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

VL China Fund

Monthly Fund Factsheet

September 2018

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	-4.60%	-4.54%	-1.69%	0.03%
3 month	-13.90%	-13.73%	-7.75%	-2.60%
6 month	-16.52%	-16.51%	-11.01%	-5.11%
YTD	-14.75%	-14.34%	-8.97%	-4.24%
Since fund launch	-6.13%	-3.27%	28.55%	27.01%
NAV per unit	93.8660	96.7345	n/a	n/a

* *NAVs and indices as of 28 September 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	13.40X	10.57X
Price/book ratio	1.65X	1.20X
Dividend yield	3.08%	3.84%
Return on equity	12.31%	11.34%

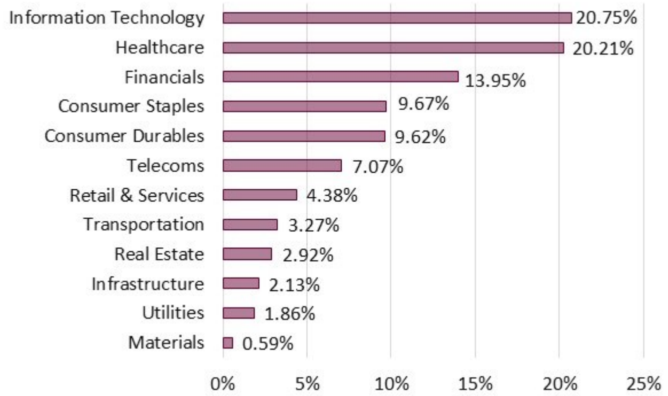
VL Asset Management Limited
以立投資管理有限公司

VL China Fund

Top 5 Stock Holdings

Name	Bloomberg Code	Sector	%
Sino Biopharmaceutical	1177 HK Equity	Healthcare	5.61%
Tencent	700 HK Equity	Information Technology	5.33%
China Construction Bank Corp - H	939 HK Equity	Financials	4.30%
Citic Telecom International	1883 HK Equity	Telecoms	3.65%
Kweichow Moutai	600519 C1 Equity	Consumer Staples	3.42%
Total			22.31%

Exposure by Sector



Exposure by Geography

HK	H Shares	19.69%
	Red Chips	12.42%
	P-Chips	25.57%
	HK	13.08%
	Others	1.99%
	Sub-Total	***72.74%***
China	A Shares	10.65%
	B Shares	1.11%
	Sub-Total	***11.76%***
US	ADRs of PRC companies	5.57%
	Others	6.33%
	Sub-Total	***11.90%***
Cash		**3.59%**
	Grand Total	100.00%

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

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 Managers	Kian Heng NG, Kenneth HO

Address: Unit 1807, FWD Financial Centre, 308 Des Voeux Road Central, Sheung Wan, Hong Kong
Tel: (852) 2851 8177, (852) 2851 8581 Fax: (852) 2851 8580 Email: enquiry@vlasset.com Website: www.vlasset.com

VL China Fund

Commentary — Third 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 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.

The last quarter has not been an easy time for stocks but now is an opportune time to review what transpired and what we did to shore up the defence of our portfolio. "Study the past if you would define the future." (quote by Confucius).

Third quarter hit by various headwinds

The third quarter faced several headwinds – the imposition of tighter compliance requirements on online game operators and education segment by the Chinese government, the continued lackluster investor sentiment on the healthcare sector and concerns over the Sino-US trade war.

In mid-August, Chinese regulators ordered Tencent (700 HK) to suspend sales of a new video game. The incident sparked worries that China's media regulator might further tighten control on online game operators. Near the month end, the Ministry of Education stated that it would implement regulations and controls on the number of video games available online, limit new releases and restrict digital game playing time for minors. The above negative news do not shaken our confidence in technology stocks as information technology (IT) has become an essential and global theme. The IT and mobile technology sectors are still booming and expanding worldwide and this irreversible trend can be seen or experienced in the mainland too. Consumers' addiction to and willingness to spend more on technology might not easily change even if there are new control over the service provision.

A series of announcements related to the education sector also caused a sharp correction across the entire sector. The Ministry of Education submitted a draft proposal to the State Council set forth, amongst others, a ban on private education groups taking control of non-profit schools through mergers and acquisitions. Meanwhile, the State Council announced stricter regulations on after-school tutorial education operators. We await further clarity on those new regulations over the private school operators as their profit margin may be affected. As regards the after-school tutorial operators, we anticipate an acceleration in industry consolidation over the mid to longer term which should benefit the major listed ones.

