

China Convergence Fund

A Sub-Fund of Value Partners Intelligent Funds

NAV per unit: Class A USD - USD160.75

Fund size : USD307.6 million



Morningstar Rating™¹
As at 30-06-2017

30 June 2017

- China Convergence Fund (The "Fund") primarily invests in A and B shares listed on the stock exchanges of Shanghai and Shenzhen as well as in H shares listed in Hong Kong.
- The Fund invests in China and therefore is subject to emerging market risks. Generally, investments in emerging markets are more volatile than investments in developed markets due to additional risks relating to political, social, economic and regulatory uncertainty.
- The Fund is also subject to concentration risk due to its concentration in China-related companies. Adverse development in such region may affect the value of the underlying securities in which the Fund invests.
- The Fund may directly invest in A Shares and other eligible securities through the qualified foreign institutional investors ("QFII") quota. Investors will be subject to certain risks including repatriation risk, custodial risk, regulatory risk. In addition, the QFII policy and rules are subject to change. All these may adversely impact the Fund.
- The Fund may also invest in derivatives which can involve material risks, e.g. counterparty default risk, insolvency or liquidity risk, and may expose the Fund to significant losses.
- You should not make investment decision on the basis of this material alone. Please read the explanatory memorandum for details and risk factors.

Investment objective

The fund aims to provide unitholders with long-term capital appreciation by investing primarily in A and B shares listed on the stock exchanges of Shanghai and Shenzhen, as well as H shares listed in Hong Kong.

Note: On inception, in Jul 2000, the fund's objective was to invest primarily in B shares. In Jul 2001, the mandate was extended to include H shares. In Mar 2005, the mandate was further extended to include China A shares.

Performance since launch ²



Performance update ²

	Class A USD	MSCI China Index ³
One month	+3.7%	+2.3%
Year-to-date	+20.5%	+24.9%
One year	+29.7%	+32.2%
Three years	+31.9%	+26.2%
Five years	+55.2%	+53.5%
Since launch	+1,507.5%	+217.8%
Annualized return [^]	+17.7%	+7.0%
Annualized volatility [^]	25.6%	26.6%

NAVs & codes

Classes	NAV	ISIN	Bloomberg
Class A USD	160.75	KYG9317Q1047	VAPAICB KY
Class A AUD Hedged	10.69	KYG9317Q1385	VAPAAHD KY
Class A CAD Hedged	10.89	KYG9317Q1468	VAPACAH KY
Class A NZD Hedged	11.63	KYG9317Q1534	VAPANZH KY

The fund – Class A USD: Monthly performance from 1 Jan 2009 to 30 Jun 2017 ²

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2009	-3.0%	-2.3%	+12.4%	+11.6%	+17.9%	+4.3%	+11.9%	-7.0%	+4.6%	+8.4%	+6.8%	+1.5%	+87.1%
2010	-6.1%	+2.4%	+6.2%	+2.3%	-4.8%	+1.6%	+3.9%	+1.6%	+10.8%	+4.5%	+1.2%	-2.6%	+21.3%
2011	-3.2%	-0.9%	+4.8%	+2.2%	-2.5%	-2.4%	+1.5%	-7.3%	-19.4%	+13.5%	-7.6%	-0.3%	-22.4%
2012	+7.6%	+6.6%	-5.5%	+1.0%	-8.4%	-3.8%	-3.5%	+0.6%	+5.8%	+2.7%	+0.1%	+7.4%	+9.3%
2013	+7.5%	-2.0%	-2.9%	-0.6%	+2.7%	-9.9%	+3.5%	+1.8%	+2.2%	+3.9%	+5.6%	-1.8%	+9.2%
2014	-5.6%	+1.0%	-3.6%	-1.0%	+1.2%	+3.4%	+8.8%	+1.3%	-1.2%	+3.2%	+1.6%	+5.4%	+14.6%
2015	+1.8%	+1.3%	+6.7%	+19.8%	+1.7%	-8.1%	-12.6%	-12.5%	+1.5%	+5.5%	-3.8%	+2.4%	-0.5%
2016	-16.6%	-0.9%	+8.5%	-2.1%	-2.5%	-1.1%	+4.8%	+6.7%	+0.4%	-1.8%	+1.1%	-3.5%	-8.7%
2017 (YTD)	+5.9%	+2.3%	+3.8%	+0.3%	+2.9%	+3.7%							+20.5%

[^] Annualized return and volatility are calculated from inception on 14 Jul 2000. Volatility is a measure of the theoretical risk in terms of standard deviation; in general, the lower the number, the less risky the investment, and vice versa.



