AZUR YUAN FUND

A Limited company with variable capital under Liechtenstein law in the form of an investment undertaking for qualified investors (umbrella fund)

Ahead Wealth Solutions and **Azur International Portfolio Management AG (AIPM)** are launching a new **YUAN FUND** compartment within their AZUR range of funds for Qualified Investors.

Why a YUAN-denominated Fund ?

The Management Company and its Advisors believe that the 2008 crisis marks a turning point in the world economic order and that a new long term economic cycle has started in 2013.

The **Kondratieff cycle of the Chinese Dominance** has just started and will last for 60 years. It follows the Kondratieff cycle of the **American Dominance** that lasted from 1949 to 2013, and will correspond to the emergence of **China as the next the World dominant economic power**, in the same way the USA overtook the UK after WWII.

During the coming cycle, China's economy will surpass the US economy in size and its financial markets will dwarf the financial markets of the USA. They will become the main financial markets of the world as Chinese corporations overtake the current US icons in many industries.

China is already the second largest economic area of the world today with a GDP of US$ 11 Trillion growing at 6 % per annum. It is expected to surpass the US economy by 2025 to become the largest economy of the world.

China's rise to this predominant role will have tremendous consequences on the world financial markets and the composition of global savings.

In exactly the way the US Dollar replaced the British Pound as the USA surpassed the UK as the dominant economic power after 1945, the Chinese Yuan is bound to become the world's main reserve, trading and investment currency as China rises to economic dominance in the coming decades.

■ China is in the middle of a major human and economic transition. Over the last three decades the Chinese Leaders priorities were to pull hundreds of millions of Chinese out of poverty, to achieve agricultural efficiency and to build a solid industrial and service base for its economy. To create urban jobs and increase living standards, China resorted to the traditional export-led model of development and became the world manufacturer and exporter of everything from clothing, toys, and steel to computers and mobile phones.

Low wages and an artificially-kept undervalued Yuan favored extremely competitive terms for hundreds of millions of Chinese laborers competing head-on with the workforce of the industrial countries in a globalized world. But the pool of poor workers from the farmlands is now drying up and the agricultural sector now only represents 9 % the Chinese economy today. Moreover, the export-driven model that has fueled the urbanization of hundreds of millions of Chinese is no longer competitive as labor costs have risen significantly and poorer countries such as Vietnam, Cambodia, or Laos compete at the low added value end of the manufacturing chain.

As was clearly stated by the Chinese National congress in 2013, the priority now is for China to **transform herself into the world's largest consumer economy.**

Today, China's consumption represents US$ 3.85 Trillion, or 35 % of its GDP, against 73 % of GDP in the USA. Room for consumption expansion is considerable in China as the Chinese still save in excess of 40 % of their disposable income every year while their American counterparts save only 5 to 6 % of their income on average. Household Debt in China represents barely 38.8 % of GDP against 79.1 % in the USA, where credit cards, mortgages and car loans have been a major drive of economic growth for decades.

As the transition takes place and consumer's habits evolve with savings ratios diminishing in favor of consumption, **China and its 1.357 Billion people stand to become the largest consumer market in the world dwarfing the US consumer market in size.**

Fears of a collapse in China's economic growth are misplaced and even if economic growth trends lower over time, something perfectly normal at the stage of development where the Chinese economy is, the stated objective to double the size of the Chinese economy in the next 10 years are perfectly realistic and will be fueled by the development of this massive consumer market.

In the coming decade, the world economy will evolve form a "**Made in China"** to a **Sold in China"** mode and China's consumer will become one of the main drivers of the world economic growth.

■ The export-led development model has made China **the largest creditor nation of the world with in excess of US$ 3.9 Trillion of foreign exchange reserves, or 39 % of its GDP.** By comparison the US foreign exchange reserves represented US$ 117 Billion in 2015 and never exceeded 1 % of its GDP.

This extraordinary accumulation of China's foreign reserves is the direct consequence of a pro-active policy of not recycling its Trade and Financial surpluses back into the Yuan and to hoard the Foreign currencies obtained by selling goods to the world. Keeping the Yuan artificially low for decades allowed China to keep its labor and export sector competitive and to engineer the massive human transition of its population from agriculture to urban centers.

As we write, the Chinese export momentum is still in full force and China's trade surplus recorded a new all-time high in January 2016 at US$ 60.2 Billion, or US$ 720 Billion annually, something that would propel its foreign exchange reserves to US$ 4.5 Trillion this year if the same policies were to be continued.

