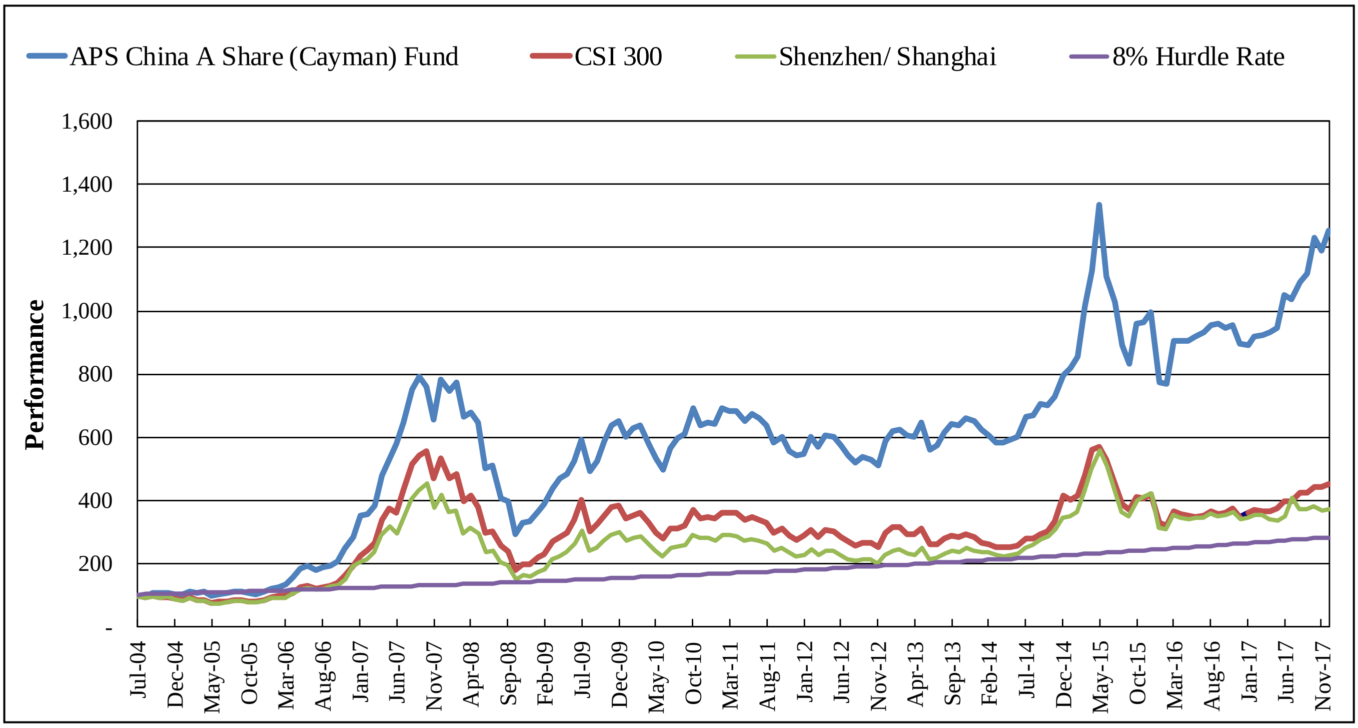
APS CHINA A SHARE (CAYMAN) FUND | 4Q 2017

INVESTMENT OBJECTIVE: The fund seeks long-term capital appreciation through investment in companies established or operating in the PRC that are listed on the A-share markets of the Shanghai Stock Exchange and/or Shenzhen Stock Exchange.

PERFORMANCE OVERVIEW



Fund returns in the chart are cumulative and are gross of management and performance fees

	Fund (%)		Benchmark	Excess (%)		CSI 300	Excess (%)	
Period	Gross	Net	(%)	Gross	Net	(%)	Gross	Net
December 2017	5.28	5.13	1.27	4.01	3.86	2.14	3.13	2.99
4Q 2017	12.20	11.81	-0.66	12.86	12.47	7.18	5.03	4.63
2017	39.91	38.12	9.04	30.86	29.08	29.96	9.95	8.16
Annualized Returns*								
1-Year	39.91	38.12	9.04	30.86	29.08	29.96	9.95	8.16
3-Year	16.26	14.78	2.58	13.68	12.20	2.81	13.45	11.97
5-Year	16.32	14.85	10.20	6.12	4.65	8.92	7.40	5.93
7-Year	9.91	8.35	4.02	5.89	4.33	3.86	6.05	4.49
10-Year	4.83	2.70	-1.20	6.03	3.90	-1.65	6.48	4.35
Since Inception	20.60	15.66	10.19	10.40	5.47	11.83	8.77	3.84

From November 2013 – December 2017, the portfolio annualized return is 17.60% against the CSI 300 return of 11.76%, with an excess return of 5.84%.

