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

VL China Fund

Monthly Fund Factsheet

March 2021

Important Notice

It has come to our notice that someone has been using the name and photograph of our director and Chief Investment Officer, Mr. LAM Siu Yeung to place adverts on WhatsApp and Facebook offering free investment tips or tutorials and inviting the public to join. Those adverts are without Mr. LAM's permission and are completely fake. Mr. LAM has filed written complaints with the platform operators. The SFC and the Hong Kong Police have too been notified. Please be aware that those adverts may be some form of a scam to elicit personal data (including bank account details) and possibly money from the unsuspecting public and do not succumb to such scam. Both Mr. LAM and VL Asset Management Limited reserve the rights to take legal actions against the imposter/ perpetrator.

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 equity securities issued by companies with either assets in, or revenues derived from the PRC that are listed in Hong Kong, Shanghai, Shenzhen or other overseas regulated markets. However, investment by the fund in PRC A-shares listed on the Small and Medium Enterprise Board and/or the ChiNext Board and PRC B Shares shall not exceed 30% and 10% of its NAV respectively.
- 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	-1.77%	-1.65%	-6.07%	-1.76%
3 month	2.20%	2.77%	-0.16%	4.55%
6 month	16.78%	19.02%	11.08%	21.53%
YTD	2.20%	2.77%	-0.16%	4.55%
Since fund launch	57.01%	70.85%	81.48%	39.13%
NAV per unit	157.0137	170.8485	n/a	n/a

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 at www.vlasset.com.

Indices are derived from Bloomberg and are valued in HKD with dividend reinvested. All indices and figures are for reference only.

* *NAVs and indices as of 31 March 2021.*

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	19.94X	12.6X
Price/book ratio	2.45X	1.23X
Dividend yield	1.78%	2.89%
Return on equity	12.26%	9.73%

VL China Fund

Top 5 Stock Holdings

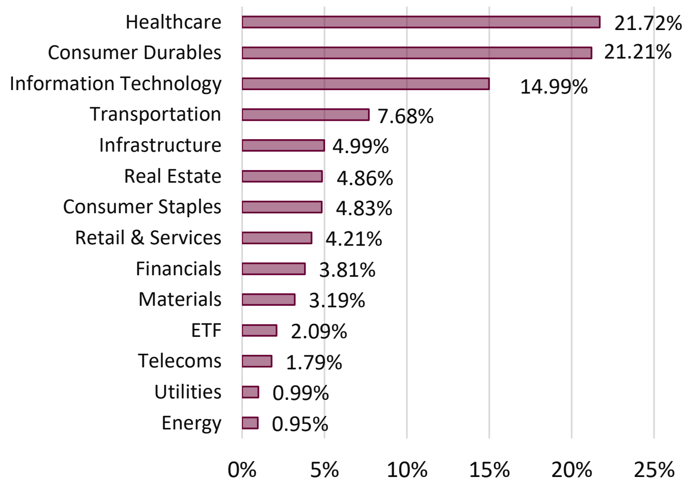
Name	Bloomberg Code	Sector	%
Tencent	700 HK Equity	IT	8.13%
Pharmaron	3759 HK Equity	Healthcare	5.08%
SITC International	1308 HK Equity	Transportation	5.01%
Wuxi Biologics	2269 HK Equity	Healthcare	3.88%
Hang Zhou Great Star	002444 C2 Equity	Consumer Durables	3.55%
Total			25.66%

Exposure by Geography

HK	H Shares	15.28%
	Red Chips	4.61%
	P-Chips	40.28%
	HK	3.08%
	Others	3.15%
	Sub-Total	***66.41%***
China	A Shares	25.23%
	B Shares	1.50%
	Sub-Total	***26.73%***
US	ADRs of PRC companies	3.42%
	Others	0.74%
	Sub-Total	***4.16%***
Cash		**2.70%**
	Grand Total	100.00%

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

Exposure by Sector



Terms & 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%	
Redemption fee	nil	5%
Management fee	1.5%	0.75%
Performance fee (high on high)	15%	7.5%
Lock-up	nil	3 years
Dealing day	daily (HK business day)	

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Fund Up Over 2% in First Quarter

The fund finished the first quarter up 2.20% (Class A units) and 2.77% (Class B units). During the same period, the MSCI China Total Return Index was down 0.16%, while the Hang Seng Total Return Index picked up 4.55% (having lost 0.46% in full year 2020).

Mainland China-based mega technology stocks were hit in all directions in March. The Chinese government instituted anti-monopoly investigations against Alibaba. The US Securities and Exchange Commission threatened to delist certain Chinese companies listed in the US. Investors' fear that liquidity tightening in China might continue in the near term pervaded. Invariably valuations of Chinese-themed stocks got more compressed in this atmosphere.

