

VL China Fund

Monthly Fund Factsheet

September 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	-0.35%	-0.33%	0.86%	-1.18%
3 month	7.16%	7.97%	14.73%	8.50%
6 month	12.30%	13.25%	27.43%	17.65%
YTD	24.42%	25.71%	44.23%	29.58%
Since fund launch	7.01%	9.26%	31.21%	21.85%
NAV per unit	107.0065	109.2599	n/a	n/a

* NAVs and indices as of 29 September 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

Portfolio Characteristics

	Fund	Hang Seng Index
Price/earnings ratio	12.66X	11.86X
Price/book ratio	1.46X	1.21X
Dividend yield	3.19%	3.46%
Return on equity	11.52%	10.22%

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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

Top 5 Stock Holdings

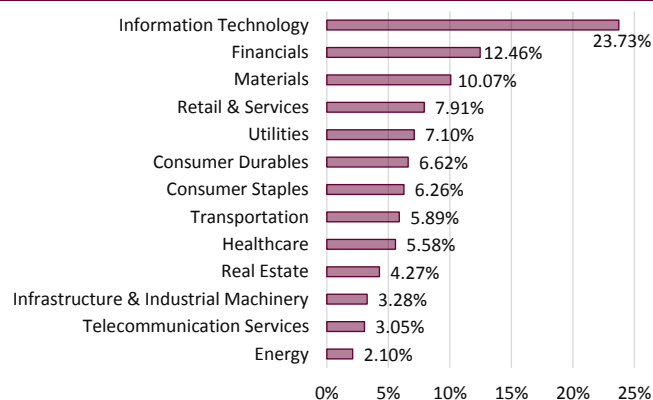
Name	Bloomberg Code	Sector	%
Alibaba Group - ADR	BABA US Equity	Information Technology	5.99%
Tencent	700 HK Equity	Information Technology	4.58%
China Construction Bank - H	939 HK Equity	Financials	3.55%
Transport International	62 HK Equity	Transportation	3.33%
China Mobile	941 HK Equity	Telecommunication Services	3.05%
Total			20.49%

Exposure by Geography

Hong Kong	
H Shares	22.00%
Red Chips	17.00%
P-Chips	22.09%
HK	13.07%
Others	4.34%
China	
A Shares	5.10%
B Shares	5.46%
US	
ADRs of PRC companies	9.28%
Cash	1.67%
	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

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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.

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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

Third Quarter 2017

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HK index rally paused in September but market still resilient

In September, the Hang Seng Index took a breather ending an eight straight month of gain and registered a loss of 1.5% at the month end. However, it remained one of the best performing world equity indices year-to-date. The MSCI China Index was also a top performer among global indices as it powered further ahead on the strength of internet stocks. The Hong Kong market seems resilient, and at the time of writing, the Hang Seng Index has already recovered its September's loss and has reclaimed its April 2015's high of 28,442.

All eyes on CCP congress in mid-October

Domestically, all eyes will be on the 19th National Congress of the Communist Party of China (NCCPC) in mid-October seeking hints on any leadership reshuffle but we believe unlike his predecessors, General Secretary Xi Jinping is in no hurry to appoint a successor. Instead he will make use of his second five-year term to implement further reform (in particular on State-Owned-Enterprises as he has called for "stronger, better and bigger" state firms) and deleveraging (credit to GDP ratio of 260% is high by all standards). We will monitor this closely and adjust our portfolio if deemed necessary.

Macro outlook continues to be supportive and earnings prospects have improved

Notwithstanding the downgrade of sovereign credit ratings by Moody's in late May and Standard & Poor's in late September, we are of the view that the macro environment in China remains supportive. Producer Price Index (PPI) is still a respectable 6.3% in August, Manufacturing PMI (Purchasing Manager Index) was higher at 52.4 in September compared to 51.7 in August and exports continued to surprise on the upside.

In the same vein, the interim earnings reported by Chinese corporates are either above or in line with our expectations and the market has seen more positive earnings alerts than profits warnings over the past few months. While some of these could be due to supply-side reform with restraint in capacity in the materials sector, there were also earnings improvement in selected cyclical sectors (such as property and auto) and bellwether segments (such as banks and insurance). We do not believe that the earning cycle has peaked and further upward earnings revisions will underpin the market.

On balance, we remain positive on Chinese equities

Globally, equity markets have performed well and investors' complacency, as implied by the low VIX index level, might suggest that the equity market is prone to a correction especially since many stocks, those big-caps in the internet and technology sectors in particular, keep hitting all-time highs. While we have not spotted any major negative catalysts on the horizon, regional sentiment could be dampened by any sudden escalation of tension or violent actions between the U.S. and North Korea. That said, we believe the current macro environment in China, liquidity support from southbound fund flows and reasonable valuation of Chinese equities are conducive to a bullish Hong Kong equity market. Also, it appears to us that domestic A shares will be more resilient in the event of any sell-off. Notwithstanding this and for the longer term, any market weakness will mean an opportunity for the fund to accumulate quality companies at reasonable prices.

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