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

VL China Fund

Monthly Fund Factsheet with Third Quarter Commentary

September 2022

Important Notice

It has come to our notice that someone has been using the name and photograph of our director and Chief Investment Officer, Mr. LAM Siu Yeung to place **adverts on WhatsApp, Facebook and Telegram offering free investment tips or tutorials and inviting the public to join. Those adverts are without Mr. LAM's permission and are completely fake.** Mr. LAM has filed written complaints with the platform operators. The SFC and the Hong Kong Police have too been notified. Please be aware that those adverts may be some form of a **scam** to elicit personal data (including bank account details) and possibly money from the unsuspecting public and do not succumb to such scam. Both Mr. LAM and VL Asset Management Limited reserve the rights to take legal actions against the imposter/ perpetrator.

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 equity securities issued by companies with either assets in, or revenues derived from the PRC that are listed in Hong Kong, Shanghai, Shenzhen or other overseas regulated markets. However, investment by the fund in PRC A-shares listed on the Small and Medium Enterprise Board and/or the ChiNext Board and PRC B Shares shall not exceed 30% and 10% of its NAV respectively.
- 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	-11.23%	-11.17%	-14.55%	-13.18%
3 month	-18.48%	-18.32%	-22.47%	-20.20%
6 month	-19.97%	-19.67%	-19.67%	-19.56%
YTD	-37.48%	-37.12%	-30.76%	-24.11%
Since fund launch	-13.33%	-3.95%	-0.93%	-11.06%
NAV per unit	86.6669	96.0461	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 at www.vlasset.com.
Indices are derived from Bloomberg and are valued in HKD with dividend reinvested. All indices and figures are for reference only.

* *NAVs and indices as of 30 September 2022.*

Fund Facts

Manager:	VL Asset Management Limited
Fund Managers:	Martin Zheng, Vincent Lam
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

Portfolio Characteristics

	Fund	Hang Seng Index
Price/earnings ratio	8.01X	8.44X
Price/book ratio	1.09X	0.91X
Dividend yield	4.40%	4.22%
Return on equity	13.57%	10.74%

VL China Fund

Top 5 Stock Holdings

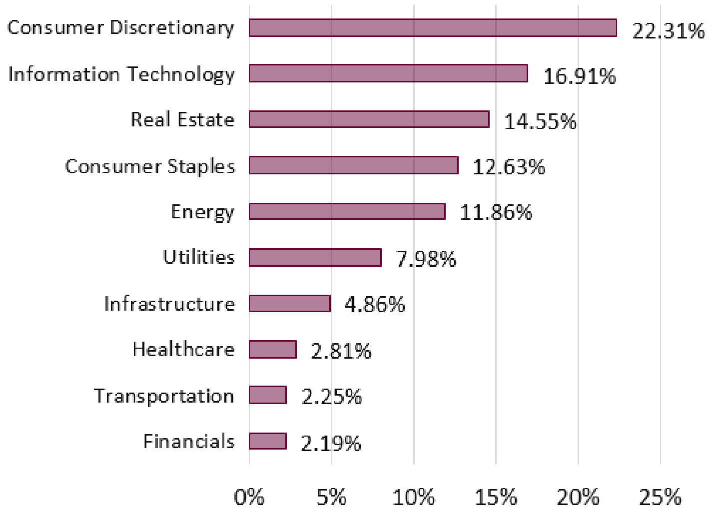
Name	Bloomberg Code	Sector	%
China Resources Land	1109 HK Equity	Real Estate	7.84%
Tencent	700 HK Equity	Information Technology	7.67%
Meituan Dianping	3690 HK Equity	Consumer Discretionary	6.69%
Alibaba Group	9988 HK Equity	Information Technology	5.98%
China Shenhua Energy	1088 HK Equity	Energy	5.36%
Total			33.54%

Exposure by Geography

HK	H Shares	15.40%
	Red Chips	21.09%
	P-Chips	39.96%
	HK	0%
	Others	0%
	Sub-Total	***76.45%***
China	A Shares	16.85%
	B Shares	4.70%
	Sub-Total	***21.55%***
US	ADRs of PRC companies	0.35%
	Others	0%
	Sub-Total	***0.35%***
Cash		**1.64%**
	Grand Total	100.00%

No derivative exposure; Cash refers to cash in bank, trade and dividend receivables, prepaid expenses and expense accruals.

