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

VL China Fund

Monthly Fund Factsheet with Annual Review

December 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	1.70%	1.76%	5.13%	6.39%
3 month	-1.58%	-1.39%	12.82%	15.03%
6 month	-19.76%	-19.46%	-12.53%	-8.20%
YTD	-38.46%	-38.00%	-21.89%	-12.70%
Since fund launch	-14.70%	-5.29%	11.77%	2.31%
NAV per unit	85.2997	94.7078	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 December 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

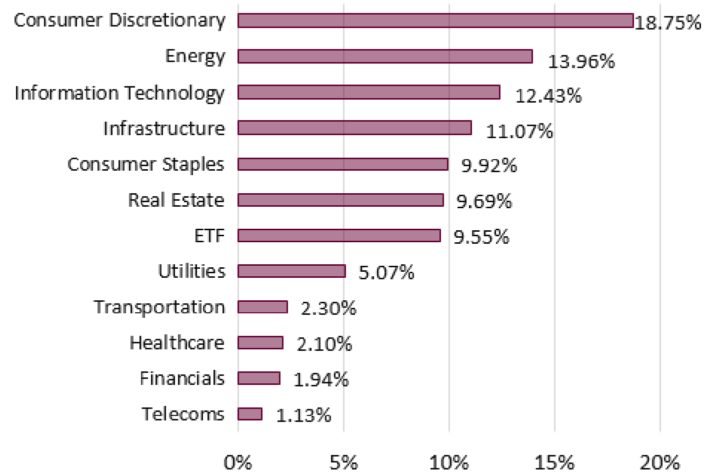
	Fund	Hang Seng Index
Price/earnings ratio	9.04X	9.60X
Price/book ratio	1.26X	1.06X
Dividend yield	4.12%	3.70%
Return on equity	13.91%	11.07%

VL China Fund

Top 5 Stock Holdings

Name	Bloomberg Code	Sector	%
CNOOC	883 HK Equity	Energy	7.09%
China Shenhua Energy	1088 HK Equity	Energy	6.87%
CSI 500 ETF	512500 C1 Equity	ETF	6.87%
China Resources Land	1109 HK Equity	Real Estate	6.48%
Tencent	700 HK Equity	Information Technology	4.70%
Total			32.02%

Exposure by Sector



Exposure by Geography

HK	H Shares	12.74%
	Red Chips	19.53%
	P-Chips	27.04%
	HK	0%
	Others	0%
	Sub-Total	***59.31%***
China	A Shares	32.86%
	B Shares	5.30%
	Sub-Total	***38.16%***
US	ADRs of PRC companies	0.45%
	Others	0%
	Sub-Total	***0.45%***
Cash		**2.07%**
	Grand Total	100.00%

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

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)	

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Monthly Review

The broader market continued to rally in December but was tame in nature compared with the sharp rebound that occurred in November. The Fund was up approximately 1.7% (Class A: +1.70%; Class B: +1.76%). Meanwhile, the MSCI China Total Return Index rose 5.13% and the Hang Seng Total Return Index 6.39% higher.

For the month, Tencent (700 HK), Tongcheng-Elong (780 HK), Anhui Gujing Distillery (200596 CH), Alibaba Group (9988 HK) and Meituan Dianping (3690 HK) constituted some of our most profitable positions. China Shenhua Energy (1088 HK), China AMC CSI 500 ETF (512500 C1), Poly Developments and Holdings (600048 C1) and Guangdong Create Century Intel (300083 C2) incurred the biggest investment losses for the portfolio.

Annual Reflections

For the year ended 30 December 2022, VL China Fund (The Fund) was down approximately 38% (Class A: -38.46%; Class B: -38%). Meanwhile, the MSCI China Total Return Index had tumbled 21.89% and the Hang Seng Total Return Index dropped 12.70%.

For the full year, the Fund's biggest investment losses stemmed from our Hong Kong positions, followed by China A and B shares, and they were largely attributable to Tencent, China Resources Power (836 HK), Hang Zhou Great Star Industrial (002444 C2), Alibaba Group (9988 HK) and Longfor Group (960 HK).

That said, our energy and consumer discretionary/staples positions including Yankuang Energy (1171 HK), China Shenhua Energy, Tongcheng-Elong and Trip.com Group (9961 HK) fared well and posted some investment gains. Pacific Basin Shipping (2343 HK) was also among the top 5 gainers.

