VL Asset Management Limited
以立投資管理有限公司

VL China Fund

Monthly Fund Factsheet

31 March 2016

Important Information

VL China Fund is constituted in the form of a unit trust established under the laws of Hong Kong.

The fund seeks to achieve its investment objective primarily through exposure to companies carrying on business or with business exposure in the China region with long term growth prospects.

The fund can invest no less than 70% of its NAV in Hong Kong-listed stocks and if investing in overseas stocks, no more than 30% of its NAV in non-Hong Kong listed stocks.

All investments involve risks. This material is not an offer or solicitation. The fund is an investment fund. There is no guarantee on the repayment of principal. The fund's investment portfolio may fall in value and therefore your investment in the fund may suffer losses. If you have any queries, please consult your financial consultants. This material has not been reviewed by the Securities and Futures Commission.

Investment objective

The fund aims to provide long-term capital appreciation by investing in a diversified portfolio of equity securities of companies in different industry sectors whose primary business focus is in the China region.

Manager's Comments

China equity markets rebounded sharply in March on the stabilization of the Chinese yuan and commodity prices. Some investors sold ahead in fear of being presented with a very poor set of corporate results whilst others were relieved that the actual results were not so bad. Meantime, despite the challenging business environment, most companies that had announced their FY15 results were in general fairly well received by the investing public. We believe this was due to the very low expectation and already discounted equity valuations prior to the results announcement.

Amongst our top holdings, Sinopharm (1099 HK), Transport International (62 HK) and China Power International (2380 HK) all reported good progress in their respective operating results, whilst Haitong International (665 HK) was affected by a dramatic reversal in market sentiment since the second half of 2015. We have trimmed our exposure in Haitong on concerns over its stretched balance sheet in exchange for certain tech and healthcare companies which are set to benefit from their respective growing industry environments.

As of 31 March, the fund was 79.86% invested in HK listed equities, 4.14% in China B shares and 9.84% in US listed Chinese ADRs.

Performance Update*

	A Units	B Units	MSCI China (NDEUCHF)	Hang Seng Total Return Index
1 month	8.80%	8.87%	11.62%	9.19%
YTD	-5.59%	-5.42%	-4.73%	-4.74%
Since fund launch	-11.44%	-11.01%	-14.14%	-13.95%
NAV Per unit	88.5596	88.9924	n/a	n/a

**A and B units are invested in the same fund. Dividends are reinvested into the fund. Performance of A Units and B Units is calculated by VL Asset Management Limited in HKD on a NAV to NAV basis. Performance data is net of all fees. NAVs are published daily in the Standard and Hong Kong Economic Times and www.vlasset.com. Indices are derived from Bloomberg and are valued in HKD with dividend reinvested. All indices and figures are for reference only.*

Fund Facts

Manager:	VL Asset Management Limited
Trustee	Standard Chartered Trust (Hong Kong Limited)
Custodian & Administrator	Standard Chartered Bank (Hong Kong Limited)
Launch date:	10 August 2015
Base currency:	Hong Kong Dollars (HKD)
Bloomberg code:	Class A - VLCHINA KY Class B - VLCHINB KY
ISIN code:	Class A - HK0000262953 Class B - HK0000262961

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31 March 2016

Portfolio Characteristics

	Fund	Hang Seng Index
Price/earnings ratio (X)	9.95	10.72
Price/book ratio (X)	1.14	1.02
Dividend yield	4.28%	3.91%
Return on equity	11.47%	9.54%

Exposure by Geography

Hong Kong	H Shares	26.15%
	Red Chips	15.12%
	P-Chips	17.95%
	HK	18.15%
	Others	2.49%
China	B Shares	4.14%
US	ADRs of PRC companies	9.84%
Cash		6.16%
		100.00%

No derivative exposure

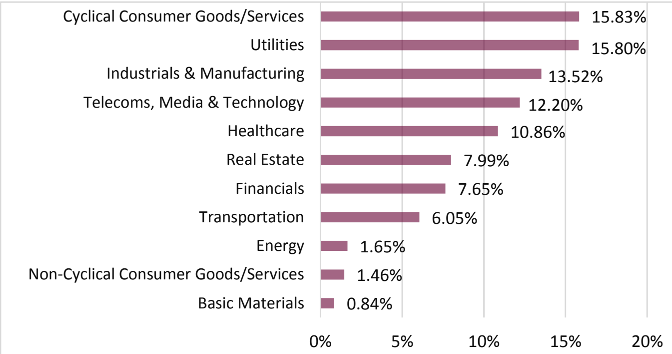
Fee Structure

	Class A	Class B
Minimum subscription	HK$50,000	HK$39,000,000
Subsequent subscription	HK$5,000	HK$1,000,000
Subscription fee	up to 5%	up to 5%
Redemption fee	nil	5%
Management fee	1.5%	0.75%
Performance fee	15% (high on high)	7.5% (high on high)
Lock-up	nil	3 years
Dealing day	daily (Hong Kong business day)	

Top 5 Stock Holdings

Name	Code	Sector	%
Sinopharm	1099 HK	Healthcare	6.32%
Transport Int'l	62 HK	Transportation	6.05%
China Power	2380 HK	Utilities	5.47%
Spring REIT	1426 HK	Real Estate	4.07%
AirMedia	AMCN US	Cyclical Consumer Services	3.67%
Total			25.59%

