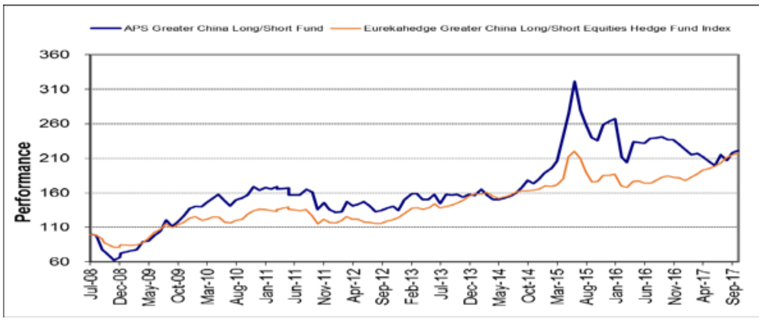
APS Greater China Long/Short Fund

3Q 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 Greater 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 (%)
September 2017	1.19
3Q 2017	2.75
YTD 2017	-0.87
1-Year	-6.69
3-Year*	7.51
5-Year*	9.93
7-Year*	5.05
Since Inception*	8.96



*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: Eurekahedge 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				-0.87
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^	-15.0
Midea Group	7.7	Con. Discretionary^	-14.4
Kweichow Moutai	7.1	Con. Discretionary	-7.3
Goertek	6.1	Consumer Staples	-3.8
Shenzhen International	5.2	Consumer Staples	-3.3

Country Exposure (%)	Long	Short	Net
China A	83.8	-	83.8
China Others	15.2	-47.6	-32.4
Hong Kong	2.0	-15.6	-13.6

Top Country Contributors		Top Sector Contributors	
China	4.6	Information Technology	3.3
		Consumer Staples	1.8
		Industrials	1.5

No. of Holdings		Investment Guidelines (%)	
Long	60	Max long positions+	10
Short	9	Max short positions+	10

Sector Exposure (%)	Long	Short	Net
Information Technology	30.1	-	30.1
Industrials	15.0	-	15.0
Consumer Staples	21.9	-7.1	14.8
Materials	5.9	-	5.9
Health Care	4.4	-	4.4
Financials	3.4	-	3.4
Real Estate	0.4	-	0.4
Energy	-	-1.4	-1.4
Consumer Discretionary	19.9	-37.7	-17.8
Futures	-	-17.0	-17.0

Market Capitalization (%)	Long	Short	Net
> USD1bil	97.6	-46.2	51.4
USD500 mn to USD1bil	2.6	-	2.6
< USD500 mn	0.9	-	0.9
Index Futures	-	-17.0	-17.0

Fund Exposure (%)		Exposure Limits (%)	
Long	101	Max Gross+	200
Short	-63	Max Net+	80
Gross	164		
Net	38		

Source: APS, Bloomberg and Wilshire.
Exposure data are based on notional values.
+Percentage of NAV
^Due to price movement

APS Asset Management Pte Ltd
3 Anson Road, #23-01 Springleaf Tower, Singapore 079909 Tel: (65) 6333 8600
Fax: (65) 6333 8900 E-mail: cs@aps.com.sg Website: www.aps.com.sg

INVESTMENT PERFORMANCE & NOTABLE DEVELOPMENTS

The APS Greater China Long Short Fund rose 2.75% net in the quarter and fell 0.87% net YTD underperforming the Eurekahedge Greater China Long/Short Equities Hedge Fund Index by 4.12 percentage points in the quarter and 23.08 percentage points YTD.

China A shares extended gains in the third quarter, with the CSI300 up 4.63% in the period, making it one of the best performing markets in Asia. Cyclical sectors like non-ferrous metals, steel and coal mining performed strongly in the quarter. There is a renewed focus on supply curtailments due to upcoming pollution controls that will include production bans. Banks also did well as recovery in PPI helped to improve the financial standings of highly leveraged cyclical sectors. Media, utilities, healthcare, and home appliances were laggards.

Sentiment was overall cautiously optimistic. Manufacturing PMI stayed above 50 for 13 consecutive months and foreign exchange reserves also rose for 7 consecutive months. China August data was mixed, but the overall picture points to a slowdown compared July. This reflected temporary or policy-driven disruptions to output caused by bad weather, environmental regulations and capacity rationalizations. Indicators like the PMIs suggest that the manufacturing recovery should still support demand in the near term.