During the past half year, we had adjusted our sectoral allocation as follows:

Sector	Allocation as of	
Weighting *increased*	30 Jun 2022	30 Dec 2022
Consumer Discretionary	16.41%	18.75%
Energy	6.37%	13.96%
Infrastructure / Industrial	3.84%	11.07%
Consumer Staples	8.99%	9.92%
ETF	0%	9.55%
Weighting *reduced*		
IT	20.11%	12.43%
Real Estate	21.06%	9.69%
Healthcare	6.35%	2.10%
Financials	5.27%	1.94%

Future Prospects

The past year was mired by continuously rising tensions between China and the US, the Russian-Ukraine war, disruptions in global supply chains, China's lockdown amid covid-19, aggressive US rate hikes, and decade-high inflation in the US and Europe. Stock investors' sentiments towards the Greater China market stayed heavily dampened and did not improve until China started to lift its zero-covid policy in mid-November. With hindsight, we could have managed the portfolio differently as we did glimpse signs of rate hikes a year ago.

Looking at 2023, we believe investment opportunities can be found in a great number of sectors as many of them have undergone a sharp stock price correction in face of the severe policies implemented by the Chinese government. At present, the market is eagerly expecting China's economic re-opening to bring about a strong recovery in domestic consumption in 2023. Over the past few weeks, both the consumption and Internet sectors have rebounded sharply and the Fund, with a relatively heavy exposure to these two sectors, has also picked up. While we project that the strong rally of these two sectors may not last throughout a year, as "revenge" consumption has been rapidly factored in, we remain optimistic on the long term outlook of China's domestic consumption, the fundamentals of which will depend on the longer term expectation on both the property and employment markets.

As regards China's property market, based on our basic assumption, the Chinese government's supportive measures have not yet come to an end – it is likely that she may launch further measures with greater magnitude and specificity in the first half of 2023. Our conviction in state-owned property leaders therefore remains and we continue to maintain a relatively higher exposure to that category. Most of the property giants, having acquired more land bank at low costs in 2022, are anticipated to record robust earnings growth in the next two years.

Looking at an even longer time horizon, we continue to view that energy may remain under supply in 2023, because, although the demand for energy from western countries may possibly fall, this may be partially offset by the strong economic recovery of China in the new year. China's energy giant firms are likely to benefit from tight oil supply and the rapid rebound of domestic economic activities. We therefore believe energy sectors can maintain relatively sustainable and stable returns in the new year.

We also find the development of the production/ manufacturing chains of new energy and semi-conductors promising. Their long term developments should not be materially impacted by the volatility of the marco-economy, and in the shorter run, they should benefit from the ultimate demand for products resulted from economic recovery. With the relevant sectors/sub-sectors having seen their stock prices receded to more reasonable valuations, we believe longer term opportunities are already available. We have already allocated to some smaller market leaders along the above chain in the China A-share and Hong Kong universes.

A Note on Climate-Related Risk Disclosure

In response to the Hong Kong Securities and Futures Commission's latest requirement for fund managers to consider climate-related risks in their governance, investment and risk management processes, we are pleased to share with you our Disclosure Statement on Tackling Climate-related Risks

(www.vlasset.com > In the Press > News;

http://www.vlasset.com/news/20221121_VL%20Asset_Climate%20change%20policy_English.pdf).

Climate change is a global problem that does not respect national borders. It is more than just global warming. Businesses and companies are also affected. We need therefore to work together as a global community to tackle climate change. As value investors, we customarily apply fundamental analysis to our investment targets to assess whether they are suitable for investing and to our existing holdings for monitoring. Climate-related risks are some of the many risks we take into account in our investment process. It is our obligation to let the Fund's stakeholders well informed of our views and measures taken for the latest developments related to climate change and their impact on our company structure, strategy and the portfolios under our management. In case of any material changes, we will update you via our company website in a timely manner.

Best Wishes for Prosperity for the New Year

The Chinese New Year of the Rabbit symbolizes vitality and flexibility, We take this opportunity to wish you health, joy and prosperity. We remain thankful for your keen support and continuous trust. Thank you for keeping your vision and patience, though disturbed on occasion by short-lived noises, in our joint effort towards value creation.

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