Benchmark: Market capitalization-weighted combined Shanghai A-Share Stock Price & Shenzhen A-Share Stock Price Indexes (in USD)

Inception date: July 15, 2004

Net returns are net of management and performance fees

Sources: APS, Bloomberg

PORTFOLIO ANALYSIS (AS % OF AUM)

TOP FIVE HOLDINGS

Kweichow Moutai^	16.0
Gree Electric Appliances^	10.7
Venustech Group^	10.2
Beijing Orient National	6.7
Yonghui Superstores	5.5

MARKET CAPITALIZATION

> USD 5 bil	65.2
USD 2 bil – USD 5 bil	28.6
USD 1 bil – USD 2 bil	1.1
< USD 1 bil	0.0
Cash	5.1

SECTOR WEIGHTINGS

Consumer Staples	33.1
Information Technology	31.7
Consumer Discretionary	15.9
Health Care	4.4
Materials	4.2
Real Estate	3.0
Industrials	2.7
Cash	5.1

^Due to price movement
Sources: APS, Bloomberg, Wilshire

INVESTMENT PERFORMANCE & NOTABLE DEVELOPMENTS

The APS China A Share (Cayman) Fund outperformed the benchmark by 12.86% and 30.86% gross (USD) in 4Q and YTD 2017 respectively, supported by high conviction bets grounded in continued rigorous, independent research. The SHCOMP traded around the 3,300 level for December and closed almost flat on-month amid a significant fall in trading volume. For the full year, the SHCOMP only rose by +6.6%, while the CSI300 was up by +21.8% as the CHINEXT lost -10.7%. The broader market consolidated over the entire month, led by blue chip names as profit taking flows intensified towards the end of the year. Liquor names outperformed the broader market, boosted by market leader Kweichow Moutai's announcement of price hikes. The Central Economic Working Conference meeting was a key event for December, with regulators still focusing on promoting financial reform and limiting overall financial risks. The PBOC increased interest rates by 5 bps in December via Open Market Operations and its medium-term lending facility. On the macro front, November CPI inflation moderated to 1.7% YoY and PPI decelerated to 5.8% YoY, compared with 1.9% and 6.9% respectively YoY in October.

We believe that the path of China's medium-to-long term political and economic development is clearer after the 19th Party Congress in October. On the political front, Chairman Xi successfully consolidated power within the party. This firmer grip after the Congress engenders greater political stability and more consistency in state policies, which are positive for the market and ought to be rewarded by investors.

China will be a developing economy for many years to come, and the 19th Party Congress has set goals to develop China into a modern and wealthy country in next 20 to 30 years. The future growth drivers for the Chinese economy will no longer be investments like infrastructure and real estate in the past decades. New areas like technological innovations, as well as manufacturing and consumption upgrades by a more affluent population, will lead China up the value chain. Fortunately, the Chinese government's decision-makers have also realized the directions and importance of transition of economy and favorable policies have been adopted to encourage this transition.

We believe that after the 19th Congress, the Chinese economy now has a better chance to successfully transform into a high-quality growth economy. Many risks in the financial system and the broader economy have been realized and addressed, so the probability of extreme financial or economic crisis is notably reduced in our view.

We maintain a cautiously optimistic view on the China A share market over the mid-to-long term despite of short-term corrections recently. Given the continued financial deleveraging and a relatively tight monetary policy, we believe that valuation expansion for the majority of sectors have been played out this year and investment returns for 2018 will rely heavily on earnings growth.

We believe that 2018 will be another good year for capable stock pickers to sniff out alpha and outperform the broader market. We continue to like names benefiting from consumption upgrades, technological innovation and manufacturing upgrades. Also playing key roles are the rapid growth in electrical vehicles, the trend of supply-chain shifts to Chinese

smart phone/device component producers, as well as the reinforcement of cyber security. Names from those segments will continue to represent the majority of our stock holdings.
Geopolitical tensions in the region, as well as a potential miscalculation by the PBOC that leads to overly tight monetary policy and liquidity, represent some of the non-company specific risks that we may face in 2018.