The People's Bank of China announced on 30th September that a large majority of commercial banks will qualify for at least a 50bps Reserve Requirement Ratio reduction, targeting to support SME financing, effective 1st Jan 2018. Eligible loans cover micro companies, self-owned businesses, the agricultural sector, start-ups, as well as poverty and education assistance loans. Banks with 1.5% of either outstanding loans or new lending for the full year of 2017 in the eligible segments will receive a 0.5 percentage point reduction in RRR. We do not think the RRR cuts represent a meaningful change in their monetary policy stance. The main motivation is liquidity-related, with moderate excess reserves from Financial Institutions deposited with the PBoC.

A new round of home purchase restrictions were announced by 9 cities in September, continuing the use of differentiated administrative measures to curb price rises. Low property inventory levels and the stable CNY certainly give local governments comfort in executing such tightening policies. But more importantly, resilient domestic consumption has become the primary contributor to GDP growth, with its 4.4 percentage point share being almost double fixed asset investment's 2.3ppt contribution. Multiple factors underpin domestic consumption, including a decline in the savings rate thanks to improved social safety nets, the post-Deng generation's increasing share in the labor force, easier access to credit by households and a general optimism towards future personal income growth. There are also clear signs that blue-collar jobs are outpacing white-collar ones in wages growth, supporting our long-held view that consumption upgrading is spreading across the country. By 2016, China's share of the global consumption market had almost tripled from a 4% share to 11% in the past decade. It will continue to increase as more members of the population move into the middle-class.

The 19th Party Plenum in October 2017 will be the biggest event for the rest of the year. The promise made in the 18th Party Plenum of doubling per capita disposable income between 2010 and 2020 is well on track. We expect the release of more measures to promote domestic consumption, as well as removing administrative red-tape and other measures to bolster innovation.

We have observed that positioning data shows continued light exposures from global investors to Offshore China, but with Northbound flows to China A gradually rising. Our structural alpha names in the consumption space continue to be favored by the market due to their franchise value and improving operating performance. We have increased our exposure to smart phone/smart device component manufacturers which have strong growth potential as they rise to become meaningful contenders against global peers.

There is a recovery of Venustech Group's demand in 2017. By 1H17, its order growth was 46%, of which 41 percentage points was organic growth, underpinned by the army, energy and media sectors. According to management's earnings alert, we expect a 40%-50% recurring earnings growth year on year for the first 9 months. As most of its clients are government-related organizations and big SOEs, the fourth quarter usually accounts for 50% of its annual business. The company has a full cybersecurity product line. With cloud computing getting more popular, we see more business opportunities as the increasing value attached to cloud and big data entails more investment in security.

Jonjee Hi-Tech Industrial outperformed in 3Q17 as the sales numbers in July significantly exceeded market expectations. According to our channel checks, sales in July was up grew over +35% YoY. This was due to 1) recovery of restaurant businesses on the growing trend of dining-out, 2) Jonjee's channel expansion outside Guangdong province, and 3) postponing some product shipments from June to July. Although sales numbers in August and September normalized, we estimate overall sales growth in 3Q17 will still be around +20% YoY. Concern that its largest shareholder Qianhai Life may sell Jonjee shares to raise cash had dissipated as Qianhai Life's liquidity crunch eased. Our long-term investment thesis is playing out as Jonjee benefits from consumption upgrades in the seasoning business, industry consolidation, channel expansion, increased production efficiency and improved corporate governance. Jonjee's profit-sharing policy of paying management 5% of net profits as long as sales targets are met is a strong incentive. For the next 3 years, we expect Jonjee sales to grow at 20% p.a., with earnings growth of 25% p.a. If we exclude the real estate business, which we value at CNY3 bn, its core food seasoning business is trading at 32.6x 2017 and 25.5x 2018E P/E.

