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

VL China Fund

Monthly Fund Factsheet with Quarterly Commentary

March 2022

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	-11.64%	-11.58%	-7.77%	-2.81%
3 month	-21.87%	-21.73%	-13.81%	-5.66%
6 month	-24.67%	-24.38%	-18.90%	-10.08%
YTD	-21.87%	-21.73%	-13.81%	-5.66%
Since fund launch	8.30%	19.57%	23.34%	10.56%
NAV per unit	108.2965	119.5659	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 2022.*

Fund Facts

Manager:	VL Asset Management Limited
Fund Managers:	Martin Zheng, Vincent Lam
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

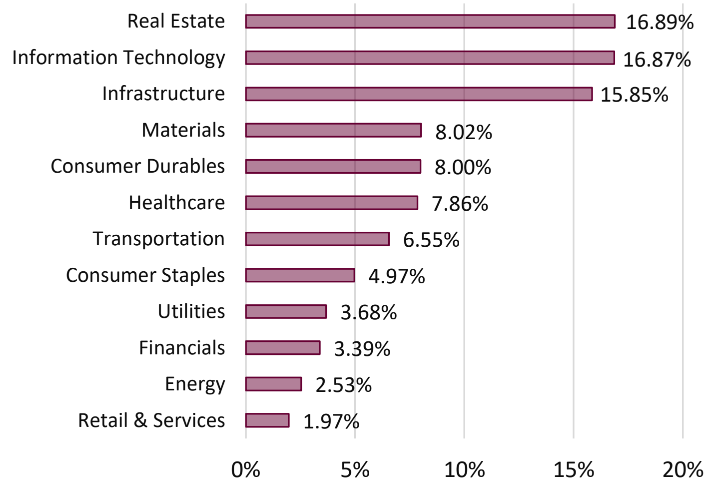
	Fund	Hang Seng Index
Price/earnings ratio	9.20X	10.31X
Price/book ratio	1.24X	1.09X
Dividend yield	3.98%	3.41%
Return on equity	13.51%	10.56%

VL China Fund

Top 5 Stock Holdings

Name	Bloomberg Code	Sector	%
Tencent	700 HK Equity	IT	7.30%
Longfor Group	960 HK Equity	Real Estate	5.68%
China Resources Land	1109 HK Equity	Real Estate	5.63%
SITC International	1308 HK Equity	Transportation	4.16%
China Everbright	257 HK Equity	Infrastructure	3.96%
Total			26.74%

Exposure by Sector



Exposure by Geography

HK	H Shares	13.41%
	Red Chips	19.25%
	P-Chips	35.63%
	HK	1.33%
	Others	1.04%
	Sub-Total	***70.66%***
China	A Shares	24.02%
	B Shares	1.35%
	Sub-Total	***25.37%***
US	ADRs of PRC companies	0.54%
	Others	0%
	Sub-Total	***0.54%***
Cash		**3.42%**
	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)	

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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.
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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

First-Quarter Commentary

Power Stocks, A-Shares Drag Fund Down in Q1

For the quarter ended 31 March 2022, both VL China Fund (The Fund) and the broader regional market headed south. The Fund's Class A and B units were down 21.87% and 21.73% respectively. Meanwhile, the MSCI China Total Return Index had tumbled 13.82% and the Hang Seng Total Return Index had dropped 6.08%.

The Fund lagged behind the indices in the quarter largely due to the remarkable underperformance of our A-share positions in particular those small-capitalization companies (small caps) against the large-capitalization companies (large caps). Also dragging the Fund down were its relatively large exposure in power-related stocks which suffered from profit-taking, and the tumble of small caps in the Hong Kong market.

With an aim to beat large caps, we diversified to small caps since the middle of 2021. However, the Russia-Ukraine war and other international geopolitical events which took place in the first quarter of 2022 had led to extreme volatility in the stock market. Small caps, which were less defensive in nature than large caps, suffered huge liquidity pressure despite their sound fundamentals. As a result of a detailed review, we had substantially reduced our small caps in the manufacturing sector and are gradually focusing on large caps based on a sectoral top-down approach. We believe the restructuring shall enable the portfolio to become more resilient.

Policies Expected to Relax Amid GDP Goal

Bombarded by a number of negative factors since the start of this year, the stock market was weak and faced south. Nevertheless, we are not too pessimistic on the performance of China equity funds in the remainder of this year due to the reasons as follows.

