

**CHINA CONVERGENCE FUND**

A Sub-fund of Value Partners Intelligent Funds

**2018** SEMI-ANNUAL  
REPORT

For the six months ended 30 June 2018

**Value Partners Limited**

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*In the event of inconsistency, the English text of this Semi-Annual Report shall prevail over the Chinese text. This report shall not constitute an offer to sell or a solicitation of an offer to buy shares in any of the funds. Subscriptions are to be made only on the basis of the information contained in the explanatory memorandum, as supplemented by the latest semi-annual and annual reports.*

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(A Cayman Islands unit trust)

### GENERAL INFORMATION

#### Manager

Value Partners Limited  
43rd Floor, The Center  
99 Queen's Road Central  
Hong Kong

#### Directors of the Manager

Dato' Seri Cheah Cheng Hye  
Mr. So Chun Ki Louis  
Mr. Ho Man Kei, Norman

#### Trustee, Registrar, Administrator and Principal Office

Bank of Bermuda (Cayman) Limited  
P.O. Box 513  
Strathvale House  
Ground Floor  
90 North Church Street  
George Town  
Grand Cayman  
KY1-1106  
Cayman Islands

#### Custodian and Registrar's Agent

HSBC Institutional Trust Services (Asia) Limited  
1 Queen's Road Central  
Hong Kong

#### Legal Advisors

*With respect to Cayman Islands law:*  
Maples and Calder  
53rd Floor, The Center  
99 Queen's Road  
Central, Hong Kong

*With respect to Hong Kong law:*  
Deacons  
5/F, Alexandra House  
18 Charter Road  
Central, Hong Kong

#### Auditors

KPMG  
P.O. Box 493  
Century Yard  
Cricket Square  
Grand Cayman KY1-1106  
Cayman Islands

#### Information available from:

Value Partners Limited  
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Website : [www.valuepartners-group.com](http://www.valuepartners-group.com)

## GENERAL INFORMATION (Continued)

### Recent awards and achievements

Corporate Awards	
2018	<ul style="list-style-type: none"> <li>• <b>Insights &amp; Mandate Professional Investment Awards 2018 Offshore China Equity (10 Years)</b> – <i>Insights &amp; Mandate</i></li> </ul>
2017	<ul style="list-style-type: none"> <li>• <b>Benchmark Fund of the Year Awards 2017, Hong Kong Manager of the Year – Greater China Equity (Outstanding Award)</b> <b>Dato’ Seri Cheah Cheng Hye and Mr. Louis So (Value Partners’ Co-CIOs)</b> – <i>Benchmark</i></li> <li>• <b>Benchmark Fund of the Year Awards 2017, Hong Kong Manager of the Year – High Yield Fixed Income</b> <b>Mr. Gordon Ip (Value Partners’ CIO, Fixed Income)</b> – <i>Benchmark</i></li> <li>• <b>Benchmark Fund of the Year Awards 2017, Hong Kong House Award (ETF) – Commodity ETF (Outstanding Achiever) for Sensible Asset Management</b> – <i>Benchmark</i></li> <li>• <b>The 15th China’s Financial Annual Champion Awards 2017 Value Partners: Best Fund House of the Year</b> – <i>Hexun.com</i></li> <li>• <b>AsiaHedge Awards 2017 Management Firm of the Year: Value Partners</b> – <i>AsiaHedge</i></li> <li>• <b>Listed Company Award of Excellence 2017 Value Partners Group Limited – Best Listed Company (Main Board category)</b> – <i>Hong Kong Economic Journal &amp; PR Asia</i></li> <li>• <b>The Asset Benchmark Research Awards 2017 – Asian G3 Bonds Top Investment House</b> <b>Value Partners – Ranked Number 1 in Hedge Fund category</b> – <i>The Asset Benchmark Survey</i></li> <li>• <b>The Asset Triple A, Asset Servicing, Investor and Fund Management Awards 2017</b> <b>Fund Manager of the Year – Long-only Fixed Income (Highly Commended)</b> <b>Mr. Gordon Ip, Value Partners Greater China High Yield Income Fund</b> – <i>The Asset</i></li> <li>• <b>Asset Management Awards for Excellence 2017 Best Fund Provider – Greater China Equity</b> – <i>Asian Private Banker</i></li> </ul>

