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

VL China Fund

Monthly Fund Factsheet

June 2019

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	5.83%	5.89%	7.62%	6.66%
3 month	-2.52%	-2.33%	-4.49%	-0.16%
6 month	18.85%	19.28%	12.66%	12.66%
YTD	18.85%	19.28%	12.66%	12.66%
Since fund launch	-0.32%	3.30%	29.39%	33.46%
NAV per unit	99.6756	103.2996	n/a	n/a

* *NAVs and indices as of 28 June 2019.*

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	11.75X	10.84X
Price/book ratio	1.42X	1.19X
Dividend yield	3.30%	3.76%
Return on equity	12.07%	10.99%

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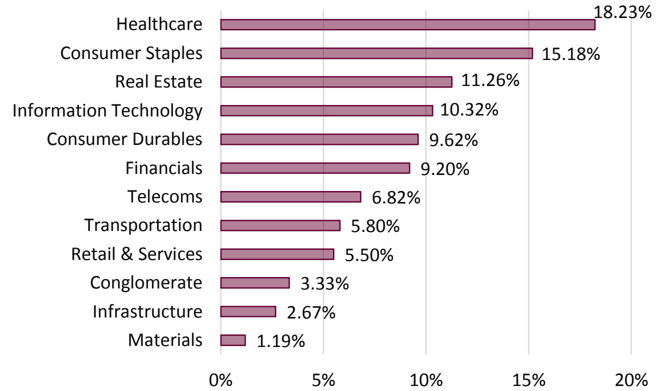
Top 5 Stock Holdings

Name	Bloomberg Code	Sector	%
Sino Biopharmaceutical	1177 HK Equity	Healthcare	5.59%
Citic Telecom International	1883 HK Equity	Telecommunication Services	5.59%
Tencent Holdings	700 HK Equity	Information Technology	5.14%
China Merchants Bank	3968 HK Equity	Financials	4.48%
Midea	000333 C2 Equity	Consumer Durables	4.45%
Total			25.24%

Exposure by Sector



Exposure by Geography

HK	H Shares	12.52%
	Red Chips	16.04%
	P-Chips	25.49%
	HK	11.22%
	Others	6.16%
	Sub-Total	***71.42%***
China	A Shares	19.42%
	B Shares	0.61%
	Sub-Total	***20.03%***
US	ADRs of PRC companies	7.33%
	Others	0.35%
	Sub-Total	***7.68%***
Cash		**0.87%**
	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

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Second Quarter Commentary

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Portfolio Up 19% YTD

The Fund retreated 2.52% in the quarter ended June. However, the Fund recorded an investment return of 18.85% (Class B:19.28%) in the first half. The MSCI China Total Return Index and the Hang Seng Total Return Index was down 4.49% and 0.16% respectively in the quarter, but both were up 12.66% in the first half. Year-to-date, the Fund outperformed the indices.

During the first half, the most profit-making members in our portfolio were primarily healthcare stocks, Chinese white liquor producers, and household electrical appliance manufacturers. The top profitable holdings included Sino Biopharmaceutical (1177 HK), Kweichow Moutai (600519 CH), Midea (000333 CH), Luzhou Laojiao (000568 CH) and Wuliangye Yibin (000858), followed by China Merchants Bank (3968), Citic Telecom International (1883), Ping An Insurance (2318), Guangzhou Pharmaceutical (874 HK) and Tencent (700 HK).

Actions in Second Quarter

Our sector exposure was little changed in the second quarter except that we added a few property stocks which are paying decent and stable dividend yield of approximately 4% to 6%. The portfolio increased its exposure to real estate to 11.26% (end of March: 7.3%) while reducing its exposure to consumer staples to 15.18% from 17.83%, and for information technology, down to 10.32% from 12.70%. The above action reflected our projection that land supply in Hong Kong shall remain tight in the foreseeable future keeping residential and commercial property prices high. The social confrontations linked with the government's proposed amendment of the Fugitive Extradition Bill had led to a fall in property transactions in recent weeks and we anticipate that any controversial proposals to increase land supply may hardly be passed in the short term. Having said that, while citizen sentiment was affected by the social incidents, the local benchmark indices managed to hold up.