Kweichow Moutai outperformed in Q4 as the broader market corrected due to market sentiment and year-end profit taking. Company fundamentals continue to be strong and wholesale prices for its premium products have stayed around CNY1,500 a bottle amid tight supply. We expect full-year sales volume to exceed 30,000 metric tons, up +25%-30% YoY. Investment demand is a major contributor to strong demand in 2017, exceeding investors' expectations. For 2018, we expect revenue to grow +30% YoY, driven by a 10% volume growth and a 20% price hike. The current gross margin of over 40% for distributors is not sustainable. We expect the company to raise shipment prices to at least CNY950 a bottle, from CNY819 a bottle currently after the Spring Festival in February. For the next 3 years, we expect the company's revenue to grow +25% YoY and net profit to grow 25%-~30% YoY driven by price hikes, product structure upgrades and volume expansion. The stock trades at 24.4x 2018E P/E, which we think is reasonable.

Yonghui Superstore's share price appreciated this year mainly on two factors. One is the substantial improvement in the EBIT margin, helped by a higher gross margin and lower labor cost ratios. The second factor is the successful roll out of the "Yonghui Life" convenience store format. This new format helps Yonghui capture younger customers and provides e-commerce express delivery services. As investors saw more and more of the well-run Yonghui Life stores operating day to day, most of the positive developments in the company's fundamentals have been priced in after the recent rally. We trimmed the position as in our view, the valuation is now stretched at 50x 2017 P/E and 39x 2018E P/E.

Gree Electric Appliance's share performed strongly in Q4 on strong earnings growth outlook for 2017 and 2018. Company CEO Mrs Dong expected 2017 sales to reach CNY 140 bn, producing a net profit of CNY22 bn. This was higher than the street consensus of CNY20.5bn to CNY21 bn.

Gree expects 2018 YoY sales growth will be +10% and net profit growth can reach +15% YoY. One driver is the recovery of property demand in first and second tier cities when sales permit restrictions are loosened, as well as the lessening of cost pressures. Its exports will also see margin improvement when the price hike initiated in 2017 can have make an impact for the entire 12 months of 2018. We expect Gree's growth will continue to be supported by re-stocking demand in the short run, and consumption upgrade in the long run. Gree will maintain its dividend payout ratio of more than 70%, and its undemanding valuation of 10.8x FY2018E P/E prompts us to maintain exposure.

Changyuan ("CYG") stock underperformed in Q4. The stock underperformed due to two reasons: 1) the media reported that the subsidy from the central government to the EV sector will decrease 40% in 2018, it might bring additional pressure on CYG's separator business. Our view is this possible policy change does not change the long term EV growth potential, also CYG will become one of the leading companies in the EV battery separator sector. CYG can maintain its margin through market share gain, production efficiency improvement and cost decrease.

2) Changyuan's first half results were a little bit below market expectation, the sales growth was 27.5% in H1 but the net profit declined by 2% in the same period. Higher financial cost related to recent acquisitions and R&D cost increase negatively affected bottom line results.

The automation business division - Intelligent Group has missed market expectation in terms of net profit due to the RMB appreciation and the high R&D expense. We believe that Intelligent Group's fundamentals are still solid, we expect automation business can maintain sales CAGR of 20% in the next three years.

In summary, we continue to believe that Changyuan's core business in EV related materials, i.e.lithium-ion battery electrolyte additive, battery separator, will deliver solid growth with favorable NEV government policy. Its intelligent plant equipment segment (Intelligent Group) will benefit from China's manufacturing sector upgrade. We think the company can deliver earnings 3-year CAGR of 20% for the period 2017 to 2019. The stock is trading at P/E ratio of 19 for FY 2018, which is quite reasonable considering its bright future.

Goertek underperformed on Q3 results miss, coupled with year-end profit taking across Asia hardware tech, concerns about slowdown in VR and potential share loss in acoustics to newcomer Luxshare. Several sell side analysts also cut ratings on Q3 miss, uncertain outlook for VR and pre-announced insider selling plan by management in late Sep. Northbound investors through connect scheme also trimming their holdings substantially. We understood that investors often compared Goertek to Luxshare, who demonstrates aggression to gain share across Apple's key product categories, from acoustics to antenna while Goertek lacks the perceived aggression. We acknowledge investor concerns about Goertek's Q3 earnings miss, but we reckon that near-term euphoria about Luxshare's market share gain across key Apple product lines, from AirPods to acoustics and extreme pessimism about Goertek's capabilities and product outlook are unwarranted and overdone.

