaysia and Thailand are difficult to predict as politics can easily take the driver's seat. Unfortunately we do not see a lot of growth drivers in these two countries.
We like Taiwan as its central bank has always been very supportive of its currency, lowering the risk premium of the country. Furthermore it is a deep market with high liquidity and numerous investment opportunities, particularly in the tech space.
We remain prudent on the Philippines as remittances from overseas Filipinos are no longer a growth driver of the economy and as local inflationary pressure makes us believe that it will be the first country under our coverage to tighten its monetary policy.
In South Korea, we believe the worst is over. The situation between China and Korea can only get better for the reason that we do not see how it can get worse. President Park having been impeached, we believe it is time to look at Korea with a positive mind set. Any successor to President Park will most likely reconsider the anti-missile ballistic programme of his predecessor that annoyed so much the Chinese government.
Singapore remains a country that is driven more by global macro than local fundamentals. Oil price and US interest rates will be critical for the Singaporean stock market.

Despite all the negativity surrounding emerging markets within the context of a rising dollar, we are optimistic for the Asia region. Valuations are cheap, particularly in Northern Asia, growth is real, cash flows have improved significantly in 2016, earnings estimates for 2017 have been revised upwards and industrial companies are going through a restocking cycle. Furthermore the two locomotives of the region, China and India, are moving along their growth path without paying any attention to either internal or external pressure, both countries being led by extremely competent people. Being contrarian, we think Asian markets may surprise on the upside in 2017, especially if promises made during the US election campaign fail to materialise and if central bankers in key developed countries have second thoughts about hiking rates.

Performance summary

Monthly return	**-1.0%**
Return (3-month)	-8.3%
Return since inception (7/2011)	-8.7%
Compound return (2-years annualized)	-2.2%
Maximum cumulative gains	26.3%
Maximum cumulative losses	-21.7%
Maximum monthly gain	8.4%
Maximum monthly loss	-10.4%
% up months	60.0%
% down months	40.0%
Sharpe ratio (monthly return 2-years annualized)	-0.17

Risk summary

Standard deviation (monthly return 2-years annualized)	15.9%
VAR % (monthly @ 95% confidence level)	7.6%
Alpha (monthly return for 2-year annualized)	1.1%
Beta (monthly return 2-year)	0.83
Top 5 stock holdings	22.8%
Top 10 stock holdings	37.1%
Top 20 stock holdings	59.5%
Total net cash position	7.8%

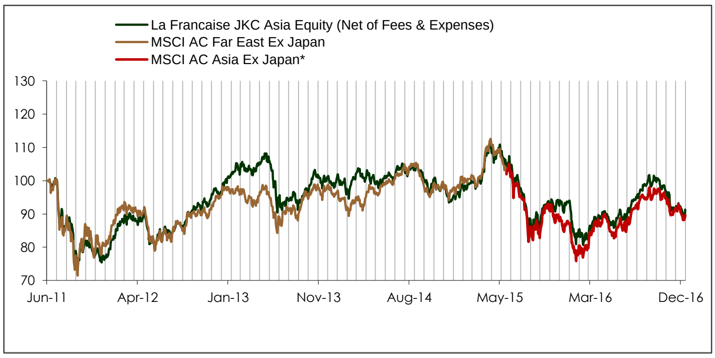
Top 10 holdings (As at 31st December 2016)

Name	Industry	Country	
Tencent Holdings Ltd	Internet Software & Servic	China	7.0%
Samsung Electronics Co Ltd	Technology Hardware, Stora	South Korea	5.0%
Taiwan Semiconductor Manufac	Semiconductors	Taiwan	3.9%
Aia Group Ltd	Life & Health Insurance	Hong Kong	3.6%
Lg Chem Ltd	Commodity Chemicals	South Korea	3.4%
Nexteer Automotive Group Ltd	Auto Parts & Equipment	China	3.4%
Viatron Technologies Inc	Semiconductor Equipment	South Korea	3.1%
Amorepacific Corp	Personal Products	South Korea	2.6%
Power Grid Corp Of India Ltd	Electric Utilities	India	2.6%
Shanghai Fosun Pharmaceuti-H	Pharmaceuticals	China	2.6%

Monthly Performances (%) net of fees

Year	2012	2013	2014	2015	2016
Jan	8.4	4.8	-4.6	2.5	-9.3
Feb	7.2	2.2	5.1	1.6	-3.0
Mar	-1.0	-0.3	-1.3	1.5	8.4
Apr	0.9	1.8	-1.9	7.3	-0.2
May	-7.9	0.5	1.8	0.1	-0.6
Jun	2.3	-10.4	0.4	-4.0	1.7
Jul	1.3	-1.1	1.6	-6.0	4.8
Aug	0.3	-0.6	0.4	-9.7	4.3
Sep	6.3	3.0	-2.9	-0.8	0.7
Oct	1.7	5.5	0.3	5.1	-2.9
Nov	3.9	-0.4	-0.9	0.4	-4.6
Dec	0.9	0.8	-4.2	1.6	-1.0
Year	26.0	5.1	-6.3	-1.6	-2.9

Cumulative performance (since inception) Class I USD



***MSCI AC Asia ex Japan became the reference index with the addition of India to the investment universe on 16/06/15, prior to that the reference index was the MSCI AC Far East ex Japan. The charts and numbers reflect this change and display the MSCI AC Far East ex Japan prior to 16/06/15 and MSCI AC Asia ex Japan from that date onwards.**

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Fund's AUM: USD 34 million

AUM Asia strategy: USD 57.8 million

Fund description and manager's strategy

The fund's objective is to provide investors with exposure to the Asian continent through investments in companies operating predominantly in Asia excluding Japan. The fund aims at providing above-average returns with a lower-than-average volatility by implementing a bottom-up value approach investment methodology combined with a top-down macro-driven country allocation.