Top 10 securities holdings

Name	Industry ⁴	%
Alibaba Group Holding Ltd	Software & services	6.0
Tencent Holdings Ltd	Software & services	5.3
Ping An Insurance Group Co of China Ltd	Insurance	4.4
Shenzhen International Holdings Ltd	Transportation	4.3
Inner Mongolia Yili Industrial Group Co Ltd	Food, beverage & tobacco	3.9
Taiwan Semiconductor Manufacturing Co Ltd	Semiconductors & semiconductor equipment	3.9
China South Publishing & Media Group Co Ltd	Media	3.7
PetroChina Co Ltd	Energy	3.4
China Taiping Insurance Holdings Co Ltd	Insurance	3.0
Wuliangye Yibin Co Ltd	Food, beverage & tobacco	3.0

These stocks constitute 41% of the fund.

Portfolio characteristics

As at 30 Jun 2017	2017 ⁵
Price/earnings ratio	15.6 times
Price/book ratio	1.8 times
Dividend yield	2.4%

Geographical exposure by listing ⁶

H Shares	28%
China A Shares	27%
Red Chips	13%
Cash ⁷	7%
Hong Kong	7%
Taiwan	6%
United States	6%
China B Shares	5%
Others	1%

Short exposure includes: Hong Kong, -3.7%.

Sector exposure ^{4, 6}

Consumer discretionary	17%
Information technology	17%
Insurance	12%
Consumer staples	10%
Health care	10%
Other financials	8%
Cash ⁷	7%
Industrials	7%
Energy	6%
Others	3%
Utilities	3%

Total short exposure is -3.7%.

Short exposure includes: Health care, -2.1%; Banks, -0.7%; Information technology, -0.5% and Consumer staples, -0.4%.

Fund facts

Manager:	Value Partners Limited
Base currency:	USD
Trustee:	Bank of Bermuda (Cayman) Limited
Custodian:	HSBC Institutional Trust Services (Asia) Limited
Launch date:	Class A USD - 14 Jul 2000 Class A AUD Hedged - 27 Oct 2015 Class A CAD Hedged - 7 Jan 2016 Class A NZD Hedged - 7 Jan 2016

Unit price is published daily in the South China Morning Post, the Hong Kong Economic Journal and the Hong Kong Economic Times.

Fee structure

Minimum subscription	USD10,000 or equivalent
Minimum subsequent subscription	USD5,000 or equivalent
Subscription fee	Up to 5%
Management fee	1.25% p.a.
Performance fee ⁸	15% of profit (High-on-high principle)
Redemption fee	Nil
Dealing day	Daily

Senior investment staff

Chairman & Co-Chief Investment Officer: [Cheah Cheng Hye](#)
Deputy Chairman & Co-Chief Investment Officer: [Louis So](#)
Deputy Chief Investment Officer: [Renee Hung](#)
Senior Investment Director: [Norman Ho](#), CFA
Investment Directors: [Gordon Ip](#), CFA; [Kenny Tjan](#), CFA; [Michelle Yu](#), CFA; [Yu Xiao Bo](#)
Senior Fund Managers: [Kelly Chung](#), CFA; [Doris Ho](#); [Glenda Hsia](#); [Philip Li](#), CFA; [Kai Mak](#)

Recent fund award



Fund of the Year Awards 2015 ⁹
China Equity (Outstanding Achiever)
 ~ Benchmark Magazine

1. © 2017 Morningstar, Inc. All Rights Reserved. 2. Source: HSBC Institutional Trust Services (Asia) Limited and Bloomberg, data as of 30 Jun 2017, in USD, NAV to NAV, with dividends reinvested. Performance data is net of all fees. 3. Starting from Jul 2009, the MSCI China Index will be used as the reference index for the entire history of the fund. Hang Seng H Shares Index, Shanghai Composite Index and Shenzhen Composite Index were no longer shown for comparison. The Index is for reference only. 4. Classification is based on Global Industry Classification Standard (GICS). 5. The profile is based on market consensus forecast as derived from S&P Capital IQ and Bloomberg. Harmonic mean methodology is applied to calculate the forecast P/E ratio and P/B ratio. Note that the manager's internal estimates may differ significantly from S&P Capital IQ and Bloomberg estimates. 6. Exposure refers to net exposure (long exposure minus short exposure). Due to rounding, percentages shown may not add up to 100%. 7. Cash refers to net cash on hand excluding cash for collaterals and margins. 8. Performance fee will only be charged if the NAV at the end of the financial year or upon realization of units exceeds the "high watermark", which is the all-time year-end high of the fund's NAV. If in any one year, the fund suffers a loss, no performance fee can be charged in subsequent years until the loss is recovered fully (the high-on-high principle). 9. Reflecting performance as at September 2015.