Exposure by Sector



VL Investment Team

Chief Investment Officer	Vincent LAM
Portfolio Manager	Ean Kiam NG

Address: Suite 1303, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong
Tel: (852) 2851 8177, (852) 2851 8581 Fax: (852) 2851 8580 Email: enquiry@vlasset.com Website: www.vlasset.com

VL Asset Management Limited
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VL China Fund

Quarterly Commentary — First Quarter 2016

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Global stocks were heavily sold off in January amid worries of a collapse in the Chinese yuan and China's liquidity risk. Market jitters intensified on tumbling oil prices and negative interest rate policy by various central banks. However, towards the end of March, global sentiment was boosted by US Fed's cautious statement on future rate hikes. As for China, the cut in reserve requirement ratios (RRR) in late February hinted that the nation's capital outflows should have been under control. Furthermore, its Purchasing Managers' Index (PMI) came in at 50.2 in March, up from 49 in February and above Bloomberg consensus of 49.5. This was also the first time since July 2015 that the PMI revisited the territory of positive development, indicating the recovery is on a strengthening trend.

VL China Fund ('the Fund") was launched on 10 August 2015, a time of market turbulences, and a seven-month track record appears too short to demonstrate its edges and potential. For reference, in the quarter ended 31 March 2016, the Fund was down 5.6%*, slightly underperforming the MSCI China Index and Hang Seng Index which were both down by approximately 4.7% over the same period.

With an investment objective to provide long-term capital appreciation, the Fund's portfolio has been constructed in a way that asset allocation is primarily based on longer-term investment merits instead of short-lived market sentiment. Such merits include sound corporate governance, clean balance sheets and solid business outlook that are prudently analyzed by our team.

Depressed valuations, attractive opportunities

The huge market volatility in the quarter has prompted many investors to dump value stocks at extremely depressed valuations and we, as a contrarian and value investor, took the time to bargain hunt quality stocks. We would hold our guns as long as there is no change in the fundamentals and business outlook of our positions. As of 31 March 2016, the Hang Seng China Enterprises Index has a historical a P/E of 7.1X (just slightly up from the historical low of 6.5X since October 2001) hinting that a lucrative upside of many stocks could remain.

Our net cash level at the quarter end was approximately 6.2%. Our long-time followers should understand that our investment style is not only a combination of prudency and discipline, but is also rooted in proactive management with no benchmarking. We believe capital should be effectively deployed and so we invest in companies that can generate decent dividend and/or present a promising business outlook, in particular when interest rate has been low or zero for quite some time.

At the end of March 2016, the portfolio's net exposure is 93.8%, of which growth stocks accounted for 38.9% and deep value stocks 31.8%. During the quarter under review, we increased its assets in high-yield, low debt or even debt free companies with high visibility in their future income streams. Despite the continued challenging business environment in the Greater China region, we see enormous opportunities stemming from merger and acquisition themes as acquisitions of overseas businesses by PRC enterprises has become an effective and popular way for them to expand outside the country.

March was the peak results season. For the Fund, many of its positions have recorded satisfactory earnings. One example is China Power International (2380 HK), which had grown its FY2015 net profit by 50%. We cast a vote on this value stock not only for its diversified profit mix (one-third from hydropower, which is more immune to utilization cut) but also for the ongoing potential acquisitions from its parent. At the price of HK$4.02 per share, valuation remained inexpensive with an attractive 6.9% historical dividend yield.

Market may swing, but our confidence unshaken

Depleting foreign exchange reserves and alarming debt-to-GDP ratio for China are the latest concerns raised by investors but we expect the immediate risk to be minimal as China has not fully opened its capital account and most of its debt is funded domestically. The situation is not identical to the Asian financial crisis when domestic debts were held by foreign investors. In our view, mispricing opportunities are abound and there are sectors that can benefit from the structural transformation of its economy. Since devaluing the yuan last August, China has repaid US$150 billion of external debt in the third quarter bringing down the total to US$1.53 trillion representing approximately one-sixth of its GDP, sharply lower than its neighbouring economies. That said, sectors suffering from oversupply (such as energy and property developers) may face liquidity pressure, so we have more conviction in those which could benefit from the economic transformation process. The consumption/ servicing sector, for example, should experience stable growth.

The market pulldown in January has not quivered our confidence in our stock picks especially our core positions as their fundamentals remain solid and such prudently-selected plays are always the ones that can sail through the storm and bounce back fast in particular when they release their financial results. This has been demonstrated by the latest earnings reporting of our holdings.

While we do not buy the end-of-the-world story as advocated by certain high-profile American hedge fund managers, we also see an imminent risk of RMB depreciation in the remainder of the year, and when this happens there could be bargain hunting opportunities in the stock market. To make room for future bargain purchase, after the quarter end we have taken advantage of the recent market rally to mildly trim the portfolio's exposure.

Investment is akin to running a marathon. As veteran value investors, our team aims to deliver consistent and absolute returns in the longer run. What can ultimately generate value is companies with sustainable growth so the day-to-day price movement of stocks, which merely reflects the psychological changes of investors, is never our focus. Continued investment discipline which is largely composed of patience and risk management, is the key that we hold.

**Fund performance mentioned referred to VL China Fund "A" Units. Performance figures are net of fees.*

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