Kweichow Moutai continued to outperform the market in 3Q. The wholesale price for its core high-end product Feitian Moutai reached CNY1,450 a bottle in mid-August on strong demand amid a supply shortage. The company has taken various measures to temper prices as it seeks a broader consumer base nationwide. This included releasing at least 4,000 metric tons of additional Feitian Moutai supply in August and September that punished distributor hoarding, and launching its official e-commerce platform www.emaotai.cn. Prices slid back to around CNY1,300 a bottle in September, easing concerns about an overheated market. These measures will benefit Moutai in the long run. We expect Moutai's 3Q 2017 sales growth to exceed 40% on year at around 8,000 metric tons, thanks to enlarged supply. Profitability may also improve as it shifts more sales away from distributors in favor of its inhouse e-commerce platform, where it will receive CNY1,299 a bottle instead of CNY819 via a distributor. Future catalysts include shipment price hike which we expect to happen early next year. The stock trades at 23.0x 2018E P/E, which we think is reasonable at three-year CAGR of 20~25% driven by both price and volume growth.

Our short positions in two Macau gaming operators underperformed in 3Q 2017, as continued growth in the VIP segment and improved mass market momentum during the Chinese summer school holidays boosted industry Gross Gaming Revenue numbers. This was despite the Golden Week turning out to be markedly below expectations. Mass GGR growth was in the low single digits, lagging the 12% on-year growth in tourist visitations, which in turn trailed the 19% on-year Golden Week visitations growth in 2016. One of the two positions is a mass market driven operator, with the most hotel rooms amongst the casinos in the territory and believed to be one of the largest beneficiaries of mass segment growth.

GGR growth from October onwards is likely to slow down considerably, as the base is now much higher given the opening of two casinos in 3Q 2016. This will likely dampen sentiment among GGR-focused traders. Macau casinos will continue to face headwinds from the long-running anti-corruption campaign, Chinese capital outflow restrictions, and tighter regulation of junket operations. Having spent USD4.4 bn on its new casino which opened in August 2016, one of the operators may not even recover its invested capital because its gaming concession has less than 5 years remaining.

Our short position in a food and beverage manufacturer was a detractor in September, with the stock advancing almost 5% last month. This was despite a weak set of 2Q 2017 results released in August, with earnings missing street estimates by around 20% as gross profit margins remain weak on escalating raw material prices. The company may continue to suffer from higher raw material prices for the rest of the year, and the resultant drag on earnings. Group revenue grew +4.7% on year, with beverage sales up +8.4% on year to offset instant noodles slipping -3.1% on year. The company has again suffered from channel inventory issues, as well as a high base for its instant noodles sales last year. We do not see any signs of recovery for their instant noodles business, and believe our view on the structural decline in instant noodles demand remains intact. With a mild growth outlook, our view is that a price of 33x 2017E P/E is unjustified.

Source: APS

APS Asset Management Pte Ltd
3 Anson Road, #23-01 Springleaf Tower, Singapore 079909 Tel: (65) 6333 8600
Fax: (65) 6333 8900 E-mail: cs@aps.com.sg Website: www.aps.com.sg

PORTFOLIO ACTIVITY

Recent Buys

AAC Technologies is a provider of miniaturized technology components across the acoustic, haptic, radio frequency and optical segments. AAC supplies miniaturized acoustic components, including a speakers, receivers and Microelectro-Mechanical Systems (MEMS) microphones, with more than 50% of global market share. Its main customers are the global top consumer electronics names such as Samsung, Apple, and Huawei etc.

We believe AAC will sustain earnings growth in excess of 30% p.a. over the next 2-3 years. Firstly, its acoustic business, which was 51% of revenue in 2016, will benefit from price increases driven by stereo sound and water-proofing features. The adoption rate will double from the current 40% and 20% respectively over the next 3 years, which will support its growth of above 30% p.a. Secondly, its non-acoustic business, mainly haptic and Radio Frequency (RF) mechanical solutions, will maintain 30% growth p.a. in the mid-term, driven by its key clients' wins with RF solutions incorporating antenna, acoustic parts and casings. Lastly, AAC's strategic move into optics will start to bear fruit from 2018 onwards, and is expected to contribute to 20% of sales in 2019, from zero today. Compared to peers in the optical business who are mainly focused on plastic lenses, AAC focuses on next generation products. Some examples are glass-plastic hybrid lens technology to improve resolutions, and wafer-level glass lens to penetrate 3D sensing supply chains. We believe AAC will continue to re-rate as it continues to make major breakthroughs in securing key clients. AAC is traded at 21x 2018E P/E and 16.5x 2019E P/E.