Second GPO Tendering May Occur Near Year End

Sentiment on healthcare stocks improved further on positive news flow in two key areas. The first is that the recently-announced national drug monitoring list comprised only 20 drugs instead of the originally-intended adjuvant drug list. The new list is also much less onerous as it emphasizes rational usage and monitoring rather than hard rules on usage. Impact on the healthcare sector is expected to be much smaller. The second piece of positive news is that industry feedback is for the second round of GPO tendering to occur in the upcoming fourth quarter or early 2020 by estimate. The plan is expected to be published in September or October 2019 but implementation is likely to be in March 2020. Pricing cuts are expected to be more muted this round as most bioequivalence drugs only have one manufacturer and since government officials had also previously commented that an approximately 50% price cut during the first round of "4+7" GPO tendering was reasonable.

Pick Stocks Insulated from Trade War

US President Donald Trump and Chinese President Xi Jinping resumed talks at the G-20 meeting in late June, hitting a pause button on the imposition of more tariffs in the short term. Overall market sentiment improved, but we bear in mind that Trump may at any time restate his accusations of Beijing's unfair trade practices, intellectual property theft and forced technology transfers. The disputes over Sino-US trades, which has already extended to political level, will not be solved in months or years and should be taken into account before making any investment assessment. To minimize the adverse impact of policy risk, we have been concentrating our efforts on selecting companies highly insulated from trade disputes. Pharmaceutical manufacturers and selected consumer goods manufacturers (e.g. electric appliance and Chinese white liquor manufacturers) targeting Mainland China markets are good examples and we have been early investors in these sectors when they were under-researched. It was March 2018 that the Fund made an initial investment in Moutai, and August 2017 for Midea. As mentioned in our previous newsletters, healthcare is at least a decade-long theme which has just started and should not be ignored. As regards liquor stocks, they are currently rather expensive compared with six or twelve months ago but demand for white liquor in the PRC remains intact and the outlook of the companies we have picked remains promising.

China GDP Off but Consumption Robust

China's second-quarter GDP growth rate slowed to 6.2%, raising concerns over the sustainability of its economic expansion. However, the numbers were in line with analyst expectations due to its trade tensions with the US. Also, retail sales of consumer goods rose 8.4% on a YoY basis in the first half, hinting that China's attempt to stimulate its economy by boosting spending and delivering tax cuts could be working well. Wage increase may have given challenges to business operators and inflation may have discourage some consumption but China is such a big market that certain well-managed business enterprises are still able to excel in such a difficult market environment. China A-shares have been staging a strong rally since last year but the market depth of most industries are yet to be fully developed. Sectors including PRC household electric appliances producers, social media, white liquor, condiments and healthcare have demonstrated robust growth momentum amid keen consumer demand. There may be policy interferences at times or temporary price weakness due to swinging market sentiment, but the middle to long term development trend of these sectors should continue to be on the up side.

US at Recession Risk?

With regards to the trade war, the battlefield is no longer limited to the US and China as Trump recently imposed additional tariffs on EU products and cancelled India's developing country status, resulting in over 2,000 products from India becoming subject to import tariffs. While Trump's policies might damage global economic growth, we should also be aware of any signs of a possible US recession. The Morgan Stanley Business Condition Index, which captures turning points in the economy, dropped in June by 32 points to a level of 13 from a level of 45 in May. The decline, the largest on record since 2008, indicated that the US economy may be on shaky ground despite the strong performance of its stock market.

Marking our 10th Anniversary

June marks the 10th anniversary of the establishment of our Company. Ten years ago, we had the privilege of sharing with you our investment philosophy of "以信立業 洞見創富" (which we later translated as "Value Creation with Vision"). Based on that philosophy, we have always strived for excellence and aimed to grow wealth for our customers on a sustainable basis. With your backing, VL Asset has remained one of the few home-grown asset managers in Hong Kong with sound risk governance and management mechanisms. The past decade was most trying for investing, but we weathered many of the financial storms including the 2010 European debt crisis led by the PIIGS in 2010 and the 2015 global market correction triggered by the sudden depreciation of the Chinese RMB. On each occasion we were able to rebound fast and hit new highs when the broader market conditions turned calm and allowed the hidden value and growth momentum of the stocks we picked to be realized. With our vision, discipline, and alignment of interest with investors, we will continue to exert our greatest efforts to deliver quality services to you.

**Index figures are dividend reinvested.*

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