We expect full-year earnings to come in at mid-point or slightly above the guided range of 25% - 45% and we also forecast a recovery in earnings in Q4 at 840 mil RMB, up 37% YoY, driven by significant increase in dollar content value for acoustics in iPhone X. While we reckon VR products will take a temporary pause in FY18 as hardware constraints and uninspiring content will dampen.

Beijing Oriental underperformed in 4Q as investors were disappointed by 4Q earnings. The single quarter's sales growth slowed down to 12% YoY from 22% in the first half. We understand it is mainly due to delayed revenue recognition for some government projects. We expect its full year topline growth to reach 40% YoY on 60% growth in order intake. Their downstream demand growth is accelerating as clients' demand improves in operational and energy consumption efficiency, coupled with the government's promotion of sector-level control platforms. Valuation is undemanding at 20x 2018E P/E, as we expect +35% earnings growth per year in the next 2 years.

Source: APS

PORTFOLIO ACTIVITY

Recent New Positions

Inner Mongolia Yili is the largest dairy product manufacturer in Asia, and one of the most trusted domestic dairy brands in China. Yili has been consistently taking market share from its competitors over the past few years. Up to Sept. 2017, its market share in normal temperature milk/low temperature milk/milk powder products has reached 34.0%/15.4%/6.0% respectively. We believe Yili will continue to take market shares thanks to its strong distribution channel, good brand name and competent management. We notice that smaller players have been exiting the normal temperature liquid milk market as a result of intense competition and low profitability.

We believe dairy industry in China still has huge upside potential for growth especially in rural areas. We estimate that annual consumption volume per capita in rural areas is only 9~10 KG, or 1/4th of the level in tier-1 cities. According to our channel check, Yili's sales was up around 30% YoY in rural areas for 9M17. Similar to Chinese liquor industry, dairy industry is also benefiting from consumption upgrade. Higher-end and more healthy milk products experienced much stronger growth than average. For example, sales of Yili's high-end yogurt product "Ambrosial" was up over 30% YoY for 9M17, and is expected to reach 10bn RMB for full year. Last but not least, industry competition has eased thanks to tighter supply of raw milk, which will reduce promotion and help to improve downstream players' profitability.

Considering the volume growth, product structure upgrade and market share gain, we expect Yili's revenue CAGR to be 10~15% YoY and net profit CAGR to be 15~20% YoY for next 3 years. The stock was trading at 22 times forward P/E when we bought it, which we believe is attractive.

Lianhe Chemical is the leading pesticide and drug API producer in China, specializing in chemical process development of pesticide under patent protection. Share price came down by 20% YTD, on lower than expected recovery of pesticide revenue due to less production hours as a result of stringent environmental inspection, higher than expected administration expense of hiring foreign experts and costs related to incentive share scheme and acquisition. It is trading at 2x PB 17F. With a global API market share of 4-5%, it is expected to double or triple its revenue in the next 3 years given its product pipelines, recent FDA certification of drug API and capacity expansion of RMB 3bn over the last 5 years. We expect the local policy of chemical production and new product approval will relax for the quality players after the 19th party congress. Its acquisition of Fine Organics in UK in 2Q will complement its R&D to the full lifecycle capability, extend its clientele and most importantly, to become an increasingly international company in terms of management expertise and business practice. It is a cyclical alpha with structural flavor of market share gain.

Angel Yeast is the largest yeast and yeast extract (YE) producer in China, with production capacity of over 200,000 metric tons globally. It currently has 55% market share in China and 10% market share overseas. For the 2C product market, Angel Yeast has 95% market share.

We expect yeast demand will grow at 10% p.a. in China for next 3~5 years on the increasing popularity of western-style bakery items. Per capita annual consumption in China for bakery food is only 7kg, compared with 16kg in HK and 23kg in Japan. YE products will grow even faster at 20% p.a as they are replacing MSG as a flavor enhancer. Angel Yeast will continue to take market share from peers thanks to its well-known brand, strong sales and distribution network, robust R&D capabilities, excellent product quality and competent management. Small players barely make any profit and have been exiting the market. Large players such as Lesaffre and AB Amuri have also been losing market share due to management issues.

Last but not least, the price of molasses, the major raw material for yeast production, is dropping rapidly due to over-supply. As the government tightens environmental protection, alcohol producers have been switching to other raw materials such as corn as a substitute for molasses, which is considered to be polluting. According to our channel check, the price of molasses will drop by 8~10% YoY in Guangxi in the upcoming sales season. We expect the company’s revenue to grow 15~20% p.a. for the next 3 years, and net profit to grow faster at 25~30% p.a. The stock is cheap at 24x 2018E P/E.