In the first place, China is expected to adopt a more friendly approach to the capital market this year. Whilst there is a reversed spread in interest rates between the US and China, China may not cut rates aggressively despite having a mission to boost her economy. However, we believe liquidity in China remains rich and shall pull real interest rates down.

Secondly, the continued market clearing of China's real estate market and the recent widespread lockdown in the mainland will bring about credit side contraction and may continue to affect mainland investors' sentiment. To hedge against hard landing risk, it is anticipated that the government would halt policies targeting private enterprises. In recent weeks, the government has relaxed certain regulatory measures which have previously hit hard the property and gaming industries. Whilst the degree of relaxation is not large enough to turn around the industries, policy risks have at least mitigated.

There is a cycle for all types of investment and no policymaker can avoid it because the market pulse will have significant impact on the macro-economic cycle. This applies to China too even though political stance is always the country's priority. To achieve its 2022 GDP growth target, the Chinese government might adopt a less stringent approach when implementing policies in the rest of this year. In our view, the business activities of private companies can help stimulate the economy, hence speeding up a recovery. We therefore look forward to seeing some government policies in favor of private companies in the next few months, which shall then put the credit contraction on private companies to an end within this year.

Investor Confidence, Economy Yet to Rebound

If we could see signs of a bottom-out of policy-driven negatives, the worst of the economic fundamental as well as the stock market might be gone within the second quarter. Nevertheless, the road to economic recovery will be bumpy as it takes time for enterprises to resume their confidence and how the pandemic situations will evolve is uncertain. Having said that, we believe 5.5% is an attainable GDP target to China as it could provide more stimulations to property developers and/or users. Further, any measures to loosen the lockdown could help too.

In response to the above-mentioned changes and challenges, we have taken/ are taking the following actions:

Sectoral Rotation Strategy to Cope with Market Changes

We have substantially disposed of manufacturing-related positions in the A-share universe given that the majority of manufacturers are suffering from ever-escalating production costs. We have also sharply reduced stocks linked to the carbon neutrality theme for its strategic importance will lessen in the short term under the backdrop of maintaining a steady GPD growth. In the short term, we do not expect to increase any allocation to A-shares.

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On the Hong Kong front, valuations of many quality companies have fallen to extremely low levels. We tend to switch from the small caps (featured by poor liquidity) to quality large caps (share prices of which have sharply tumbled). Going forward, we will adopt a more top-down approach when making sectoral allocation so that through sector rotations, we can cope with the ever-changing market environment.

Sector-wise, property is currently the Fund's biggest sector. To us, its outlook is getting clearer whether from the policy or fundamental perspective. However, we do not mean all property stocks are worth investing. We are focusing only on the leading state-owned and private enterprises which have demonstrated excellent management and operational standards. Our rationale is that they shall dramatically benefit from the recent round of market clearing and any potential policies aiming to support the demand side including first-time flat buyers. A polarization in the share price performance of property counters may accelerate till late 2023.

On the other hand, we are taking steps to gradually increase quality Internet companies since their valuations are at historical lows. Most of the policy risks and expectation of weakening fundamentals should have been priced in. We believe any policy relaxation on the sector could result in a rebound. Following the recent correction of Internet companies, a speedy market clearing had taken place causing closures of small-to-medium-sized enterprises as well as lay-offs in large companies. The subsequent supply side reform will enable the surviving market leaders to benefit from the improvement in operational leverage. In light of the current valuations, leading Internet companies have started to demonstrate their longer term investment value.

Prepare for Future Though Near Term Dull

In addition to the above-mentioned changes, we have increased certain coal stocks and CRO stocks under the pharmaceutical sector. We see upside potential in coal stocks on the belief that traditional energy will be favoured by the market under the upcoming global stagflation environment. As regards CRO stocks, their corporate earnings results are promising and their current valuations look attractive following the recent share price declines. We have started to build positions in selected stocks which are anticipated to benefit from any loosening measures against covid-19. The current exposure is small though. Beer manufacturers and duty-free shop operators are some examples.

Our recent restructuring of the portfolio is two-dimensional in an aim to make a balanced allocation between cyclical value stocks and undervalued growth stocks. Whilst the short term moving trend of the market may not be optimistic, strategically we need to get prepared for a potential rebound which may take place hopefully in the next few months.

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