The sheer size of China's foreign exchange reserves has become a problem in itself.
As China's economy matures and relies less on exports and more on consumption, foreign exchange reserves are bound to trend down towards Japan's ratio of 20 % of GDP and Europe's ratio of 10% of GDP. This implies that in addition to the need to recycle its US$700 Billion trade surplus in Yuan, **China needs to sell at least US$ 2 Trillion of foreign currencies over the coming years** to bring its reserves to manageable levels.

■ In 2013, China started the process of making its currency fully convertible and generalizing the use of the Yuan as an international Trade and Investment currency.

Contrary to common beliefs, these strategic evolutions are not a choice for China, but a necessity. China is one of the most globally-integrated economy of the world and foreign trade represents 42% of its GDP against 22% in the USA. To reduce its exposure to foreign exchange fluctuations, China needs to encourage the use of the Yuan in foreign trade, particularly in trans-Asian trade, and to develop investments in Yuan.

In December 2015, the IMF included the Yuan in its basket of strategic reserve currencies alongside the US Dollar, the EURO, the Japanese Yen, the Sterling Pound and the Swiss Franc. As a result, 10 and 20 % of the US$ 11.7 Trillion of aggregate foreign exchange reserves held by central banks around the world must shift into Yuan.

This represents another US$ 1 to 2 Trillion of structural pent-up demand for the Yuan.

■ **The Asian Development Bank estimates that Asia needs US$ 8 Trillion to fund infrastructure construction for the next 10 years.**

China knows that its long-term development is linked to Asia and the launch of the **One Belt One Road Initiative** by President Xi Jin Ping in October 2013 is a response to China's neighbors' huge infrastructure needs.

At the heart of One Belt, One Road lies the creation of an **economic land belt** that includes countries on the original Silk Road through Central Asia, West Asia, the Middle East and Europe, as well as a **maritime road** that links China's port facilities with the African coast, pushing up through the Suez Canal into the Mediterranean.

Key to its success is the development of an unblocked road and rail network between China and Europe.

The project aims at redirecting China's domestic overcapacity and capital towards regional infrastructure development, improving trade and relations with Asian, Central Asian and European countries and generalizing the use of the Yuan as an investment currency across the whole region.

In October 2014, China launched the **Asian Infrastructure Investment Bank** together with 56 other founding members to promote pan-Asian investment. The AIIB was capitalized at US$ 100 Billion and started its operations on December 25th 2015. Its objectives are to finance at least US$ 1 Trillion of investments in the region, most of which will be funded in Yuan.

More than 60 countries, representing a third of the world's total economy and more than half the global population are beneficiaries of the One Belt One Road initiative, and the Yuan is bound to become one of their main, if not THE main, trading and funding currency.

■ **In 2013, China started the process of developing its domestic financial markets to allow market forces to take the leading role in the allocation of savings and capital needs**.

There again, and contrary to common beliefs, the development of free and efficient bond and equity markets in China is not a choice but a necessity. Over the three decades that saw China grow from being one of the poorest country on the planet to becoming the second largest, the massive investment in infrastructure and production was funded by the state-owned banking system and directed by the strategic choices of the Government.

As China matures and becomes an affluent society and the world largest consumer market, efficient capital markets and free market forces are needed to fulfill the financial intermediation function and channel the massive pool of savings accumulated by the Chinese towards productive investments.

Enabling Chinese and International corporations to tap Chinese domestic savings to finance their growth is key to the sustainability of the Chinese economy.

Favoring the development of efficient government and municipal bond markets is key to proper and accountable regional and municipal development and the sustainability of China's social development.

■ **China's bond market** is already the third largest in the world with **US$ 4.24 trillion of outstanding debt** and US$ 60 Trillion in trading volume.

However, it represents only 38 % of GDP, and is set to grow substantially in the future. By comparison, the US Bond market represents US$ 39.5 Trillion, or 232% of the US GDP and accounts for 39% of the US$ 100 trillion global bond market.

The inclusion of Chinese Bonds into the MSCI Indexes in 2016 and the opening up of the market foreign investors will **unleash in excess of US$ 10 Trillion of net inflows** into Chinese bonds as global portfolios start reflecting the size and weight of the Chinese economy in their global portfolios. This represents yet another significant source of structural pent-up demand for the Chinese currency in the years to come.

■ **China's stock market** had a roller-coaster year in 2015, rising 150 % from October 2014 to May 2015 before falling 40 % by October 2015.