Recent Exits

We exited **Jiangsu Yangnong Chemical** because of the following reasons: the earnings growth in 2017 can reach 25% thanks to the new product dicamba launch and the pesticide price bounce from the bottom.

In the last three years, the share price almost doubled since we invested in the company. We expect all the positive news are now priced in. Also the supply side reform and environmental protection measurement enhancement also contributed to strong pesticide price increase. We think current share price discounted a lot of good news and its valuation is not attractive, the PE ratio for 2018 is at 24x, which is not cheap for a cyclical stock.

China Life is the largest domestic life insurance company, with the largest market share of roughly 20% and agent team of 1.63mn people. Despite of making progress on business transformation in past years, its product structure and business model are still worse than peers. The company is more relying on bancassurance channel as well as single payment products.

1) For products with payment period of no less than 10 years, it accounted for only 30% of its total first-year premium (FYP) in 1H17. Compared to New China Insurance, this has amounted to 60% of total FYP. 2) China Life’s long-term protective products only made up 15% of total FYP from agent channel, and much lower than New China Insurance and China Ping An. 3) In terms of new business margin (NBM), China Life’s NBM were only 23.8% and 22.3% for 2016FY and 1H17 respectively. However, for China Ping An and New China Insurance, NBM were 41%/33% and 22%/37.4% respectively, during the same periods. 4) Life insurance companies, like China Life who are more relying on selling low-margin saving products, would be facing more challenges at the beginning of 2018, due to new regulations from CIRC. China Life’s FYP for Jan 2018 is likely to come down by more than 20% YoY.

The share price of China Life performed well in November was mainly due to better-than-expectation Q3 results. We think the market has priced in a blue sky scenario in the stock when the price to embedded value was at 1.25x and decided to cut our holdings on China Life.

RETURN AND RISK ANALYSIS

RETURNS	AVE MTHLY	ANNUALIZED
Since Inception	1.57%	20.60%
Last 60 mths	1.27%	16.32%
Last 36 mths	1.26%	16.26%
Last 12 mths	2.84%	39.91%

RISK	AVE MTHLY	ANNUALIZED
Since Inception	8.66%	30.01%
Last 60 mths	7.55%	26.16%
Last 36 mths	8.84%	30.61%
Last 12 mths	4.40%	15.23%

RELATIVE RATIOS	INDEX
Information Ratio	0.58
Up Capture	98%
Down Capture	98%

PORTFOLIO ANALYTICS	FUND	INDEX
Total Return	1,153.50%	352.29%
Annualized Return	20.60%	11.83%
Annualized Volatility	30.01%	31.15%
Annualized Sharpe Ratio*	0.69	0.43
Annualized Sortino Ratio*	0.85	0.42
Annualized Alpha	9.62%	-
Beta	88.2%	-
Correlation	92%	-
Positive Months	98	91
Negative Months	64	71
Maximum Drawdown	-63.21%	-68.09%
Best Month	24.57%	28.37%
Worst Month	-26.29%	-25.75%

Notes:

Index: CSI 300 Price Index

Inception date: July 2004

Fund performance is expressed in USD and is gross of management and performance fees

All risk statistics are calculated from Inception to December 2017 unless otherwise specified
* Assuming CFETS China Fixing Repo Rate 1 Day as the risk-free rate (with a floor of 0.00%)

Investment Manager	APS Asset Management Int'l Ltd
Investment Advisor	APS Asset Management Pte Ltd
Portfolio Managers	Wong Kok Hoi Stella Zhang
Inception Date	July 15, 2004
Fund AUM	USD 268.60 mn
Fund Base Currency	USD

NAV Prices as of December 31st, 2017

Class A: USD 723.45
Class B: USD 219.86

Client Services Contact Information

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Fund Details

Domicile	Cayman Islands
Structure	Open ended

	Class A	Class B
Liquidity	Weekly	Weekly
Min Initial Subscription	USD 100,000	USD 100,000
Management Fee	1%	1.75%
Performance Fee	20%	0%

Dealing Deadline	5pm (Irish Time), 4 Business Days Preceding Dealing Day
Redemption Fee	Up to 5%
Subscription Fee	Up to 5%
Benchmark	8% Hurdle Rate per annum
Legal Advisers	A&L Goodbody
Auditor	Deloitte & Touche
Administrator	Northern Trust International Fund Administration Services (Ireland) Ltd

Composite reports which have been prepared in compliance with the Global Investment Performance Standards (GIPS) are available upon request.

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