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### **MANAGER'S REPORT**

Volatility persisted in the second quarter of 2018 as concerns about rising trade tensions, US-North Korea relations and deleveraging in China deepened. Greater China equities (as represented by the MSCI Golden Dragon Index) ended the period with a 3.7% fall (in USD). We saw two major sources of volatility as we navigated an increasingly turbulent market in the second quarter – the US-China trade war and China's deleveraging bias.

#### **Trade war rhetoric weighed on market**

In mid-June, US President Trump approved the final list of goods to be included in the application of a 25% tariff on \$50 billion worth of Chinese imports in which \$34 billion will be implemented on 6 July as part one. Shortly after, China threatened to retaliate by imposing tariffs of "the same strength" on US goods. As the back-and-forth continued, we believe that the trade war will get worse before it gets better because of Trump's tendency to strain relationships to the limit. Despite this negatively affecting specific sectors and companies, we reiterate our belief that the impact of the tariffs on China's overall economy will be limited – a 25% tariff on \$50 billion of Chinese imports is equivalent to a mere 0.1% of China's GDP and only affects 2.2%<sup>1</sup> of China's total exports. We continue to believe that the two sides will resolve the dispute through negotiations eventually, but fear and uncertainty in financial markets will linger, and investors may feel the pinch of the trade war in the short term.

#### **China's deleveraging triggered a string of bond defaults**

The number of bond default cases has been ratcheting up since the start of the year – 16 cases from eight issuers worth a combined RMB14 billion were reported year-to-date. Although default cases continued to cloud investor sentiment in the onshore market, we see them as an anticipated consequence of the deleveraging and de-risking measures that Chinese authorities have been implementing to weed out poor quality companies. Allowing defaults can also help to improve price differentiation in China's credit market, where the credit spread on high yield papers has widened to 300 basis points in early June from as narrow as 50 basis points in March.

While deleveraging policies will burden China's GDP growth, we believe that China's policy makers will remain flexible by constantly reviewing and fine-tuning policies so as to avoid a sharp deceleration in economic growth. The nimble policy approach was evidenced by the two RRR cuts by the People's Bank of China (PBOC) in the second quarter to inject liquidity into the market. On the other hand, contrary to the Fed's rate hike policy, the PBOC injected net liquidity of RMB403 billion via its medium-term lending facility (MLF) in June. This, together with the State Council's plan to ease financial constraints for SMEs, also signals more policy fine-tuning could be possible. That said though, we expect deleveraging to remain the priority, and policies will continue to have a tightening stance to achieve quality growth in the long run.

## **MANAGER'S REPORT (Continued)**

### **USD strength expected to wane**

Increased volatility has dampened investors' risk appetite since mid-April 2018 and ushered in an appreciation trend in the USD as a result of flight to quality. Although the performance of emerging markets has been negatively correlated with USD strength in the past, we believe that sustained USD strength is an unlikely event given the current US fiscal environment, where the twin deficits are expected to further widen to a historically high level and fiscal expenditures will add strain to the US current account. Additionally, given the rise of protectionism, the stronger USD is against the government's objective to lower the country's trade deficit. All of the aforementioned factors are set to mute USD strength in the medium term.

### **China market supported by solid fundamentals**

Amid the market pessimism, encouraging signs were often left unnoticed. In China, macro data reflected a sanguine economy this year, with revenue and earnings growth remaining strong, profitability continuing to improve, capital expenditure rebounding, and debt levels staying largely stable. China's corporate earnings growth has stayed on track against this favorable backdrop – expected earnings growth for offshore China equities in 2018 was revised upwards to 16%<sup>2</sup> (vs. 14.9% in 1Q).

