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

VL China Fund

Monthly Fund Factsheet

March 2017

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	4.11%	4.18%	2.25%	1.69%
3 month	10.80%	11.00%	13.18%	10.14%
6 month	3.75%	4.14%	5.15%	4.33%
YTD	10.80%	11.00%	13.18%	10.14%
Since fund launch	-4.71%	-3.53%	2.96%	3.77%
NAV per unit	95.2890	96.4746	n/a	n/a

* *NAVs and indices as of 31 March 2017.*

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	11.59X	11.76X
Price/book ratio	1.31X	1.18X
Dividend yield	3.69%	3.51%
Return on equity	11.26%	10.00%

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Top 5 Stock Holdings

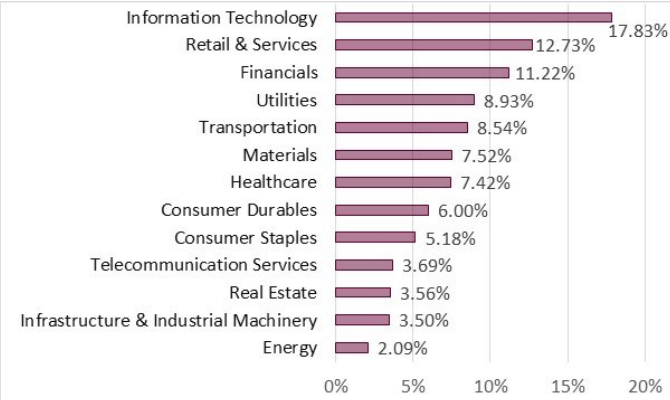
Name	Bloomberg Code	Sector	%
Transport International	62 HK Equity	Transportation	5.87%
IGG Inc	799 HK Equity	Information Technology	4.76%
Alibaba Group - ADR	BABA US Equity	Information Technology	4.19%
China Mobile	941 HK Equity	Telecommunication Services	3.69%
Natural Beauty	157 HK Equity	Consumer Staples	3.49%
Total			21.99%

Exposure by Geography

Hong Kong	
H Shares	25.74%
Red Chips	15.76%
P-Chips	19.92%
HK	14.88%
Others	6.06%
China	
B Shares	7.01%
US	
ADRs of PRC companies	8.84%
Cash	1.78%
	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.

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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Commentary

First Quarter 2017

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A good first quarter

The first quarter of 2017 turned out to be a good quarter for the global equity markets, and Hong Kong/China market is no exception. The fund recorded net investment gains of more than 10% (Class A: 10.8%; Class B: 11.0%) in the quarter while the Hang Seng Total Return Index was up 10.1% and the Hang Seng China Enterprises Index up 9.4%.

Quarter-on-quarter (QoQ), our exposure to two sectors, namely information technology as well as retail and services were mildly increased while exposure to financials and transportation sectors were mildly reduced. IGG (799 HK), Alibaba (BABA US) and China Oriental (581 HK) and Tencent (700 HK) were the fund's biggest investment gain generators during the quarter with IGG's stock price more than doubled QoQ.

For the boarder market, the best performing sectors were automobiles (on the back of strong car sales), property (on the strength of impressive contract sales notwithstanding the tightening measures) and materials (results turnaround and on expectation of supply reform). On the other hand, independent power producers (poor results on account of high coal prices) and telecoms (subdued earnings outlook) were laggard sectors.

Company results lackluster but some bright spots emerged

The 2016 full-year results of most listed companies were not inspiring but there are some bright spots emerging. First, many companies have increased their dividends by adopting a higher payout ratio or/and through giving out special dividends. The most eye-catching example was China Shenhua Energy (1088 HK), a coal miner which also runs power business, which paid out a special dividend equivalent to 15% of its then market capitalization prior to its earnings announcement! Other sectors, notably property and insurance companies, also increased dividends. The second bright spot came from the materials sector where there was visible turnaround, i.e. coal and steel companies, due to de-capacity, and commodity companies such as copper and aluminum, which have benefitted from the rebound of commodity prices since the second quarter of 2016.

Marco outlook improved

The National People's Congress and Chinese People's Political Consultative Conference ("Two Sessions" (*Lianghui*) convened in early March have confirmed that GDP growth this year will be 6.5%, slightly slower than the 6.7% growth achieved in 2016. Premier Li also reiterated supply side reform, a proactive fiscal and a prudent monetary policy. In addition, the RMB has stabilized and the macroeconomic numbers have been impressive so far this year – examples included the PPI (7.8% in February versus 6.9% in January), CPI (0.8% in February vs 2.5% in January) and the Manufacturing PMI (51.2 in March, which is still above 50). Foreign reserves in March also managed to stay above the USD3 trillion's mark.

MSCI A share inclusion may finally come true

MSCI Inc. has proposed a new set of A-share inclusion rules that would shorten the potential A-share additions from 448 to only 169 stocks. The key changes were the exclusions of 178 mid-cap stocks, 61 A-H dual-listed stocks, 8 stocks not in the Shanghai and Shenzhen Stock Connects, and 32 stocks which have been suspended for more than 50 days. These new rules, together with a smaller weighting, i.e. 0.50% compared to 1.04% in MSCI Emerging Market Index, will make MSCI A-share inclusion a likely outcome this year after three failed attempts. This is a positive development for China and thus bullish sentiments towards Chinese stocks.

Earnings upgrades to provide next leg of rally

We believe that the next leg for this liquidity-driven rally, which was partly due to the southbound flows from the two Stock-Connects, could continue if there is further earnings upgrade on the back of improved macro outlook. We have earlier mentioned that the Chinese government will need to stick to the three “R”- “Restructure”, ”Rebalance” and “Reform” at the macro level, we are now confident that we will see more three “D”- “De-stocking”, “De-capacity” and “De-leverage” at the micro and industry level. We think that the markets may consolidate in the second quarter, with some profit-taking on the outperforming information technology plays and material stocks, and investors may switch to laggard sectors such as energy and telecoms.

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