Healthcare only at start of decade-long growth theme

A confluence of factors (such as news of vaccine scandal, profit-taking and more recently reports on upcoming centralized procurement of generics) has waned sentiment in healthcare stocks. The procurement news led to another round of sell-down as investors feared price cuts and potential countrywide implementation would dilute operators' margin. In the near to mid-term, we anticipate sector fundamentals to remain intact as this pilot scheme relates to only 11 cities and 33 drugs. In the event of price cuts, companies having a broad portfolio of generic drugs and an increasing revenue mix of innovative drugs with higher margins should remain resilient. Notably, given the research costs incurred in the bioequivalence drug testing studies and the much delayed timeline in completion of overall bioequivalence testing, industry players are expected to be more rational in price competition while any countrywide implementation of centralized companies and their management saw value and bought back their shares, demonstrating their continued confidence in their respective businesses.

PRC policy risks rising but economic fundamentals remain solid

The recent round of operational tightening against different sectors heralded escalating policy risks on the PRC economy in the short term. One of our actions to strengthen our defensiveness was adding (i) utility-like stocks (such as telecoms service provider PCCW (8 HK) which has a steady customer base and recurrent income); and (ii) listed companies which do not focus on the US market and hence exposed to less trade war risk (one example is SITC International (1308 HK), a container shipping and logistics service operator covering mainly PRC and other Asian countries). Political risks are beyond forecast and one cannot totally avoid them unless one exits the market entirely. We believe the correction triggered by political factors should accelerate industry consolidation and cool down the overheating of those less-regulated sectors though bringing short term pain. Our conviction in the long-term trends of our investment, which are backed by strong fundamentals (primarily clean balance sheets, superior corporate governance and positive growth outlook), remains unwavering. Take China's healthcare sector as an example, we believe it is a decade-long growth theme which has just started and its prospects unquestionable.

China's debt servicing ratio far from alarming

The Caixin China General Manufacturing PMI fell to a 16-month low of 50 in September of 2018 from 50.6 in the previous month as output growth eased and new orders stalled. In the short term, China's pace of economic growth might slow given the socio-political issues. However, we believe that her growth story remains sustainable in the longer run due to two major factors – Firstly, China's GDP could be cushioned by strong domestic demand from her huge and increasingly affluent population. Secondly, China is not structurally prone to any big economic crisis since its latest quarterly debt servicing ratio stands at a healthy 6.1%, far below the alarming territory of 20% to 25%. Many other emerging markets have seen their national debt servicing ratios hitting very dangerous level – Brazil at 51.2%, Indonesia 39.6%, Turkey 39.3% and Argentina 34.9%. At the same time, China is one of the countries with the highest foreign exchange reserves. Under this backdrop, China's financial stability in the mid to long term should be unquestionable.

In response to the escalating trade disputes between China and the U.S., president Xi Jinping said recently that it was time for China to cut its reliance on foreign technology. While it will take years for China to be more technologically independent, if she is able to make a significant breakthrough and raise her standard, the short term pain should well be paid off and it will definitely benefit her economic development in the long term.

The PRC government lowered the required reserved ratio in early October but the released liquidity within the banking system is expected to primarily benefit state-owned enterprises. Patience is what one needs before the central government rolls out any meaningful measures to stimulate the mainland and Hong Kong market. The current valuations of Hong Kong-listed stocks look attractive but we are in no rush to bargain hunt as prudency is our priority. Bear markets are painful affairs. They induce one to quit and dump one's stocks but do not follow the herd. Staying invested in companies with solid fundamentals (which we have done) will serve to anchor investors in those turbulent stock markets.

Bear markets are painful affairs. They induce one to quit and dump one's stocks but do not follow the herd. Staying invested in companies with solid fundamentals (which we have done) will serve to anchor investors in those turbulent stock markets.

Address: Unit 1807, FWD Financial Centre, 308 Des Voeux Road Central, Sheung Wan, Hong Kong
Tel: (852) 2851 8177, (852) 2851 8581 Fax: (852) 2851 8580 Email: enquiry@vlasset.com Website: www.vlasset.com