

## APS ALL CHINA LONG SHORT FUND

4Q 2017

APS Asset Management is a Singapore headquartered fund manager with research offices in China and Japan and a client servicing office in New York. The firm was founded in 1995 by the CIO, Wong Kok Hoi. The APS All China Long Short Fund is focused on achieving long-term capital appreciation through investments in the China A-Share market and shares of companies established or operating in the People's Republic of China that are listed on exchanges in Taiwan, Hong Kong and Singapore. The Fund opportunistically shorts positions to hedge exposure to the mainland China stock markets.

### PERFORMANCE OVERVIEW

Period	Fund Returns (%)
December 2017	-0.88
4Q 2017	2.46
2017	1.58
1-Year	1.58
3-Year*	6.31
5-Year*	8.71
7-Year*	4.39
Since Inception*	8.99



\*Annualized returns are the average annual compounded returns. Fund returns reported at total portfolio level, inclusive of all share classes. The fund returns are net of all fees and charges. Inception date: July 1, 2008

Benchmark: Eureka Hedge Greater China Long/Short Equities Hedge Fund Index, for performance comparison purpose only.

Fund returns are cumulative and are net of management and performance fees.

Fund Monthly Returns (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	-3.51	0.90	-2.65	-3.08	-2.74	8.00	-4.22	6.01	1.19	8.58	-4.79	-0.88	1.58
2016	-20.63	-3.83	14.58	-0.28	-0.68	3.12	0.45	0.56	-1.63	-0.11	-2.74	-3.13	-16.46
2015	3.76	5.07	16.81	14.63	16.68	-13.12	-7.03	-7.37	-2.00	9.82	1.80	1.43	41.61
2014	5.50	-5.13	-4.08	0.35	1.37	1.71	2.96	4.94	6.17	-2.76	3.55	5.22	20.72
2013	5.98	0.41	-5.31	-0.32	5.01	-8.14	8.92	-0.48	0.43	-2.48	2.64	-0.87	4.54
2012	0.79	10.74	-4.17	2.15	2.11	-3.96	-6.11	1.40	2.66	1.86	-4.42	11.29	13.46
2011	-1.28	1.98	-1.98	0.66	-5.66	-0.13	4.82	-2.41	-15.57	7.26	-6.72	-3.01	-21.56
2010	-0.48	4.17	4.04	3.78	-5.19	-5.62	6.34	1.58	3.06	7.83	-3.21	2.61	19.43
2009	5.33	2.36	14.03	1.37	8.91	6.23	15.80	-7.32	5.40	7.59	8.40	2.45	94.90

### PORTFOLIO ANALYSIS

TOP FIVE LONG/SHORT EQUITY POSITIONS (%)			
Long		Short	
Venustech Group^	11.4	Con. Discretionary^	-15.8
Kweichow Moutai	9.5	Con. Discretionary^	-12.5
Midea Group	9.2	Con. Discretionary	-7.1
Goertek	6.0	Con. Discretionary	-5.6
Shenzhen International	5.0	Consumer Staples	-5.2

COUNTRY EXPOSURE (%)	LONG	SHORT	NET
China A	89.5	-	89.5
China Others	12.2	-48.9	-36.7
Taiwan	0.8	-	0.8
Hong Kong	1.7	-21.3	-19.6

TOP COUNTRY CONTRIBUTORS		TOP SECTOR CONTRIBUTORS	
China	4.3	Consumer Staples	3.7
Taiwan	0.0	Materials	0.7
		Financials	0.5

NO. OF HOLDINGS		INVESTMENT GUIDELINES (%)	
Long	52	Max long positions^	10
Short	10	Max short positions^	10

SECTOR EXPOSURE (%)		LONG	SHORT	NET
Information Technology		31.4	-	31.4
Consumer Staples		27.1	-9.1	17.9
Industrials		10.6	-	10.6
Materials		5.2	-	5.2
Health Care		3.7	-	3.7
Financials		2.7	-	2.7
Energy		-	-1.6	-1.6
Consumer Discretionary		23.6	-41.5	-17.9
Futures		-	-18.0	-18.0

MARKET CAPITALIZATION (%)		LONG	SHORT	NET
> USD1bil		101.5	-52.2	49.3
USD500 mn to USD1bil		1.7	-	1.7
< USD500 mn		1.0	-	1.0
Index Futures		-	-18.0	-18.0

FUND EXPOSURE (%)		EXPOSURE LIMITS (%)	
Long	104	Max Gross^	200
Short	-70	Max Net^	80
Gross	174		
Net	34		

Source: APS, Bloomberg and Wilshire.  
Exposure data are based on notional values.