For Singapore investors: The Fund is registered as a restricted foreign scheme in Singapore and will only be distributed to (i) institutional investors and (ii) accredited investors and certain other persons in Singapore in accordance with section 304 and 305 of the Securities and Futures Act. Value Partners Asset Management Singapore Pte Ltd, Singapore Company Registration No. 200808225G

For Swiss Qualified Investors: The sales prospectus, the Articles of Association, the Key Investor Information Document as well as the annual and semi-annual reports of the Fund are available free of charge from the Representative. Both the place of performance and the place of jurisdiction for units/shares in the Fund offered or distributed in or from Switzerland shall be the seat of the Swiss representative.

Swiss Representative and Paying Agent: BNP PARIBAS SECURITIES SERVICES, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich.

Investors should note investment involves risk. The price of units may go down as well as up and past performance is not indicative of future results. Investors should read the explanatory memorandum for details and risk factors in particular those associated with investment in emerging markets. Information in this report has been obtained from sources believed to be reliable but Value Partners Limited does not guarantee the accuracy or completeness of the information provided by third parties. Investors should seek advice from a financial adviser before making any investment. In the event that you choose not to do so, you should consider whether the investment selected is suitable for you. This report has not been reviewed by the Securities and Futures Commission. Issuer: Value Partners Limited.

China Convergence Fund Commentary / Second Quarter 2017

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Hong Kong and China (H shares) markets extended their solid performance in the second quarter underpinned by strong corporate earnings results and robust macro data. During the period, China Convergence Fund returned 7.1% while year-to-date, the Fund gained 20.5%. For reference, the MSCI China Index was up 10.6% and 24.9% respectively over the corresponding periods.

China buoyed by signs of stabilising growth

A series of encouraging macro data signalled further stabilization in China’s economy. The official manufacturing Purchasing Managers’ Index stayed in expansionary territory in June for the 11th consecutive month while export surprised on the upside on the back of global trade recovery, rising 8.7% in May in USD terms. Meanwhile, China’s retail sales grew 10.7% from a year earlier in May, reflecting the continuous progress in China’s shift towards a consumption-driven economy.

Robust fundamentals in the first half of 2017 highlighted the strength in China’s economy, providing a window of opportunity for the policy makers to tackle deep-seated structural issues. In fact, such structural issues, including climbing debt levels and shadow banking, were cited as major reasons in Moody’s downgrade of China and Hong Kong’s sovereign credit ratings in late May. In light of the government’s policy bias tilts towards tightening to rein in leverage and financial risks, we expect a modest moderation in growth later this year. However, we believe that a sharp deceleration in growth is unlikely given a managed pace of tightening and the government’s policy priority to maintain growth at 6.5% this year.

Earnings and southbound flow as catalysts

The Hong Kong and China markets turned in a strong rally year-to-date on the back of recovering corporate earnings results. The recovery trend in earnings is evident – as compared to an earning contraction of 13% in the fourth quarter of 2016, earnings growth of MSCI China Index companies picked up to 7% year-on-year during the first quarter of 2017¹. Meanwhile, with recovering profitability and margin expansion, consensus earnings-per-share (EPS) growth of the MSCI China Index² is estimated to reach 15% for the whole year of 2017, providing impetus for market performance during the year.

From the perspective of capital flow, southbound investment’s share in the daily turnover of Hong Kong’s stockmarket has been increasing steadily since the fourth quarter last year. Now southbound turnover has exceeded 10% of the average daily turnover in Hong Kong. With increasing demand for overseas asset allocation from China’s insurance companies, social security funds and mutual funds, southbound capitals are expected to play a larger role in Hong Kong’s stockmarket going forward. Over the long haul, this will not only benefit H-share investors as China continues to open up its capital market, but the heightened liquidity will also reinforce Hong Kong’s position as an Asian financial centre.

Value Partners Investment Team
17 July 2017

1. Source: Bloomberg, CICC Research, Factset, MSCI. Data as of May 2017.
2. Source: Bloomberg, Deutsche Bank Research. Data as of May 2017.

