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

VL China Fund

A CIES-eligible fund

Monthly Fund Factsheet

March 2018

Important Information

- VL China Fund is constituted in the form of a unit trust established under the laws of Hong Kong.
- The fund is on the **List of the Eligible Collective Investment Schemes under Capital Investment Entrant Scheme (CIES).**
- 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 Total Return	Hang Seng Total Return
1 month	-2.02%	-2.06%	-3.01%	-2.33%
3 month	2.13%	2.61%	2.29%	0.92%
6 month	5.08%	6.05%	10.09%	9.84%
YTD	2.13%	2.61%	2.29%	0.92%
Since fund launch	12.45%	15.87%	44.45%	33.85%
NAV per unit	112.4475	115.8689	n/a	n/a

* *NAVs and indices as of 29 March 2018.*

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	15.26X	11.3X
Price/book ratio	2.08X	1.25X
Dividend yield	2.47%	3.59%
Return on equity	13.65%	11.02%

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

VL China Fund

Top 5 Stock Holdings

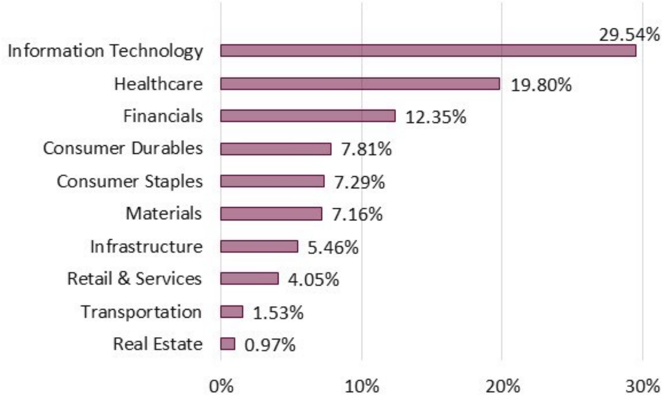
Name	Bloomberg Code	Sector	%
Alibaba Group - ADR	BABA US Equity	Information Technology	7.39%
Tencent	700 HK Equity	Information Technology	6.35%
Sino Biopharmaceutical	1177 HK Equity	Healthcare	4.87%
China Construction Bank - H	939 HK Equity	Financials	4.24%
AAC Technologies	2018 HK Equity	Information Technology	3.52%
Total			26.37%

Exposure by Geography

HK	H Shares	15.31%
	Red Chips	7.92%
	P-Chips	32.51%
	HK	8.83%
	Others	5.87%
	Sub-Total	***70.44%***
China	A Shares	12.87%
	B Shares	1.27%
	Sub-Total	***14.14%***
US	ADRs of PRC companies	9.24%
	Others	2.14%
	Sub-Total	***11.37%***
Cash		**4.04%**
	Grand Total	100%

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

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	Kian Heng NG
Portfolio Manager	Kenneth HO

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.

Address: Suite 1303, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong
Tel: (852) 2851 8177, (852) 2851 8581 Fax: (852) 2851 8580 Email: enquiry@vlasset.com Website: www.vlasset.com

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

VL China Fund

A CIES-eligible fund

Commentary

First Quarter 2018

Important Information

- VL China Fund is constituted in the form of a unit trust established under the laws of Hong Kong.
- The fund is on the **List of the Eligible Collective Investment Schemes under Capital Investment Entrant Scheme (CIES).**
- 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.

Global markets on roller coaster in 1Q

Global stock markets took a roller-coaster ride in the first quarter and the local market was no exception. As of 29 March 2018, the MSCI China Total Return Index was up 2.29% quarter-on-quarter, the Hang Seng Total Return Index 0.92% and the fund more than 2% (Class A: 2.13%; Class B: 2.61%).

The indices shot up on a broad-based rally in January. However, the gains were largely erased in February and March as investor sentiment was weakened by fears of higher inflationary risk in the U.S., a possible trade war between the U.S. and China as well as escalating tensions between the U.S. and Russia. Technology stocks got pummeled when Facebook (FB US) suddenly faced a backlash over insufficient protection on user data.

Recovery and growth supported by strong consumption demand

Both the global and local equity markets may see further volatilities in the near term but overall consumption demand should remain strong and economic recovery is on-going.