Air China will likely be the main beneficiary of Chinese domestic travel growth and recovery in business travel. It is the mainland's second largest carrier by capacity and increased it by +5% in 1H 2017. The airline's load factor improved by +1.1% on year in August, which was the 8th consecutive monthly increase for Air China. The whole sector has seen its load factor improve to above 85% domestically. We expect this trend to continue into 2018 as demand for air travel will continue to grow at 8%-9% per annum, outstripping the supply growth of 6%-7% spelt out in the Civil Aviation Association of China's 13th 5-Year plan. We expect load factors to improve as industry players have limited new capacity. Air China's market share in the 10 most profitable domestic routes is above 40%. Most of these routes exceed 1,000 km, making them more resilient to competition from High Speed Trains.

Recent Sells

As the leading domestic system integration company, **DHC Software** has been trying to transition its business model and invest in new technologies like big data, cloud computing, intelligent logistics, intelligent manufacturing, Internet of Things and information technology services, etc. We expect its strategic positioning in big data and AI will take some time to bear fruit, and we sold into strength to exit the position.

SAIC Motor is facing increased competition from local brands, whose product quality is catching up rapidly with foreign brands. Consumers are also willing to buy local brands which are cheaper. As China's largest automaker with two JVs with foreign automakers, Shanghai Auto has large exposure to domestic competition. Its share price has had a sustained run in the last 2 years, and its valuation of 1.8x P/B and 10x P/E implies a competitive environment that is much milder than what will likely be the case in the near future, so we took profit and exited the position.

APS GREATER CHINA LONG/SHORT FUND — 3Q 2017

RETURN AND RISK ANALYSIS

RETURNS	AVE MTHLY	ANNUALIZED
Since July 2008	0.72%	8.96%
Last 60 mths	0.79%	9.93%
Last 36 mths	0.61%	7.51%
Last 12 mths	-0.58%	-6.69%

RISK	AVE MTHLY	ANNUALIZED
Since July 2008	6.77%	23.46%
Last 60 mths	6.60%	22.87%
Last 36 mths	7.66%	26.55%
Last 12 mths	3.94%	13.65%

RELATIVE RATIOS	INDEX 1	INDEX 2
Information Ratio	0.27	0.13
Up Capture	41%	162%
Down Capture	73%	114%

PORTFOLIO ANALYTICS	FUND	INDEX 2
Total Return	121.19%	117.11%
Annualized Return	8.96%	8.74%
Annualized Volatility	23.46%	13.68%
Annualized Sharpe Ratio*	0.44	0.60
Annualized Sortino Ratio*	0.48	0.83
Annualized Alpha (Fund vs Index)	-	-0.60%
Beta (Fund vs Index)	-	128.5%
Correlation (Fund vs Index)	-	75%
Positive Months	64	71
Negative Months	47	40
Maximum Drawdown	-37.95%	-23.92%
Best Month	16.81%	17.60%
Worst Month	-21.09%	-9.80%

Notes:
Index1: MSCI Golden Dragon Price Index USD   Index 2: Eurekahedge Greater China Long/Short Equities Hedge Fund Index, based on 11.67% of funds which have reported September 2017 returns as at 9th October 2017, 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 September 2017 unless otherwise specified.
* Risk free rate based on Fed Fund

FUND INFORMATION

<u>Investment Manager</u>

Company	APS Asset Management Pte Ltd
Lead Portfolio Manager	Wong Kok Hoi
Inception Date	July 01, 2008
Fund AUM	USD 79.28 mn
Fund Base Currency	USD

<u>Fund Details</u>

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

<u>NAV Price as at September 30th, 2017</u>
Class A: USD 258.42
Class B: USD 94.20

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

<u>Bloomberg Code</u>
Class A: APSCHIN KY   Class B: APSCHIB KY

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

<u>Client Services Contact Information</u>

New York	(1) 212-332-7808
Singapore	(65) 6333-8600
E-mail	cs@aps.com.sg

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

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