Monthly Report May 2014

LFP JKC China Value

NAV per Share:	Class I	Class GP	Class P	Class Q	Class DC
	USD 58.60	USD 58.50	USD 90.44	USD 118.68	USD 102.32
	EUR 42.56	EUR 42.45	EUR 88.91		

FitchRatings as at 31st May 2014: FUND QUALITY RATING FitchRatings Strong fitchratings.com/fam TM

MORNINGSTAR Rating™: ★★★★★

As at 31st May 2014 (Class I USD - Institutional USD)

Market and management comments

THE WORD OF THE MANAGER

Sentiment towards China seems to have taken a positive turn in the first half of the month. A few events triggered a wave of renewed optimism following a couple of gloomy months. These events included the release of surprisingly good trade numbers for the month of April, a strong rebound of the HSBC/Markit PMI for May, more and more cities relaxing home purchase restrictions to counterbalance a slump in new housing starts, and the signing of a large gas supply contract with Russia. We also hear more and more rumours about a possible cut in the Required Reserve Ratio of banks sometime over the summer to help the economy grow by at least 7% this year. The fight against corruption is not abating as literally every week senior officials and businessmen are arrested. Latest high profile case was the death sentence pronounced against a mining billionaire who was a close associate of Zhou Yongkang, the former Politburo Standing Committee member who was bribed by Petrochina. On the economy front, the most acute worry remains the real estate sector which recorded a 7.8% drop in sales and a 22% drop in new housing starts over the first four months of the year. Real estate is critical as it contributed 11.9% of China's GDP last year and probably close to 20% if we include the construction and other ancillary sectors. The government is dealing with this situation on several fronts. A recent trip to Chengdu in Sichuan province highlighted how much was needed on the social housing front to rebuild crumbling housing estates that are not older than 8 or 10 years old. This is how the Chinese government buffers the impact of the new housing start downturn on the construction sector. At the same time the relaxation of home purchase restrictions in more and more tier 2 and tier 3 cities is helping buyers obtain mortgage financing. The Central bank has issued official instructions to all banks to speed up their approval processes. In other words the government is helping buyers and construction companies, but is not doing anything for property developers. In May the chairman of listed property developer Greentown was forced to sell the control of his group to Sunac, a competitor. He publicly blamed the Chinese government for strangling the sector. Going forward, observers should expect cuts in property prices to accelerate the sale of inventory, more consolidation among listed property developers, and very likely a series of bankruptcies among unlisted ones. We believe it is a radical way of tackling the issue of oversupply that is well spread in lower tier cities. Banks will certainly see their level of non-performing loans increase, and that is also being taken care of by the Central bank with the recent approval given to commercial banks to issue preference shares to boost their capital adequacy ratios. On the reform front, ten provinces and city-provinces were given in May the green light to issue municipal bonds. Issuers will be standing on their own two feet, with no guarantee given by the central government. It means fiscal reform and rebalancing of tax revenues between central and provincial governments need to happen very soon if these new municipal bonds stand any chance to be repaid without local governments having to sell land. This is one of the most important reforms announced last November by President Xi.

MACRO ANALYSIS

As mentioned above, the HSBC Markit Flash PMI for May was the highlight of the month, rising from 48.0 in March to 48.1 in April and to 49.7 in May (vs an estimate at 48.3). New orders sub-PMI increased from 47.4 in April to 50.2 in May, and even more spectacular was the new export orders sub-PMI increasing from 48.9 to 52.7. Finished goods inventories shrunk, their sub-PMI going down from 50.7 to 48.8. In April exports from China to the rest of the world (excluding to Hong Kong and Taiwan to adjust for an anomaly last year) increased by 10.2% YoY. Imports increased by 0.8% in April vs a 11.3% drop recorded in March. Inflation dropped further from 2.4% in March to 1.8% in April, retail sales adjusted by inflation were stable at +10.9% YoY and industrial production was roughly stable at +8.7% in April vs +8.8% in March. On the monetary front, loan growth kept on slowing down as the government is tackling the credit bubble within the economy. Total social financing growth slowed from +16.2% in March to +15.7% in April, mainly driven by a sharp drop in new shadow banking credit, down 54.3% YoY, itself driven by a spectacular drop in new trust funds (the "poisonous" part of shadow banking), down 78.5% YoY at RMB41.7bn in April, the smallest amount since July 2012. Our readers may remember that new trust loans reached RMB431bn back in March 2013. Shadow banking represented 18% of total social financing in April, down from 28% in March. Alarmist articles published a year ago in the western press about shadow banking and trust funds have all but disappeared and replaced by alarmist articles about the real estate sector downturn.