In China, the National People's Congress voted in March to scrap the presidential term limit enabling President Xi Jinping to continue as such beyond 2022. While some may read this as heading to higher chances of autocracy, the reverse is also true in that it will allow continuity of policies and hence sustainable economic growth. Over the past few years, President Xi has proved that the current political and economic structure has raised not only the overall living standard of Chinese people but also China's global position. Xi is ambitious but capable (as shown by his continuous campaign to fight corruption) and, given China's sound fundamentals (including her high savings rate and strong domestic demand for consumption), we remain optimistic that her economic growth will not be distorted.

In Hong Kong, the local bourse has just announced that companies with a multiple class share structure will be allowed to seek a listing in the city starting from 30 April. The green light hints that we may expect a large and continuing influx of capital to Hong Kong as we open the listing door to giant technology firms.

Our dual focus: healthcare and tech sectors

We have expressed in our previous newsletters that healthcare and technology sectors constitute our major focuses in the long term. The former has been performing particularly well in March and helped cushion the portfolio from a steep decline as stock markets tumbled. We are, in particular, interested in the PRC healthcare sector. Firstly, the total market capitalization of the 20 biggest PRC-based healthcare companies is less than one half of the market capitalization of Tencent (700 HK). Secondly, PRC citizens are aging but they now have the means to spend on better medical products and services. We believe therefore that the significance of the healthcare industry to the PRC economy remains underestimated.

Sino Biopharmaceutical (1177 HK), our third largest position in March, reported net profit of RMB2.2 billion for full-year 2017, up 32.6% year-on-year (YoY). The group has invested heavily in research and development last year (nearly 11% of its full-year 2017 revenue of RMB14.82 billion). It is seeking to launch several major drugs this year which would drive stronger earnings growth momentum. Wuxi

Biologics (2269 HK), another pharmaceutical stock which we hold, also posted stronger-than-expected results as net profit rose 79% to RMB252.6 million in full-year 2017. Wuxi Biologics' revenue outlook continues to be robust underpinned by a strong order backlog which continues to grow as it secures more customer contracts. A ramp up of CMO manufacturing as well as future potential milestone payments and royalty fees help secure a strong earnings outlook over the mid to longer term. The company has outperformed expectations and the stock price broke its historical high, rising 38.4% month-on-month in March.

Besides healthcare, we also have a key focus on technology stocks in the PRC. Alibaba (BABA US), our biggest holding at the end of March, announced in February that non-GAAP net profit was up by 20% YoY and non-GAAP free cash flow up by 35% YoY but some investors found it disappointing. The results gave us no surprise and is in line with our expectation. More importantly, we saw no major change in its fundamentals or earnings outlook. China's e-commerce and cloud business are likely to continue to grow sharply in the next few years. We are happy to keep the stock as a core holding at this point of time.

The technology sector has cooled down a bit following criticism on Facebook's failure to protect user data. We also note that China has the ability to impose stricter censor on social media platforms any time it deems necessary. While it is possible that social media companies, whether on a global level or within China, may come under stricter scrutiny from regulators and lawmakers in the future, the era of digital economy or big data is upon us and cannot be rolled back. We will keep expanding our research effort in the wide spectrum of tech opportunities (including, but not limited to, data collection and analysis, infrastructure development, cloud storage, data center, data computing and memory chip development). Again, the key in generating returns in the long run is to find and invest in sustainable businesses at fair prices.

Action or inaction? Prudent analysis counts more than market timing

The portfolio actions and/ or inaction are the result of careful and independent financial analysis and experience tells us that that should be more reliable and lucrative than market timing. They reflect also that, whilst we practice value investing, our approach is pragmatic and not dogmatic. We believe value investing is neither merely buying stocks without disposal nor obstinately sticking to assets without taking the real-world situations into account. We believe also that growth is part and parcel of and is as important as value. These are to us important investing principles and bear repeating more than once. Intensifying geo-political tensions are clouding the market but they could be noises after all. History shows that similar incidents tended to have only a temporary impact on the economy.

Address: Suite 1303, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong
Tel: (852) 2851 8177, (852) 2851 8581 Fax: (852) 2851 8580 Email: enquiry@vlasset.com Website: www.vlasset.com