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

VL China Fund

Monthly Fund Factsheet

30 September 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.

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

Performance Update*

	A Units	B Units	MSCI China (NDEUCHF)	Hang Seng Total Return Index
1 month	1.88%	1.94%	2.51%	1.82%
YTD	-2.09%	-1.54%	8.65%	10.11%
Since fund launch	-8.16%	-7.36%	-2.08%	-0.54%
NAV per unit	91.8419	92.6375	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.*

Portfolio Characteristics

	Fund	Hang Seng Index
Price/earnings ratio	10.67X	12.05X
Price/book ratio	1.14X	1.14X
Dividend yield	3.75%	3.49%
Return on equity	10.67%	9.45%

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Top 5 Stock Holdings

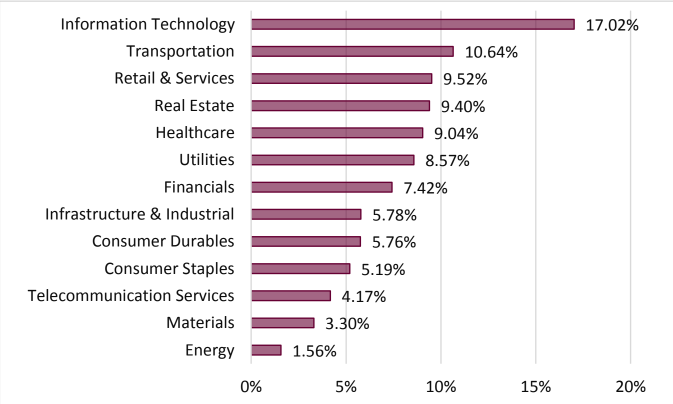
Name	Bloomberg Code	Sector	%
Transport International	62 HK Equity	Transportation	6.00%
Alibaba Group - ADR	BABA US Equity	Information Technology	5.04%
Beijing Urban Construction & Design	1599 HK Equity	Infrastructure & Industrial	3.81%
Chongqing Changan Automobile - B Shares	200625 CH Equity	Consumer Durables	3.70%
Tencent	700 HK Equity	Information Technology	3.68%
Total			22.24%

Exposure by Geography

Hong Kong	
H Shares	25.19%
Red Chips	17.38%
P-Chips	15.39%
HK	16.36%
Others	5.19%
China	
B Shares	7.25%
US	
ADRs of PRC companies	10.62%
Cash	2.63%
	100.00%

No derivative exposure

Exposure by Sector



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)	

VL Investment Team

Chief Investment Officer	Vincent LAM
Portfolio Manager	Ean Kiam NG

You should not make investment decisions based on this material alone. If you plan to invest in VL China Fund, you should read its Explanatory Memorandum and the Key Fact Sheet for details and the risk factors set out in those documents.

In particular, you should be aware of the concentration of the fund's investments in China and Hong Kong giving rise to possibly greater volatility compared with broad-based global funds. You should note too that VLAM, as manager of the fund, is entitled to receive performance fees under certain conditions, that such fees may encourage a manager to make riskier investment decisions than in the absence of performance-based incentive systems and that you should familiarize yourself with the method of calculating such fees.

Performance fee will be charged only if the NAV at the end of the financial year exceeds the "high watermark", which is the all-time year-end high of the fund's NAV. The fund's financial year end is 30 June.

Without prejudice to the generality of the foregoing, this report does not constitute, and may not be used for the purposes of, an offer or solicitation to anyone in any jurisdiction or country in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation or where such offer or solicitation would be contrary to law or regulation or which would subject VLAM or its affiliates or associates (including VL Trusts) to any registration requirement within such jurisdiction or country.

The price of shares of any unit trust may go down as well as up and past performance figures shown are not indicative of future performance.

Classification is based on Global Industry Classification Standard (GICS). Exposure refers to long exposure unless otherwise specified.

SFC authorization is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

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VL Asset Management Limited
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VL China Fund

Quarterly Commentary

Third Quarter 2016

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Uninspiring results again

Traditionally, third quarter is a quiet period due to the reporting season when most companies with December year-end release their interim results. This year, results were generally uninspiring and were mostly in line after many profit warnings.

In terms of sector, banks' results were muted for the second year in a row, insurers' results were very bad but were anticipated after their respective profit warnings. Among those which stood out were Information Technology sector with the big caps such as Tencent (700 HK) and Alibaba (BABA US) reporting results which beat expectation, and renewable sector on the strength of capacity expansion. Consumer staple and discretionary companies had mixed results while Energy (due to weak oil prices) and Utilities (due to weak power demand and overcapacity) disappointed. What is interesting is that China property stocks reported subdued results despite the backdrop of strong contract sales and soaring land and property prices this year.

But some macro green shoots

While the results were uninspiring, investors are forward looking as there are tentative signs of the Chinese economy stabilizing. For instance, August PPI (Producer Price Index) which has been negative for 54 consecutive months since March 2012, narrowed to -0.8% from -1.7%, and we won't be surprised if it turns positive later in the year. In the same vein, September Manufacturing PMI (Purchasing Managers Index) was 50.4, unchanged from August, and stayed above the 50-point mark for the second month in a row, while the September non-manufacturing PMI increased at a faster pace to 53.7 from 53.5.

Expects more mainland funds flow to Hong Kong stock market

On September 8, the China Insurance Regulatory Commission (CIRC) formally allowed mainland insurers to buy Hong Kong stocks via the Shanghai Hong Kong Stock Connect. Currently, Chinese insurers are said to have low exposure to Hong Kong-listed shares (less than 2% of assets as of FY2015) compared to the regulatory cap of overseas investment of 15%, and thus have more room to increase. We believe that, this coupled with the earlier announcement on Shenzhen Hong Kong Stock Connect to be operational by this year end, will further boost mainland investors' appetite for Hong Kong-listed Chinese equities.

Global factors to dominate in the next quarter

In our view, the results of the US Presidential Election on 8 November will only have short-term impacts on stock markets but the expectations on US interest rates will remain the focus of global investors in the next quarter. While we agree with most investors that further rate hike will be small, we think that the tightening pace could expedite (only once since December 2015) after the Presidential Election is over. This could mean that the yield chasing investment strategy may no longer be as profitable as it used to be. When the tightening cycle is over, hopefully by mid-2017, and the US dollars' strength moderates, this will set a stage for Asian equites in general and China equities in particular to perform.

Volatilities and valuation bring opportunities

It is clear that volatility in equities market will continue in the meantime but this is bringing opportunities for stock pickers like us to add value. Within the China equities market, many stocks are now trading at increasingly attractive levels, and it is in such depressed state that long-term returns can be built. We still believe that the China story remains sound, as long as the Chinese government is doing the right Rs (i.e. Reform, Restructure, and Rebalancing) and avoid the wrong Rs (i.e. Rescue (i.e. Bail-out) and Recession).

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