<sup>+</sup>Percentage of NAV

<sup>^</sup>Due to price movement

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INVESTMENT PERFORMANCE & NOTABLE DEVELOPMENTS

The APS All China Long Short Fund rose 2.46% net in the quarter and 1.58% YTD, underperforming the EurekaHedge Greater China Long/Short Equities Hedge Fund Index by 3.00 percentage points in the quarter and 29.99 percentage points YTD.

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.

Midea Group's share price performed strongly in Q4 on rosy outlooks for industrial robotics and home appliances. Investors are increasingly convinced about Midea's transformation from being China's second largest white appliance maker to a global technology powerhouse capable of intelligent manufacturing. Midea recently acquired KUKA, one of the global Big Four industrial robotics players, as well as industrial automation solution provider Servotronics.

Company management is optimistic about 2018 and expects topline to grow +15% YoY, with net profit growth expected to be even higher at +20% YoY. This growth will likely be supported by continuous volume increase in the air conditioning business, as well as upgrades in white appliances such as washing machines, refrigerators, and other smaller items. Newly acquired Toshiba Appliance will breakeven in 2018, while KUKA Robotics earnings will grow at about +15% YoY in 2018. We expect the company to maintain earnings CAGR of 15%-20% in the next two years. At 18.3x FY2018E P/E, it still looks undervalued given its growth potential.

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 53x 2017 P/E and 42x 2018E P/E.

Our short position in a Macau casino operator underperformed this quarter as the share price rallied on strong industry GGR numbers, which were largely driven by the VIP segment. We are of the view that there is a significant risk of Beijing tightening regulations when it starts to feel that gambling is getting out of hand. It has been reported that the Macau government plans to tighten standards for junket operators beginning in January 2018. Substantial new supply starting from 2015 and till the end of 2018/early 2019 will also fuel intense competition and depress ROICs of these new projects. The biggest risk facing casinos is concession renewals, with issues such as the number of licenses to be granted, specific criteria, areas of emphasis and pricing mechanisms among others. Macau's Chief Executive said in November that the law would require bidding to be by public tender and the details will be out by the middle of 2018.

In 4Q 2017, a food and beverage company that we have shorted reported a set of better than expected results. Net earnings increased +30% YoY on revenue growth of +8.5% YoY. We question the sustainability of this improvement, as the beverage segment was the main contributor of the earnings growth which saw a boost due to unusually hot weather driving consumption. Its sales increased +11% YoY and earnings grew +40% YoY in 3Q17. Instant noodles sales grew +3.8% YoY, which was in line with industry growth. Although 3Q2017 results beat consensus, we remain concerned about the sustainability of earnings growth, especially for the beverage segment. We are of the view that valuation is expensive at the current 34x 2018E P/E.

Beijing Orient National 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

**Catcher Technology's** fundamental outlook remains robust. However, Catcher Technology and other companies in Apple's iPhone supply chain may be vulnerable to near-term stock price volatility. This is especially so given the strong stock price performance year to date. News flow related to Apple's sale of its new iPhone could prompt some investors to sell stocks related to Apple. Catcher Technology's total stock price return was +49.9% year to date 31 December 2017. Despite the strong performance, Catcher Technology's equity valuation of about 9x 2018E P/E and 3.6% forecast dividend yield is still

attractive. Catcher Technology registered returns of 4.8% for 4Q 2017, after giving up some gains in September 2017.

Relying on BMW's strong brand name, **Brilliance China Automotive** can benefit from the large facelift cycle of BMW's star products such as X3 series and 5 series in 2018 and X2 and X6 in 2019. Those new models will provide strong sales growth momentum mostly in 2018 and 2019, beyond 2019, some new models' introduction such as X3 and X5 can help Brilliance to sustain its growth. We expect the premium PV market to grow at double digits in the coming 2-3 years thanks to consumption upgrade, Brilliance can grow at faster pace thanks to its new product cycle. Brilliance will benefit from ASP increase and margin expansion on the new models launch. We think Brilliance can grow its earnings in excess of 30% CAGR in next 2 years with some upside risks. The stock was trading at PE 12.0x for 2018 and 9.4x for 2019 which is below its historical average level. We rate this stock as structural alpha.

#### Recent Exits

**Sun Art Retail Group** and Taobao (an affiliate of Alibaba Group) announced on 20th November that Taobao will take a 26.1% stake in the company in an attempt to join hands with Sun Art to further develop its "new retail" format which combines both offline and online resources of the two companies.