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## MANAGER'S REPORT (Continued)

### Outlook

Looking ahead, volatility may persist in the market for an extended period of time as the US-China trade war drags on, but investors need not stay on the sidelines. After the recent market correction, valuations of China equities have become more attractive at 12.6<sup>3</sup> times price to earnings, as compared to the January high of 14 times. We continue to see near-term market headwinds as buy-on-dip opportunities for long-term investors provided that China's macro fundamentals stay solid.

### Value Partners Limited

24 August 2018

1. Source: the World Bank, Office of the US Trade Representative, export and GDP data as of 2016, CLSA estimates
2. Source: JP Morgan research, 23 June 2018
3. Source: FactSet, I/B/E/S, MSCI, Worldscope, Goldman Sachs Research, 30 June 2018

*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 29 June 2018. Performance data is net of all fees. All indices are for reference only.*

*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.*



## MANAGER'S REPORT (Continued)

### 5 biggest holdings of securities as at 29 June 2018

Stock	Industry	Valuation (2018 Estimates)	Remarks
Alibaba Group Holdings (Code: BABA US)  Market cap: US\$493 billion	Internet	Price: US\$192.55 P/E: 31.5x P/B: 7.0x Yield: 0.0%	Alibaba group holding limited operates as a holding company. The company provides internet infrastructure, eCommerce, online financial, and internet content services through its subsidiaries. Alibaba Group Holding offers its product and services worldwide.
Beijing Tong Ren Tang Chinese Medicine (Code: 3613 HK)  Market cap: US\$1.1 billion	Pharmaceutical	Price: HKD15.02 P/E: 22.1x P/B: 4.3x Yield: 1.5%	Headquartered in Hong Kong, Beijing Tong Ren Tang Chinese Medicine is a distributor engaged in both retail and wholesale of Chinese medicine products in Hong Kong, Macau, and other overseas markets operating under the "Tong Ren Tang" brand. The company's business spans over 10 countries and regions and sells over 2,000 Chinese medicine products. As the company will change to list in the main board of the Hong Kong stock exchange soon, its valuation and liquidity are expected to improve.
China Merchants Bank (Code: 3968 HK)  Market cap: US\$100 billion	Pharmaceutical	Price: HKD28.15 P/E: 7.5x P/B: 1.2x Yield: 4.1%	China Merchants Bank operates as a commercial bank and offers a range of financial services, including credit cards, savings accounts, mortgage loans, ATMs, foreign exchange trading, and on-line banking service. Corporate banking accounts for nearly half of its revenues. CMB targets affluent markets through a network of more than 1,400 branches and 2,350-plus ATMs in more than 120 cities in China. CMB also has relationships with nearly 2,000 banks worldwide, and owns a majority stake in Wing Lung Bank in Hong Kong.

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### MANAGER'S REPORT (Continued)

#### 5 biggest holdings of securities as at 29 June 2018 (Continued)

Stock	Industry	Valuation (2018 Estimates)	Remarks
Kweichow Moutai (Code: 600519 CH)  Market cap: US\$138 billion	White spirit manufacturer	Price: CNY731.00 P/E: 25.5x P/B: 8.3x Yield: 2.0%	Kweichow Moutai is China's largest liquor manufacturer in terms of market value. With its premium brand positioning and effective channel management, Moutai has successfully expanded its market share in private consumption in the past three years after huge decline in official consumption. Moutai has a distinguished brand among other players in China and is expected to benefit from the consumption upgrade cycle.
Tencent Holdings Ltd  Market cap: US\$3,606 billion	Internet	Price: HKD378.80 P/E: 35.9x P/B: 9.0x Yield: 0.29%	Tencent holdings limited, an investment holding company, provides internet and mobile value-added services (VAS), online advertising services, and ecommerce transactions services to users in the People's Republic of China, the United States, Europe, and internationally.

Note: The above investments made up 33.3% of China Convergence Fund as at 29 June 2018. The stock prices are based on the closing of 29 June 2018.