THE FUND

LFP JKC China Value saw its NAV per share increase by 1.5% in May when the MSCI China Free index increased by 4.1% and the Russell China H Shares SMID Index increased by 0.8%.

The cash position of the fund was 7.7% at the end of the month.

THE PORTFOLIO

The most important move we made in May was to significantly reduce the fund's exposure to property developers (Sunac, Kaisa and KWG) and to cement producers (Anhui Conch and CR Cement) as headwind is fast building up in the real estate sector. On the cement front, real estate only represents 26% of cement demand, the balance coming from infrastructure needs and rural demand. Nevertheless the slowdown in construction is starting to have an impact on demand for cement, prices and margins. We decided to sell our remaining position in automobile component manufacturer Minth and in textile producer Texhong a week before its Vietnamese factory and machinery got damaged by politically motivated riots against Chinese companies operating in Vietnam. We also sold our position in Pico Far East, an exhibition organiser we have owned for numerous years but that has become too illiquid for the fund to keep. On the other hand we added to pre-existing positions in Sihuan Pharmaceutical, Huaneng Power, Coolpad and Sunny Optical. The best performing stock over the month was on-line travel agent Ctrip, up 19%. Worst performer was Xinyi Glass, down 11%. We did not add any new name to the portfolio this month.

Performance summary (past 5 years unless specified otherwise)

Monthly return	**1.5%**
Return (3-month)	-10.2%
Return since inception	189.8%
Compound return (2-year annualized)	13.8%
Maximum cumulative gains	73.6%
Maximum cumulative losses	-32.4%
Maximum monthly gain	14.7%
Maximum monthly loss	-15.4%
% up months	66.7%
% down months	33.3%
Sharpe ratio (2-year annualized)	1.0

Risk summary

Standard deviation (2-year annualized)	14.3%
VAR % (monthly @ 95% confidence level)	6.8%
Alpha (%)	9.2
Beta	0.7
Top 5 stock holdings	24.0%
Top 10 stock holdings	43.5%
Top 20 stock holdings	71.0%
Total net cash position	7.7%

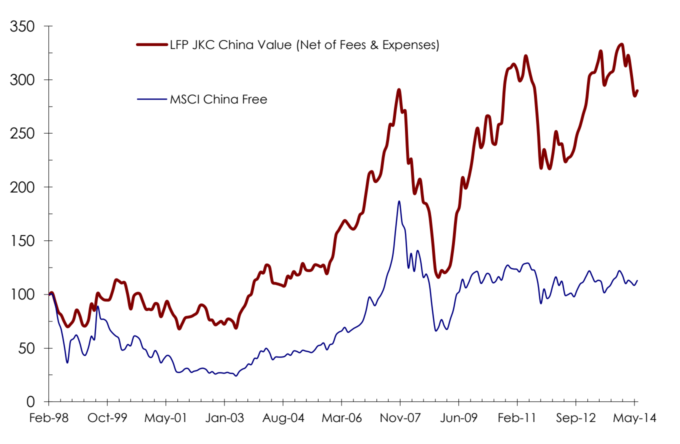
Top 10 holdings (as at 31st May 2014)

Name	Industry	
Haier Electronics Group Co	Household Appliances	5.5%
China Galaxy Securities Co-H	Investment Banking & Brokerage	4.7%
Xinyi Glass Holdings Ltd	Auto Parts & Equipment	4.7%
Shanghai Fosun Pharmaceuti-H	Pharmaceuticals	4.6%
Ju Teng International Hldgs	Electronic Manufacturing Servi	4.5%
Zte Corp-H	Communications Equipment	4.1%
Sihuan Pharmaceutical Hldgs	Pharmaceuticals	4.1%
China State Construction Int	Construction & Engineering	4.0%
Apt Satellite Holdings Ltd	Alternative Carriers	3.7%
Pacific Basin Shipping Ltd	Marine	3.6%