In its drive to favor the development of the Chinese equity markets, China's Government made the mistake to entice individual investors to invest in stocks before allowing full access and full convertibility to foreign institutional investors with deep pockets and seasoned investment practice.

Momentum-driven individual investors accounted for 80 % of the trading volume in 2015 – against 15 % in the US – and they pushed the market to overvaluation levels on margin without the counter-balancing forces of professional investors.

When the market turned, panic took hold and triggered violent self-feeding liquidations which in turned forced the Government to intervene directly in the market, leading to much criticism and loss of faith by the international community.

But the 2015 episode was a bump in the learning curve of the Chinese and not a questioning or a failure of the strategic process of developing an equity culture in China.

China's stock market is relatively young compared to the U.S. markets.

China's stock markets are barely 25 years old while the U.S. stock market is 223 years old. US individual investors have developed an equity culture over generations, Chinese individual investors, although already 90 million of them are the first generation of investors.

US individual investors keep 40 % of their savings in equities; **the Chinese have barely 4 % of their savings invested in the equities.**

The US Pension fund, insurance and fund management industry is 200 years old, the Chinese insurance and pension fund industry is 20 years old. The development of a pension fund and insurance industry catering for 1.3 Billion people will make it the largest institutional asset management industry in the world in less than 10 years.

The Market capitalization of the NYSE is US$ 17.9 Trillion for 2'543 companies while the NASDAQ Market capitalization tops US$ 6.9 Trillion for 2'850 companies, making the aggregate **capitalization of the US Stock Markets US$ 24.8 Trillion or 145 % of GDP.**

The Shanghai Stock Exchange has a market capitalization of US$ 4.1 Trillion for 1081 companies and the Shenzhen stock Exchange has a market capitalization of US$ 2.742 trillion for 1,729 companies, making the **total market capitalization of the Chinese equity market at US$ 6.84 trillion or barely 62 % of GDP.**

U.S. companies are heavily dependent on equity financing, while in China only five percent of total corporate financing is funded by equity.

US shares represent 40 % of the US$ 69 Trillion world equity market while global portfolios exposure to China represents less than 2%, despite the Chine economy being already 2/3 the size of the US economy, and en route to surpass it by 2025.

As China opens its financial markets and makes its currency fully convertible, and as MSCI includes Chinese equities into its World and Asian equity Indexes, **the proportion of Chinese Equities in global portfolios is bound to rise from the current 2% to 8 or 10 %, unleashing US$ 5 Trillion of net inflows into Chinese equities and the Yuan.**

■ In sum, and contrary to the general consensus view that seems to predict a depreciation of the Chinese Yuan ahead, the **structural forces** at play indicate that **the Chinese Yuan is about to embark on a one-off, structural and secular path of appreciation,** similar to the one experienced by the Japanese yen between 1980 and 1990 where its value trebled from 360 to 120 in a matter of 10 years, when Japan was at the exact same stage of its economic development.

This appreciation will be fueled by the US$ 18 to 20 Trillion of pent-up demand for the Chinese currency coming from global investors and foreign exchange reserves rebalancing, and this is starting to happen in 2016.

ON THE EVE OF THE OPENING UP OF THE CHINESE FINANCIAL MARKETS AND AT THE BEGINNING OF a POWERFUL AND SECULAR RISE OF THE YUAN,

AIPM'S VIEW IS THAT EVERY GLOBAL INVESTOR SHOULD START BUILDING THEIR EXPOSURE TO THE CHINESE CURRENCY AND THE CHINESE FINANCIAL MARKETS NOW.

AIPM's purpose is to bring its unique expertise of the Chinese financial markets and of global macro asset allocation to professional investors through a dynamically and professionally managed absolute return YUAN investment vehicle: **AZUR YUAN FUND**

What makes AZUR YUAN FUND different?

AZUR YUAN FUND is a Lichtenstein-based investment fund destined to provide European and Middle Eastern Pension Funds, Insurance Companies, Private Banks, Third Party Managers and Qualified Individual Investors with an efficient vehicle to build and manage the Yuan exposure in their portfolios.

The fund invests in Cash, Bonds and Equities denominated in Yuan and is managed using a dynamic asset allocation process based on macro-economic analysis and sectorial analysis. The fund invests in top quality and highly liquid securities and keeps a wide level of diversification at all times. The fund invests in a combination of market trackers, funds and individual securities with a view to provide a global exposure to the growing Chinese capital markets, while maintaining a large risk diversification and optimizing profit potential

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The funds objective is to deliver an average 5 to 10 % annual performance in Yuan over rolling five-year periods.

