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

VL China Fund

Monthly Fund Factsheet

September 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, Facebook and Telegram 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	-6.04%	-5.98%	-4.93%	-4.72%
3 month	-15.25%	-15.09%	-17.97%	-13.94%
6 month	-8.44%	-7.45%	-16.19%	-11.62%
YTD	-6.43%	-4.88%	-16.33%	-7.61%
Since fund launch	43.76%	58.12%	52.09%	22.96%
NAV per unit	143.7570	158.1240	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 30 September 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

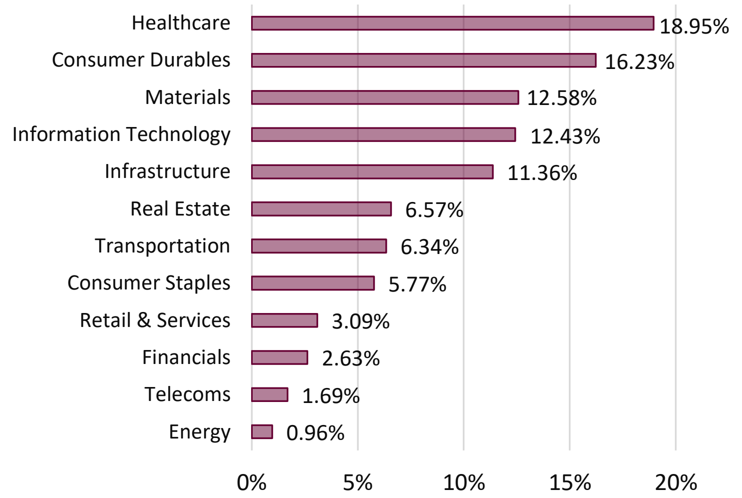
	Fund	Hang Seng Index
Price/earnings ratio	14.22X	11.09X
Price/book ratio	2.02X	1.15X
Dividend yield	2.59%	3.14%
Return on equity	14.21%	10.36%

VL China Fund

Top 5 Stock Holdings

Name	Bloomberg Code	Sector	%
Tencent	700 HK Equity	IT	6.93%
Pharmaron Beijing	3759 HK Equity	Healthcare	5.00%
Wuxi Biologics	2269 HK Equity	Healthcare	4.76%
SITC International	1308 HK Equity	Transportation	4.39%
Hang Zhou Great Star Industrial	002444 C2 Equity	Consumer Durables	3.04%
Total			24.12%

Exposure by Sector



Exposure by Geography

HK	H Shares	12.47%
	Red Chips	3.68%
	P-Chips	48.97%
	HK	1.66%
	Others	0.77%
	Sub-Total	***67.55%***
China	A Shares	27.14%
	B Shares	2.62%
	Sub-Total	***29.76%***
US	ADRs of PRC companies	1.28%
	Others	0%
	Sub-Total	***1.28%***
Cash		**1.41%**
	Grand Total	100.00%

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

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)	

This report is issued by VL Asset Management Limited ("VLAM") for reference only and neither the information nor any opinion contained herein constitutes a distribution, an offer to sell or the solicitation of an offer to buy or sell any unit trust or any securities, futures, options or other financial instruments or to provide any investment advice or service.

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.
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.

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VL China Fund

Stocks Down on Inflation Fear & Power Cut

The fund suffered a similar fate as the MSCI China Total Return Index (MSCI China Index) and the Hang Seng Total Return Index* (Hang Seng Index) over September. The fund's Class A units were down 6.04% and Class B units 5.98%, and the indexes off 4.93% and 4.72% month-on-month (MoM) respectively.

Widespread concerns that inflation will emerge (or may have emerged) and that global economic growth may narrow further dragged down the broader market. In late September, factories in major manufacturing areas in provincial-level regions of China (including economic powerhouses in Guangdong and Jiangsu) were called on by the government to reduce electricity usage. The power cut news caused a slump in stock prices within the manufacturing, material and industrial sectors. Stock price of our No. 5 position Hang Zhou Great Star Industrial (002444 CH) fell 19.37% for the quarter. Our No. 4 holding SITC International (1308 HK) also saw its share price down 11.30% amid profit-taking in the transportation sector. Still, SITC share price has risen almost 75.31% year-to-date (YTD) and remains our biggest investment gainer YTD. We believe the declines in the above positions were largely due to sector rotation or weak sentiment hence temporary and do not have much effect on their fundamentals and business outlook.

