

VL China Fund

Monthly Fund Factsheet

30 December 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.

Performance Update*

| | Class A Units | Class B Units | MSCI China (NDEUCHF) | Hang Seng Total Return Index |
|-------------------|---------------|---------------|----------------------|------------------------------|
| 1 month | -4.29% | -4.23% | -4.12% | -3.45% |
| 3 month | -6.36% | -6.18% | -7.09% | -5.28% |
| 6 month | 1.79% | 2.17% | 5.79% | 6.91% |
| YTD | -8.32% | -7.63% | 0.95% | 4.30% |
| Since fund launch | -14.00% | -13.09% | -9.03% | -5.79% |
| NAV per unit | 86.0046 | 86.9119 | n/a | n/a |

*Class A and B units are invested in the same fund. Dividends are reinvested into the fund. Performance of class 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 |

Portfolio Characteristics

| | Fund | Hang Seng Index |
|----------------------|--------|-----------------|
| Price/earnings ratio | 11.09X | 10.18X |
| Price/book ratio | 1.15X | 1.01X |
| Dividend yield | 4.11% | 3.90% |
| Return on equity | 10.36% | 9.87% |

This report is issued by VL Asset Management Limited ("VLAM") for reference only and neither the information nor any opinion contained herein constitutes a distribution, an offer to sell or the solicitation of an offer to buy or sell any unit trust or any securities, futures, options or other financial instruments or to provide any investment advice or service.

The information published here is current as at the date of publication but is subject to change without notice. If you are in any doubt about any of the information contained herein, you should consult your professional adviser.

VL China Fund

30 December 2016

Top 5 Stock Holdings

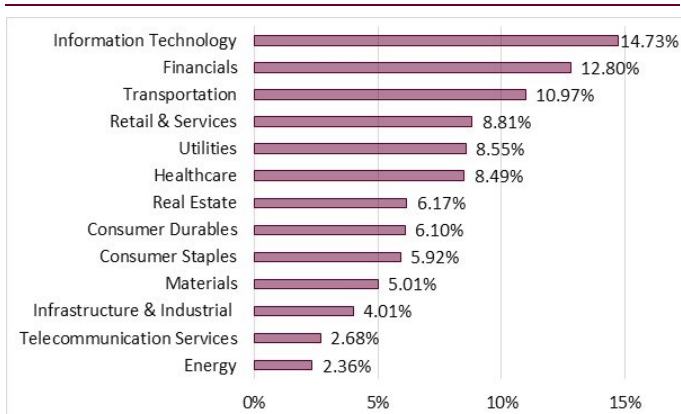
| Name | Bloomberg Code | Sector | % |
|-------------------------------------|----------------|-----------------------------|--------|
| Transport International | 62 HK | Transportation | 6.05% |
| Alibaba Group - ADR | BABA US | Information Technology | 4.44% |
| Beijing Urban Construction & Design | 1599 HK | Infrastructure & Industrial | 4.01% |
| Cosco Shipping International | 517 HK | Transportation | 3.96% |
| Natural Beauty | 157 HK | Consumer Staples | 3.55% |
| Total | | | 22.01% |

Exposure by Geography

| | |
|-----------------------|---------|
| Hong Kong | |
| H Shares | 29.13% |
| Red Chips | 16.72% |
| P-Chips | 16.53% |
| HK | 13.05% |
| Others | 5.04% |
| China | |
| B Shares | 6.84% |
| US | |
| ADRs of PRC companies | 9.30% |
| Cash | 3.39% |
| | 100.00% |

No derivative exposure

Exposure by Sector



Fee Structure

| | Class A Units | Class B Units |
|-------------------------|--------------------------------|---------------------|
| 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.

Under no circumstances may the information contained herein, or any part thereof, be copied, reproduced or redistributed without the express permission and written consent of VLAM.

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.

VL China Fund

Commentary

Fourth Quarter 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.

The fund fell in the fourth quarter amid uncertainties brought by president-elect Donald Trump and the resultant depreciation of the RMB together with other emerging market currencies. On a full-year basis, the fund was down (Class A: -8.32%; B: -7.63%). For reference, the MSCI China Total Return Index was up 0.95% and the Hang Seng Total Return Index was up 4.30% year-to-date.

Over the past year, China's clouded economic outlook caused capital to rotate out of small-to-mid capitalization stocks to index heavyweights, which hurt the fund's performance as a number of deep value opportunities that we believe would generate excellent mid to long-term returns did not materialize.