Monthly performances (%) net of fees

Year	2010	2011	2012	2013	2014
Jan	-7.1	-1.7	6.8	8.7	-5.9
Feb	1.9	-3.3	8.5	1.2	3.1
Mar	10.1	1.7	-4.7	0.3	-5.4
Apr	-0.2	6.0	0.1	3.1	-6.6
May	-8.9	-3.6	-6.7	2.9	1.5
Jun	-0.6	-3.7	1.3	-9.4	
Jul	7.5	-2.6	1.0	2.2	
Aug	0.7	-11.7	2.9	1.3	
Sep	13.8	-15.4	5.4	0.8	
Oct	4.6	7.8	3.5	5.1	
Nov	0.6	-4.6	4.1	2.1	
Dec	1.1	-3.1	4.0	0.4	
Year	23.4	-31.0	28.2	19.4	-12.9

Cumulative performance (since inception - Class GP USD)



LFP JKC China Value

Monthly Report May 2014

Fund's AUM: USD 195.8 million
China strategy AUM: USD 331.7 million

Fund description and manager's strategy

LFP JKC China Value is an absolute return equity fund that invests exclusively in value stocks, i.e. companies trading at low PE ratios, low PE to Growth ratios, low Enterprise Value to EBITDA ratio and attractive Price to Book ratios, low (and often negative) net gearing ratios and high dividend payouts. Companies all operate out of China and are listed on the Hong Kong stock exchange. The fund uses active cash management to minimize volatility. The fund focuses on companies that often fall out of the radar screen of sell-side analysts.

Portfolio valuation

2014 (e) PE	11.1
2014 (e) Profit Growth	27.7%
PE to Growth	0.40
Dividend Yield (ex-cash)	1.9%

Portfolio breakdown

Equities	92.3%
Cash	7.7%
Number of holdings	33

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

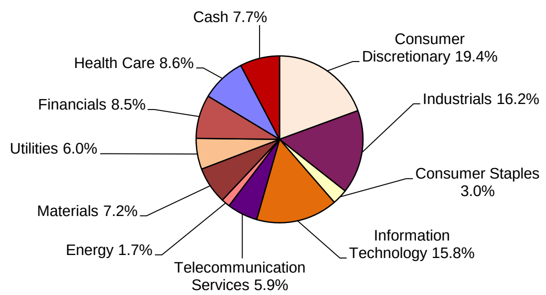
Euro-denominated shares in the fund are hedged against fluctuations in the Euro/USD exchange rate to give the opportunity to Euro-based investors to avoid any unwanted currency risk exposure. As a result, performances of Euro and USD classes of shares are very similar (however not identical due to the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

LFP JKC China Value - Product features

Portfolio Manager	Fabrice Jacob
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	

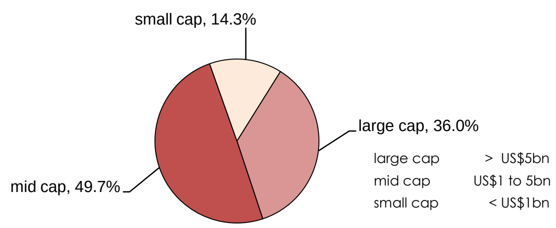
Industry breakdown



Comparison with reference index

	LFP JKC	MSCI
May 2014	1.5%	4.1%
3 months	-10.2%	-0.2%
YTD 2014	-12.9%	-4.2%
2013	19.4%	0.7%
2012	28.2%	18.7%
3 Years	-6.8%	-12.3%
Since inception	189.8%	12.9%
Compound return over past 2 years	13.8%	6.6%
Sharpe ratio over past 2 years	1.0	0.5
Sortino ratio over past 2 years	0.6	0.4
Information ratio over past 2 years	0.7	
Standard deviation over past 2 years	14.3%	14.4%

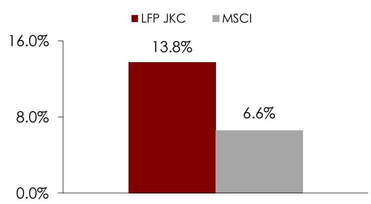
Market capitalisation breakdown



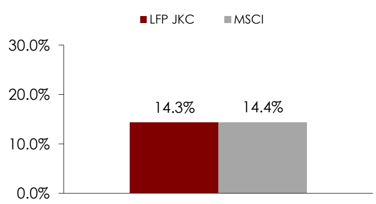
Fund's Identification Codes:

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

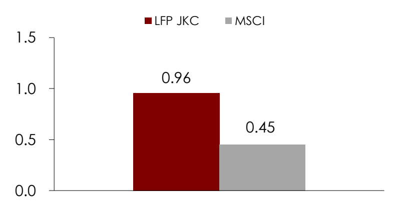
Compound return over past 2 years



Standard deviation over past 2 years



Sharpe ratio over past 2 years



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LFP JKC China Value

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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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