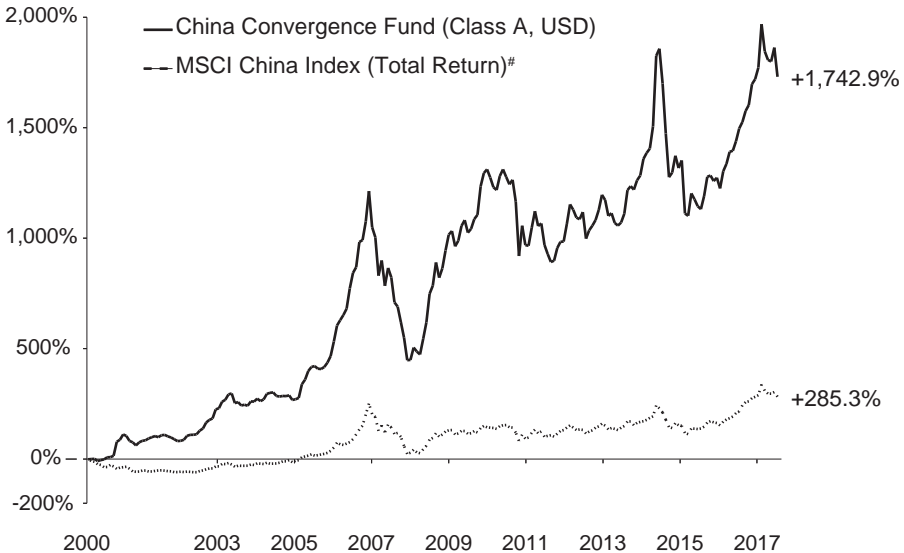
Individual stock performance/yield is not necessarily indicative of overall fund performance.

**MANAGER’S REPORT (Continued)**

**China Convergence Fund – NAV as at 30 June 2018**

<b>Classes</b>	<b>NAV per unit</b>
Class A	USD184.29
Class A AUD Hedged	AUD12.03
Class A CAD Hedged	CAD12.91
Class A NZD Hedged	NZD13.61
Class Z	USD15.35

**Performance since launch**  
**From 14 July 2000 to 30 June 2018**



# MSCI China Index (Total Return) since fund inception to 31 Dec 2000, thereafter it is the MSCI China Index (Total Net Return) which takes into account of dividend reinvestment after deduction of withholding tax. MSCI index (Total Return) does not take into account of deduction of withholding tax.

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### STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 30 JUNE 2018

	30.06.2018	31.12.2017
	US\$	US\$
<b>Assets</b>		
Financial assets at fair value through profit or loss	274,344,579	309,631,927
Interest, dividends and other receivables	1,218,150	1,293
Amounts due from unitholders	113,188	97,531
Amounts due from brokers	2,032,219	6,370,380
Cash held with bank	19,054,056	40,094,915
	<u>296,762,192</u>	<u>356,196,046</u>
<b>Liabilities</b>		
Financial liabilities at fair value through profit or loss	18,248,104	25,285,714
Bank overdraft	23,154,743	–
Dividend payable	40,171	–
Amounts due to unitholders	804,019	652,720
Amounts due to brokers	464,015	12,559,663
Management fees payable	270,311	308,242
Performance fees payable	–	14,212,196
Trustee fees payable	32,453	37,015
Tax provision	20,000	122,040
Accrued expenses and other payables	214,310	148,873
	<u>43,248,126</u>	<u>53,326,463</u>
<b>Net assets attributable to unitholders</b>	<u>253,514,066</u>	<u>302,869,583</u>
<b>Net asset value per unit</b>		
– Class A with 1,353,096 (31.12.2017: 1,600,411) units outstanding	USD184.29	USD188.47
– Class A AUD Hedged with 336,662 (31.12.2017: 56,577) units outstanding	AUD12.03	AUD12.47
– Class A CAD Hedged with 63,052 (31.12.2017: 23,134) units outstanding	CAD12.91	CAD13.27
– Class A NZD Hedged with 25,750 (31.12.2017: 12,356) units outstanding	NZD13.61	NZD14.00
– Class Z with 20,488 (31.12.2017: 20,488) units outstanding	USD15.35	USD15.68