Taobao pays 6.5 HKD per share, which is at a discount of 24.5% compared to the closing price on 10th November, the last day before the stock was suspended.

We think this deal could be beneficial for SunArt in the long term, but it will take time to generate additional synergies. The price paid by Taobao was at deep discount. The valuation multiple was high at PE 2018 21x, considering its middle single digit growth at bottom line in next 2 years. We think market has priced in a high take-over premium at stock price. We decide to sell down this position

**Zhejiang Chint Electric's** share price recovered recently on improving demand for low voltage electric equipment as well as buoyant expectation towards the growth of the distributed solar power systems in rural areas. Our checks with the management indicated a less rosy picture in the distributed solar power system in the rural areas since the sales/marketing costs are prohibitively high and potential legal disputes are hard to avoid as the farmers usually receive unjustified legal protection when a dispute arises. The P/E17 ratio of 20x already reflected the improvements in its fundamentals and we therefore decide to sell our position and take profit.

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

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4Q 2017

### RETURN AND RISK ANALYSIS

RETURNS	AVE MTHLY	ANNUALIZED
Since July 2008	0.72%	8.99%
Last 60 mths	0.70%	8.71%
Last 36 mths	0.51%	6.31%
Last 12 mths	0.13%	1.58%

RISK	AVE MTHLY	ANNUALIZED
Since July 2008	6.74%	23.36%
Last 60 mths	6.55%	22.69%
Last 36 mths	7.77%	26.90%
Last 12 mths	4.80%	16.62%

RELATIVE RATIOS	INDEX 1	INDEX 2
Information Ratio	0.25	0.10
Up Capture	40%	153%
Down Capture	73%	114%

PORTFOLIO ANALYTICS	FUND	INDEX 2
Total Return	126.64%	133.58%
Annualized Return	8.99%	9.34%
Annualized Volatility	23.36%	13.53%
Annualized Sharpe Ratio*	0.43	0.63
Annualized Sortino Ratio*	0.47	0.89
Annualized Alpha (Fund vs Index)	-1.27%	-
Beta (Fund vs Index)	128.4%	-
Correlation (Fund vs Index)	74%	-
Positive Months	65	74
Negative Months	49	40
Maximum Drawdown	-37.95%	-23.96%
Best Month	16.81%	17.60%
Worst Month	-21.09%	-9.80%

#### Notes:

Index 1: MSCI Golden Dragon Price Index USD Index 2: Eurekahedge Greater China Long/Short Equities Hedge Fund Index, based on 9.84% of funds which have reported December 2017 returns as at 8 January 2018, source: Eurekahedge

Fund performance is expressed in USD and is net of all fees and charges. All risk statistics are calculated from July 2008 to December 2017 unless otherwise specified.

\* Risk free rate based on Fed Fund

### FUND INFORMATION

#### Investment Manager

Company	APS Asset Management Pte Ltd
Lead Portfolio Manager	Wong Kok Hoi
Inception Date	July 01, 2008
Fund AUM	USD 81.58 mn
Fund Base Currency	USD

#### Fund Details

Domicile	Cayman Islands
Structure	Opened-end

	Class A	Class B
Liquidity	Weekly	Weekly
Lock-up Period	Nil	Nil
Min Initial Subscription	USD100,000	USD100,000
Management Fee	2%	2%
Performance Fee	20% with 8% Hurdle Rate p.a.	20% with High Water Mark

#### NAV Price as at December 31<sup>st</sup>, 2017

Class A: USD 264.79

Class B: USD 96.53

Subscription fee	Up to 5%
Redemption fee	Up to 3%

#### Bloomberg Code

Class A: APSCHIN KY Class B: APSCHIB KY

Legal Advisers	Walkers (Cayman) Rajah & Tan LLP (Singapore) Yuan Tai Law Offices (China)
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Auditor	Deloitte & Touche
Administrator	HSBC Institutional Trust Services (Singapore) Limited
Prime Broker	UBS AG

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

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The representative of the Fund in Switzerland is ARM Swiss Representatives SA, Route de Cité-Ouest 2, 1196 Gland, Switzerland. The paying agent of the Fund in Switzerland is Banque Cantonale de Genève, 17, quai de l'Ile, 1204 Geneva, Switzerland. The Memorandum, the Fund's Memorandum and Articles of Association and the Fund's annual and semi-annual financial statements can be obtained free of charge from the representative in Switzerland. The place of performance and jurisdiction of the Fund in Switzerland is the registered office of the representative in Switzerland with regards to the Shares distributed in and from Switzerland.

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