Q3 Crunched by Policies But Healthcare Remains Sustainable

Over the quarter, our Class A units were down 15.25% and Class B units 15.09%, and the MSCI China and the Hang Seng Index were down 17.97% and 13.94% respectively. We fared better over MSCI China Index since we had a smaller exposure in Internet stocks and that the China A-shares we were holding had outperformed. The fund slightly underperformed the Hang Seng Index as the latter consists of more traditional blue chips which are safe heavens in a down market.

China has implemented a number of policies since July – bans on after-school tutoring sector, anti-monopoly restrictions on Chinese technology giants including ride-hailing app operator Didi Global (DIDI US) and the announcement of principles on oncology drug clinical research in China. That dragged down the market.

Holding a very tiny exposure in education stocks and no share in Didi, our fund was not too much affected by the sell-off in those sectors/stocks. We have holdings in Tencent (700 HK) and Meituan Dianping (3690 HK) which stock fell on the policy news but they bounced back fast. On healthcare, the announced principles on oncology drugs initially hurt sentiment across the sector but a fast rebound was seen. Those principles might weed out some drug manufacturers affecting possibly only the less sophisticated players. In the longer run, drug manufacturers will need to spend more resources on R&D and rely more on CRO (Contract Research Organization) companies. Our focus has been towards CRO companies from the start. Many of them are anticipated to maintain an annual growth of 30%. In view of the sustainability of the sector, our conviction remains.

Year-to-date, our Class A units were down by 6.43% and Class B units off 4.88%, and the MSCI China Index was 16.33% lower and the Hang Seng Index off 7.61%.

Carbon-Neutral Comes with Higher Operating Costs

Major governments around the world have pledged to reduce carbon emissions by 2030 and achieve carbon-neutral by 2050, hence more restrictions on energy production and taxation on industries which remain heavy emitters of greenhouse gases. As a result, energy prices are likely to stay high at least in the next one to two decades if global leaders are unyielding regarding their carbon-neutral goals. It follows that operating costs of many businesses will continue to rise. We will exert extra caution when examining the balance sheets of companies and industry data.

On 26 October, the Chinese government released its 2030 Peak Carbon Emissions Action Plan outlining four principles, one of which is that policy design will be nationwide, and another is steady, orderly and safe reduction of carbon emissions. While many countries have committed to achieve carbon-neutral targets, China is no exception. With ESG (environment, social and corporate governance) becoming a dominant investment focus across continents, our spotlight will be on companies related to electricity systems, clean energy and upstream resource supply chain.

VL China Fund

Opportunities in China Abounds Albeit Policy Risks

In face of the heightened policy risks in China, the fundamental question to ask is whether it is a market to give up or to stick to. We have the following views to share with you.

Policy risks have always been at the forefront of investors' minds when investing in China. Whilst they do exist in all parts of the world, their occurrences in China appear more frequent than in other countries. Worsened Sino-US relations may have scared some investors but China's economic foundation is solid enough, we believe, to help her tackle most of the challenges and move forward. Indeed, for a country with a population of 1.4 billion, investment opportunities are countless and huge.

In the near term, big caps (companies with big market capitalization) and tech stocks may continue to experience sell-off pressure. We plan to refine our exposure by reducing some big caps and deploying the proceeds to buy small to mid-cap stocks instead. Also, we may allocate more to China domestic A-shares as we see in that market many undervalued hidden jewels. Manufacturers of condiment, manufacturers with cutting edge technology and healthcare names are some examples from which we have made good investment returns. Given China's ageing population and shrinking labour supply, sectors related to automation, hardware and big data are believed to grow at greater pace and they have already been in our research/investment radar screen.

Challenges abound but we still see there are schools of fish to catch.

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