As a Greater China-themed fund, at least 70% of our investment targets would commonly be Hong Kong and China-listed equities, while the rest could be investments in other regions. In view of China's economic expansion (boosted by her huge and increasingly affluent population and her edges in certain exports arena), we gradually took steps to increase our allocation to PRC A-shares some four years ago. As of 31 March 2021, the Fund's long exposure to Hong Kong, China and US were approximately 66.4%, 26.7% (of which 25.2% was in PRC A Shares and 1.5% in B Shares) and 4.2% respectively.

Uptrend of healthcare and IT Irreversible

We are not ignorant of regulatory or policy risks in China but we recognize also that such risks exist in other countries or markets. We also noted the substantial increase in raw material prices in recent months that have hit select sectors. In spite of the above but backed by relevant industry data and corporate earnings figures, the overall uptrend of the core sectors in which the fund's investments belong (namely, healthcare, consumer staples/discretionary and information technology) look irreversible and promising. Accordingly, whilst the fund looks a bit overweight in China A-shares (often making up nearly one fourth of our long book) and may be subject to more volatility (than a pure Hong Kong portfolio) due to abrupt moves in A-shares, we remain confident in our strategic allocation. As a long term value investor tasked with growing your wealth, it is our job and privilege to constantly judge and monitor for you whether our invested companies can maintain healthy balance sheets and sustain their business growth instead of chasing momentum.

Fundamentals of core positions remain intact

Our top holdings, Tencent (700 HK) and Midea (000333 C2), tumbled 7.92% and 11.66% in March respectively but no fear should arise as their fundamentals remain intact. Tencent announced in late March that 4Q20 non-IFRS net income was up 30% year-on-year (YoY) to RMB33.2 billion, in line with consensus and its overseas games expansion continued to make progress. One key area of focus should be Tencent's video accounts (paying customers in 4Q20 was up by 16% YoY to 123 million) which is still in the early stage of development. Tencent is now building the ecosystem and monetization can be expected in the future. Meantime the share price weakness in Midea over the quarter could be attributable to profit-taking (following a strong rally last year) and the acute rise in copper and steel costs this year. Rest assured, the above has not shaken Midea's leading position in the domestic household electronic appliance market and its financial profile (including operating cash flow) stays healthy.

The broader Hong Kong market was on a roller-coaster in the first quarter but we believe the correction in March may turn out to be just a halt before the Hang Seng Index regains energy to climb again, thus creating a healthier backdrop for the remainder of this year.

FY2020 earnings of our invested companies largely robust

Most of the listed companies that we have invested in are able to report robust 2020 earnings, though this may not be fully reflected by their respective stock price performances to date – which can be due to varying expectations of different investors, profit-taking after a price rally or simply investors' insufficient understanding of the relevant company.

Pharmaron Beijing (3759 HK), the fund's second largest holding at the quarter end, had announced robust results. A contract research and manufacturer specializing in laboratory, CMC and clinical development services, Pharmaron, reported profit of RMB1.17 billion for the year ended 31 December 2020, up 114% YoY. With more than 1,500 customers globally, of which 721 were new customers in 2020 and a strong project pipeline, Pharmaron was positive on its outlook for 2021 and the following years. Plus some of the delayed projects, undertaken by its US division, should pick up when the pandemic lessens. This company is under-researched but, as long as it can continue to deliver promising results over the next few quarters, we believe its valuation may well be revised upwards in the foreseeable future.

In parallel, select transportation companies and basic raw material suppliers have also released strong earnings for the first quarter of 2021. This has strengthened our conviction to top up on cyclical and recovery plays. This is where we will also look for any bargain hunting opportunities. In fact, the fund's largest investment gain contributor in the quarter was SITC International (1308 HK), a shipping logistics company specializing in marine transportation and freight forwarding. SITC recorded net profit of US$352 million for the year ended 31 December 2020, up 59.85% year-on-year. Despite swinging crude oil prices, SITC, as a whole, has a lot of newer and fuel-efficient vessels hence its upward fuel cost pressure is relatively smaller than its peers. Business outlook is also positive amid global shortages in both vessels and port facilities.

Macro data improving but mind material cost and wages

Macroeconomic data are improving in general as select business sectors are on track to recover. Nevertheless, challenges to global stock markets never cease. The stimulus packages rolled out by major governments in the past six months have triggered a rise in material prices (in the upstream supply chain) and the cost of services. The prime factors to watch, therefore, in the next few months will be material costs and wages.

"Come what may, time and the hour runs through the roughest day." - William Shakespeare in Macbeth. What's going to happen is going to happen, and so long as we adhere to our time tested value investing principles, we will be fine.

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