Exposure by Sector



Terms & 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%	
Redemption fee	nil	5%
Management fee	1.5%	0.75%
Performance fee (high on high)	15%	7.5%
Lock-up	nil	3 years
Dealing day	daily (HK business day)	

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.

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VL China Fund
Third-Quarter Commentary

Unprecedented Challenges Hit Market and Fund

For the nine months ended 30 September 2022, VL China Fund (The Fund) was down approximately 37% (Class A: -37.48%; Class B: -37.12%). For reference only, the MSCI China Total Return Index had tumbled 30.76% and the Hang Seng Total Return Index dropped 24.11%.

This year had been an unprecedentedly challenging time for investors worldwide – decade-high inflation raging in major western economies, the lingering covid-19 pandemic causing disruption to global logistics and supply chain, the Russian-Ukraine war triggering a huge energy crisis in Europe, Sino-US tensions deepening and China's dynamic zero-covid policy impacting on her economic growth.

During the past nine months, the Fund's worst detractors were Tencent (700 HK), China Resources Power (836 HK), Hang Zhou Great Star Industrial (002444 C2), Longfor Group (960 HK) and Alibaba Group (9988 HK). The best performers were Yankuang Energy (1171 HK), China Shenhua (1088 HK), Pacific Basin Shipping (2343 HK), China Tourism Group Duty Free (601888 C1) and China Resources Beer (291 HK).

By sector, our energy positions were marginally profitable. Shortly after the outbreak of the Russian-Ukraine war in February, we correctly formed the view that the energy crisis would worsen and the impact to global economy would extend to the medium to longer term and promptly increased our exposure to the energy sector. Unfortunately, the ensuing global economic weakness, wild sector rotation and heightened policy risks all caused our exposure to other sectors to suffer from huge price tumbles. Healthcare, consumer durables and the infrastructure/industrial sectors were among the biggest decliners in our book.

China Economy Supported by High Savings Ratio

The broader markets are clouded by worries that the global economy may fall into recession caused largely by the aggressive monetary tightening in major countries to combat inflation pressure which has become more sticky than expected.

Sino-US relations have become highly stretched in recent years leading to a decoupling of the two countries and their respective economies. This may last for years and it is not something that investors of the China market would like to see. However, China's domestic consumption could be a huge support to her economy due to its huge population and relatively high household savings ratio. We believe stabilizing the property market, rebuilding domestic consumption confidence and upgrading national security will be some of the policies which the PRC would pursue of priority and we aim to refine our investment strategies in the following fashion.

The Way Forward – Domestic Substitution

In order to follow China's focus on national security, we have increased exposure under the themes of "Domestic Substitution" and "Security of Supply Chain". Since decoupling will inevitably last for the foreseeable future, China is expected to encourage domestic industries using more and more homemade equipment and forming its own industrial chains.

China's property developers would remain one of our core holdings. Given the currently gloomy outlook on exports, China cannot afford a deteriorating property market. We therefore believe she will implement more supporting policies until that market turns around. Among the different types of developers, we prefer state-owned enterprises (SOEs) as they shall benefit from a wider access to favorable funding facilities and consumers' trust. Recent monthly sales figures have showed that SOEs (for example, China Resources Land (1109 HK)) has started to deliver positive monthly contract sales growth amidst a harsh macro environment. Meanwhile, the consolidation of the property market means many privately-run developers will lose market share, making the SOEs more dominant in the future.

VL China Fund
Third-Quarter Commentary

Our Strategies – Prepare for Consumption Recovery; Diversify Energy Exposure

We also see investment opportunities in companies expected to benefit from the potential relaxation of zero-covid policies. In particular, dining out will pick up gradually and tourism and hotel services shall recover too. We believe market leaders including Meituan (3690 HK) and Tongcheng Travel (780 HK) can be the prominent beneficiaries on a consumption rebound theme. However, we cut our exposure in TMT e-commerce platforms as consumers' spending will switch from online to offline as long as we see any relaxation of covid policies.

As mentioned in the previous paragraphs, the Fund had increased its exposure to the energy sector. For China, she has reopened some coal mines to deal with a possibly longer term energy shortage. Traditional energies including oil and coal are becoming increasingly important to many countries impacted by geopolitics. We too have tried to make a balanced allocation and currently our investment covers thermal coal, oil, thermal power operators and green power operators.

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