All performance figures are sourced from HSBC Institutional Trust Services (Asia) Limited and Bloomberg (Data computed in US\$ terms on NAV-to-NAV basis with dividends reinvested) as at 30 June 2017. Performance data is net of all fees.

Individual stock performance is not indicative of fund performance.

The views expressed are the views of Value Partners Limited only and are subject to change based on market and other conditions. The information provided does not constitute investment advice and it should not be relied on as such. All materials have been obtained from sources believed to be reliable, but their accuracy is not guaranteed. This material contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.

Investors should note that investment involves risk. The price of units may go down as well as up and past performance is not indicative of future results. Investors should read the explanatory memorandum for details and risk factors in particular those associated with investment in emerging markets. This commentary has not been reviewed by the Securities and Futures Commission. Issuer: Value Partners Limited.

China Convergence Fund: 5 biggest holdings of securities as at 30 June 2017

Stock	Industry	Valuation (2017 Estimates)	Remarks
Alibaba Group (Code: BABA US) Market cap: US\$360.9 billion	Internet	Price: USD140.90 P/E: 34.0x P/B: 7.2x Yield: 0%	Alibaba, founded by Jack Ma in 1999 in China, is one of the world's largest e-commerce company. Alibab's online marketplace - "Taobao" - contributes the vast majority of the company's revenue and is likely to continue delivering solid growth in view of its monopoly position and the trend of merchants shifting marketing budgets online from offline. Meanwhile, the company's cloud computing company ("AliCloud") and fintech business ("Ant Financial") are underpinning future growth potential. Ant Financial, 33% owned by Alibaba, is a critical component to Alibaba's fintech blockchain. Looking forward, re-rating of Alibaba's stock is possible with 1) improved disclosure on solid operational matrix; 2) solid quarterly earnings which could ease concerns on macro slowdown; 3) spin-off of high value assets (e.g. AliCloud and Ant Financial) to unlock hidden values.
Ping An Insurance (Code: 2318 HK) Market cap: US\$128.5 billion	Insurance	Price: HKD51.45 P/E: 11.9x P/EV*: 1.1x Yield: 1.7%	Ping An Insurance ("Ping An") is a leading provider of insurance service in China. It is one of the first Chinese non-state-owned financial conglomerates that provide insurance (both life and non-life), banking, securities, trust and asset management services to customers in the country. In the current tough operating environment, Ping An is well-positioned amongst peers given its superior agency force and multi-product platform.
Shenzhen International Holdings (Code: 152 HK) Market cap: US\$3.7 billion	Transportation	Price: HKD14.32 P/E: 12.1x P/B: 1.3x Yield: 3.9%	Shenzhen International Holdings invests in, constructs, and operates logistic infrastructure facilities primarily in China. It operates through two segments: the toll roads segment which develops and operates toll highways; and logistic business, which mainly constructs and manages logistic parks and urban integrated logistics hubs. At the end of 2016, the firm made a breakthrough in the Qianhai Start-up Project as new land use right agreements were entered into with the Qianhai Authority, which ascertain the firm's ownership of the site in the project.

Stock	Industry	Valuation (2017 Estimates)	Remarks
Taiwan Semiconductor Manufacturing (Code: 2330 TT) Market cap: US\$178.0 billion	Semiconductors and semiconductor equipment	Price: TWD208.50 P/E: 15.5x P/B: 3.5x Yield: 3.5%	Taiwan Semiconductor Manufacturing is a world-class independent semiconductor foundry. It provides integrated circuit (“IC”) design houses with integrated services for process design, wafer manufacturing and testing. As a global leader with more than 50% share of the outsourcing market, the company has consistently outperformed competitors in terms of technology and profitability. We think the company is well-positioned to continue to benefit from the growing IC manufacturing outsourcing market and the rising demand for the internet of things trend, AI chips and new application areas.
Tencent Holdings (Code: 700 HK) Market cap: US\$339.0 billion	Internet	Price: HKD279.20 P/E: 37.6x P/B: 9.7x Yield: 0.3%	Tencent is a leading provider of online games, premium messaging services, internet value added services, and advertising and ecommerce services in China. As at end of the first quarter 2017, the number of Tencent’s Weixin and WeChat monthly active user reached 938 million, representing a year-on-year growth of 23%. Leveraging its large active user base, it offers good long-term monetization potential.

*EV = Embedded value

Note: The above investments made up 23.9% of China Convergence Fund as at 30 June 2017. The stock prices are based on the closing of 30 June 2017.

Individual stock performance/yield is not necessarily indicative of overall fund performance.