That said, there were winners within our portfolio - individual stocks that delivered the best investment returns to the fund were IGG Inc. (799 HK), China Maple Leaf Educational (1317 HK) and Transport International (62 HK), which have respectively recorded excellent financial results during the course our investments. Alas, they were not enough to compensate the down positions. For example, there were high expectations for the merger-and-arbitrage theme but it did not work well and our positions in certain US ADRs, built on privatization expectations, were hampered by the Chinese government's suspension of A-share backdoor listings. Key positions that hurt the fund's performance in that area included AirMedia (AMCN US) and 21 Vianet Group (VNET US). Our portfolio was also affected by a position in Chongqing Changan Automobile (200625 CH), which was dragged by a substantial de-rating due to its less robust operating performance compared with its automobile peers.

A year full of black swan events

2016 was characterized by many black swan events, the two most important being the "Brexit" and the "surprise" presidential election win by Donald Trump. Populism can be contagious and we quote from Mr. Howard Marks of Oaktree Capital, "there are many Wutbürgers, i.e. angry citizens, and they are rising everywhere". This year, the focus looks likely to shift to Europe as there will be general elections in major countries such as Germany, France and the Netherlands in 2017.

Global factors to continue to dominate in the next quarter

The trade policy of Donald Trump and its fiscal stimulus measures will be two of the most important variables to watch. While Trump has promised to heavily invest in infrastructure, it is still too early to tell if his stimulus will reflate the world's largest economy, notwithstanding the fact that many economists have upgraded the US GDP growth forecast for 2017.

The other important macro variable is the pace of the Fed's fund rate hikes and the strength of the US dollar. The Fed has mentioned that there will be three increases but we wonder there could be only two hikes in the whole year. The US dollar may hence remain strong in the first half but thereafter its direction will depend on the depth of tightening and the success of stimulus programs to be initiated by Trump.

China's growth stabilizes but RMB depreciation remains a key risk

China's growth will continue to slow down but we believe the quality of growth to secure the longer-term economic health is more important than to keep a high growth rate of 6-7%. In fact the Li Keqiang index¹ has bottomed out from a low of 1.16 in September 2015 to 10.94 in November 2016, the level last seen in September 2013. The latest December PPI (Producer Price

Index) was up 5.5%, compared to the consensus forecast of 4.6% and the November figure of 3.3%. In the same vein, Manufacturing PMI (Purchasing Manager Index) also rebounded from a low of 47.2 in September 2015 to 51.9 in December 2016.

On the other hand, the depreciating RMB poses another risk. We believe a gradual depreciation of RMB in 2017 is on the cards, but the risk of a one-off sharp devaluation cannot be ruled out. By end 2016, China has managed to maintain its foreign reserves at USD 3 trillion, but a threshold level of USD2-2.5 trillion is believed to be vital for China to defend its currency. First quarter will be crucial as the foreign exchange quota of USD 50,000 per mainland resident per year was reset in January and any massive outflow will further pressure the currency and hence a tightening of exchange control.

More connectivity between mainland funds and Hong Kong stock market

On the home front, while foreign investors are still cautious on China, the southbound capital from the mainland through Shanghai Stock Connect in terms of daily average trading turnover has increased from 3-4% in early 2016 to as high as 12-15% of the Hong Kong stock market turnover on some days in December². With the implementation of Shenzhen Hong Kong Stock Connect on 5 December, the ratio has gone up to 8% on average. While this inflow is small but incremental, it is expected to provide the market with some downside protection.

Market to remain range bound

Against the backdrop of a still-strong US dollar, capital inflow into emerging markets will not be strong and some outflows cannot be ruled out. Coupled with the trade uncertainty, we expect the Hong Kong and China equity markets to be range bound in the first half. The spotlight in the second half could shift to the domestic front as the 19th National Congress approaches (people will closely watch for the change in the ruling Communist Party's leadership) and global political and macro risks subside.

In face of all such uncertainties, which exist at all times, fundamental-based stock picking and disciplined investment approaches remain the key to generating sustainable returns. Opportunities abound and we are positive on the reflation theme (e.g. energy and materials) considering the US' stimulus policies. We prefer domestic sectors with little or no exports and US dollar debt exposure on concern of the potential Sino-US trade conflicts as well as the depreciating RMB. Consumer theme could also be interesting when the sign of economy recovery becomes more evident.

Note: ¹Bloomberg code: CLKQINDX

²Index Raw data from the HKEx website and % calculated by the Manager

This report is issued by VL Asset Management Limited ("VLAM") for reference only and neither the information nor any opinion contained herein constitutes a distribution, an offer to sell or the solicitation of an offer to buy or sell any unit trust or any securities, futures, options or other financial instruments or to provide any investment advice or service.

The information published here is current as at the date of publication but is subject to change without notice. If you are in any doubt about any of the information contained herein, you should consult your professional adviser.

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.

Under no circumstances may the information contained herein, or any part thereof, be copied, reproduced or redistributed without the express permission and written consent of VLAM.

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.