**INVESTMENT PORTFOLIO (UNAUDITED)**

AS AT 30 JUNE 2018

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			
<b>Listed Equity Securities</b>			
<b>China</b>			
Agricultural Bank of China Ltd	12,013,206	6,239,543	2.46
Bank of Ningbo Co Ltd	2,488,599	6,120,846	2.42
Beijing New Building Materials PLC	1,709,967	4,784,081	1.89
China CYTS Tours Holding Co Ltd	1,608,850	4,841,258	1.91
China Pacific Insurance (Group) Co Ltd	649,092	3,121,412	1.23
China Resources Double Crane Pharmaceutical Co Ltd	2,638,422	9,779,827	3.86
Chongqing Changan Automobile Co Ltd	1,238,155	1,251,148	0.49
Emei Shan Tourism Co	1,931,746	2,563,742	1.01
Fujian Septwolves Industry Co Ltd	1,962,387	2,367,374	0.93
Gree Electric Appliances Inc of Zhuhai	1,426,024	10,151,821	4.00
Hangzhou Hikvision Digital Technology Co Ltd	1,629,250	9,133,728	3.60
Huangshan Tourism Development Co Ltd	2,364,666	2,809,223	1.11
Kweichow Moutai Co Ltd	135,185	14,929,817	5.89
Lao Feng Xiang Co Ltd	762,671	3,544,173	1.40
Luxshare Precision Industry Co Ltd	2,087,880	7,105,504	2.80
Luzhou Laojiao Co Ltd	699,222	6,425,138	2.53
Midea Group Co Ltd	628,899	4,958,533	1.96
Ping An Insurance (Group) Co of China Ltd	711,590	6,293,824	2.48
Yunnan Baiyao Group Co Ltd	79,268	1,280,132	0.51
<b>Total China</b>		<b>107,701,124</b>	<b>42.48</b>
<b>Hong Kong – H Shares</b>			
China Construction Bank Corp H Shrs	8,377,000	7,739,037	3.05
China International Capital Corp Ltd H Shrs	4,225,600	7,527,590	2.97
China Merchants Bank Co Ltd H Shrs	3,444,000	12,704,924	5.01
China Oilfield Services Ltd H Shrs	4,244,000	4,007,319	1.58
China Shenhua Energy Co Ltd H Shrs	2,011,000	4,771,469	1.88
Industrial & Commercial Bank of China Ltd H Shrs	12,005,000	8,979,675	3.54
PetroChina Co Ltd H Shrs	13,852,000	10,537,733	4.16
Zhuzhou CRRC Times Electric Co Ltd H Shrs	1,432,300	6,807,744	2.69
		<b>63,075,491</b>	<b>24.88</b>

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### INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 30 JUNE 2018

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)</b>			
<b>Listed Equity Securities (Continued)</b>			
<b><i>Hong Kong – Red Chips</i></b>			
China Resources Beer (Holdings) Co Ltd	534,000	2,592,547	1.02
China Taiping Insurance Holdings Co Ltd	2,297,800	7,188,265	2.84
Far East Horizon Ltd	4,544,000	4,406,394	1.74
Shenzhen International Holdings Ltd	3,136,489	6,490,680	2.56
		<u>20,677,886</u>	<u>8.16</u>
<b><i>Hong Kong – Others</i></b>			
Beijing Tong Ren Tang Chinese Medicine Co Ltd	6,581,000	13,484,608	5.32
Haier Electronics Group Co Ltd	1,897,000	6,490,408	2.56
Real Gold Mining Ltd	3,046,000	116,443	0.04
Shenzhen International Group Holdings Ltd	326,000	4,023,255	1.59
Tencent Holdings Ltd	445,000	22,330,379	8.81
		<u>46,445,093</u>	<u>18.32</u>
<b>Total Hong Kong</b>		<u>130,198,470</u>	<u>51.36</u>
<b><i>Taiwan</i></b>			
Taiwan Semiconductor Manufacturing Co Ltd	694,000	4,929,333	1.95
<b><i>United States</i></b>			
Alibaba Group Holding Ltd ADR	114,000	21,150,420	8.34
NetEase Inc ADR	10,257	2,591,636	1.02
New Oriental Education & Technology Group Inc ADR	54,327	5,142,594	2.03
		<u>28,884,650</u>	<u>11.39</u>
<b>Total listed equity securities</b>		<u>271,713,577</u>	<u>107.18</u>