Countries of registration

La Francaise JKC Asia Equity is a UCITS IV SICAV authorised for retail distribution in France, Italy, Switzerland, Luxembourg, Belgium, Sweden, Finland, Spain, 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 all classes are only available to institutional investors). - In Spain, Italy, 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 for both funds - In Peru, the I USD share class is authorised

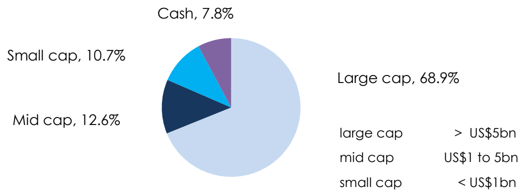
Risk management

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.

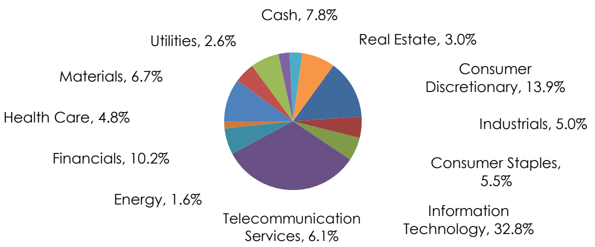
Currency hedging

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%.

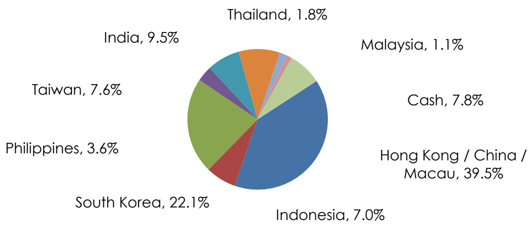
Breakdown by company size



Industry breakdown



Geographic breakdown



Portfolio valuation

2017 (e) PE	14.2
2017 (e) Profit Growth	22.8%
PE to Growth	0.63
Dividend Yield (ex-cash)	1.58

Portfolio breakdown

Equities	92.2%
Cash	7.8%
Number of holdings	45

La Francaise JKC Asia Equity - Product features

Portfolio Managers	Fabrice Jacob / Sabrina Ren
Launch Date	Jul-11
Reference index	MSCI AC Asia Ex Japan ("MSCI")
Investment Manager	JK Capital Management Limited based in Hong Kong
Entry/Exit	Daily, with a 2-day notice
Management Fees	1.5% per annum (2.2% for Class P) plus performance incentive of 15% 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
Minmum investments	Class I- EUR 150,000/USD 200,000 Class GP- EUR 5,000/USD 6,000 Class P- EUR 500/USD 500
Legal Structure	SICAV-UCITS IV
Domicile	Luxembourg

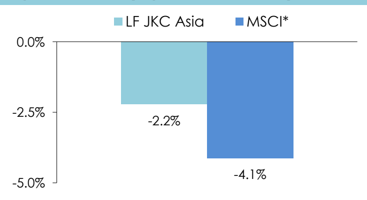
Comparison with reference index

	LF JKC Asia	MSCI*
Dec-16	-1.0%	-2.3%
3 months	-8.3%	-6.6%
2016	-2.9%	2.9%
2015	-1.6%	-10.7%
1 Year	-2.5%	3.2%
3 Years	-9.9%	-7.3%
Since inception (7/2011)	-8.7%	-10.3%
Compound return (2-years annualized)	-2.2%	-4.1%
Sharpe ratio over 2 years	-0.17	-0.27
Standard deviation (monthly return 2 yrs ann.)	15.9%	17.2%

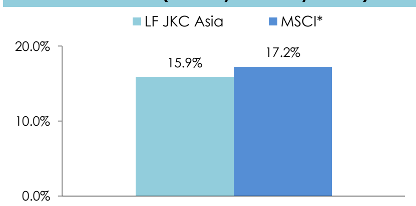
Fund's Identification Codes:

Bloomberg Ticker	LFPAVIU LX Equity
ISIN code Class I EUR Institutional	LU0611874057
ISIN code Class I USD Institutional	LU0611874131
ISIN code Class GP EUR Private Banking	LU0611874214
ISIN code Class GP USD Private Banking	LU0611874305
ISIN code Class P EUR Retail	LU0611874487
ISIN code Class P USD Retail	LU0611874560

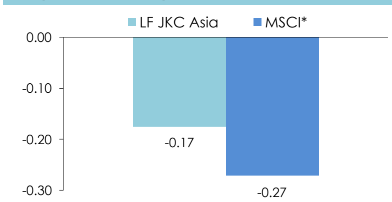
Compound return (2-years annualized)*



Standard deviation (monthly return 2 yrs ann.)*



Sharpe ratio over 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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