The fund is denominated in Yuan and does not manage the Yuan currency risk.

The fund has an absolute return bias and is not concerned with beating or matching any particular benchmark.

Asset classes performance is mainly determined by macro-economic conditions at any given time and the managers contribution to Alpha comes primarily from their ability to position the portfolio's assets in the most favorable risk/reward situation at all times.

Bull trends and Bear trends can last for several months, or even years, during which the value of the underlying asset class or securities can appreciate or depreciate significantly. Identifying, timing and riding these trends is a key task of the managers and will translate into both absolute returns and relative outperformance.

Additionally. Specific corporations, industrial sectors or debt securities may, at times, present exceptional investment opportunities due to the leading expertise or market positioning of the company or to the earnings generation capabilities of the industry at a particular stage of the economic cycle or even to a temporary disconnect between market perceptions and the reality of the fundamentals as is currently is the case with the Yuan itself at the moment. The managers' ability to identify such exceptional situations and to capitalize on their potential by overweighting the respective investment brings another layer of Alpha.

Finally, the established expertise of the managers at managing debt portfolios and fine tuning duration and credit risk sensitivity will optimize the income returns and harness the volatility of the portfolio.

Researching and monitoring the Chinese Financial Market is an immense task that most global managers and individual investors do not have the time to do.

AIPM's Investment management team has 27 years of first hand experience of China, its economy and its corporations and has been investing in China and working with Chinese corporations for decades. The team has a proven global macro-economic expertise and decades-long experience at managing top-down, macro based asset allocation for global institutional portfolios.

AZUR YUAN FUND brings to investors the added value of this unique combination of accumulated experience while keeping reachability and communication available.

Authorized Investments

AZUR YUAN FUND invests in the following instruments:

. Equities and non-securitized equity rights (shares, participation certificates, dividend rights certificates, shares with warrants, etc.) denominated in Chinese Ren Min Bi (Yuan) or issued by companies based in China or its Special Administrative Regions

. Fixed interest and/or variable rate debt securities and similar non-securitized rights (bonds, debentures, bonds with warrants, convertible bonds, mortgage bonds, etc.) issued by private sector and public sector borrowers worldwide; provided they are denominated in Ren Min Bi (Yuan)

. Money market instruments; sight deposits or deposits subject to notice of withdrawal

. Securities issued by means of private placement

. Standardized derivative financial instruments of all kinds whose value is derived from Yuan investment assets, indices or reference rates

. Units or shares in open-ended investment funds which invest in China and are denominated in Ren Min Bi (Yuan)

. Units or shares in closed-ended investment funds or similar collective investment undertakings worldwide, including exchange- traded funds (ETFs) and investment or holding companies, which invest in China or in Ren Min Bi Denominated Instruments

. Units or shares in domestic or foreign real estate investment funds or similar collective investment undertakings originating from Asian countries and subject to state

. Structured financial products from issuers worldwide whose underlyings are direct or indirect investments in Asia; . Index certificates and index baskets which are based on direct or indirect investments in Asia and Asian Markets and whose value is derived from the prices of the underlying assets or from reference rates;

Investment Restrictions

The following investment restrictions apply to the fund:

. The Fund must spread its assets over at least five securities.

. The Fund must continuously hold at least 90 % of its assets in Ren Min Bi.

. The Fund may invest a maximum of 20% of its net assets in one single investment.

. The Fund may invest up to 100% of its assets in units of other funds or ETFs.

. Investments in derivative financial instruments must be included in the above restrictions at their contract value.

. If a derivative financial instrument is embedded in a security or money market instrument (structured financial instrument), it must likewise be included in the above restrictions.

The risk associated with derivatives must not exceed 100% of the Fund's net assets. The following investments and investment techniques are not permitted:

. Direct investments in Real estate, commodities and commodity contracts (physical);

. Short selling;

. Borrowing and lending

. The Fund shall be permitted to take out loans for investment purposes, to provide margin cover for derivatives and to meet redemption requests up to an amount not exceeding 30% of its net assets.

. Objects and rights belonging to the Fund must not be pledged except as security for borrowings permitted and for transactions involving derivative financial instruments.

. The Fund may not grant loans or act as a guarantor for third parties.

Please refer to the prospectus for a more detailed description of the investment limitations

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Summary of the Prospectus

Ahead Wealth Solutions AG