**INVESTMENT PORTFOLIO (UNAUDITED) (Continued)**

AS AT 30 JUNE 2018

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)</b>			
<b>Unlisted Equity Securities</b>			
<i>Hong Kong</i>			
Peace Mark (Holdings) Ltd	1,912,000	—	—
<b>Investment Funds</b>			
Value China ETF	483,600	2,628,244	1.04
<b>Derivative Assets</b>			
Foreign currency forward contracts		2,758	0.00
<b>Total financial assets at fair value value through profit or loss</b>		<b>274,344,579</b>	<b>108.22</b>

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### INVESTMENT PORTFOLIO (UNAUDITED) (Continued)

AS AT 30 JUNE 2018

	Holdings	Fair value US\$	% of net assets
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			
<b>Listed Equity Securities Sold Short</b>			
<i>Hong Kong – Others</i>			
3SBio Inc	(2,267,000)	(5,147,776)	(2.03)
Bank of East Asia Ltd	(1,882,886)	(7,521,803)	(2.97)
Luye Pharma Group Ltd	(3,000,000)	(3,077,354)	(1.21)
		<u>(15,746,933)</u>	<u>(6.21)</u>
<i>United States</i>			
JD.com Inc ADR	(63,558)	<u>(2,475,584)</u>	<u>(0.98)</u>
<b>Total listed equity securities sold short</b>		<u>(18,222,517)</u>	<u>(7.19)</u>
<b>Derivative Liabilities</b>			
Foreign currency forward contracts		<u>(25,587)</u>	<u>(0.01)</u>
<b>Total financial liabilities at fair value value through profit or loss</b>		<u>(18,248,104)</u>	<u>(7.20)</u>
<b>Total investments</b>		<u>256,096,475</u>	<u>101.02</u>
<b>Total investments, at cost</b>		<u>259,474,408</u>	



**STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)**  
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	% of net assets	
	30.06.2018	31.12.2017
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
<b>Listed equity securities</b>		
China	42.48	21.98
Hong Kong	51.36	66.67
Singapore	–	1.22
Taiwan	1.95	3.77
United States	<u>11.39</u>	<u>8.00</u>
	107.18	101.64
<b>Unlisted equity securities</b>		
Hong Kong	–	–
<b>Debt securities</b>		
	–	0.60
<b>Investment funds</b>		
	1.04	–
<b>Derivatives assets</b>		
Foreign currency forwards contracts	<u>0.00</u>	<u>0.00</u>
<b>Total financial assets at fair value through profit or loss</b>	<u>108.22</u>	<u>102.24</u>

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### STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED) (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	% of net assets	
	30.06.2018	31.12.2017
<b>FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
<b>Listed equity securities sold short</b>		
Hong Kong	(6.21)	(8.35)
United States	<u>(0.98)</u>	<u>—</u>
	(7.19)	(8.35)
<b>Derivatives liabilities</b>		
Foreign currency forwards contracts	<u>(0.01)</u>	<u>—</u>
<b>Total financial liabilities at fair value through profit or loss</b>	<u><u>(7.20)</u></u>	<u><u>(8.35)</u></u>
<b>Total investments</b>	<u><u>101.02</u></u>	<u><u>93.89</u></u>