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

VL China Fund

Monthly Fund Factsheet

June 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	1.93%	1.99%	6.56%	2.94%
3 month	-1.83%	-1.65%	3.61%	0.81%
6 month	-23.30%	-23.02%	-10.70%	-4.90%
YTD	-23.30%	-23.02%	-10.70%	-4.90%
Since fund launch	6.31%	17.59%	27.79%	11.45%
NAV per unit	106.3122	117.5948	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 June 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	10.49X	10.53X
Price/book ratio	1.25X	1.12X
Dividend yield	3.69%	3.36%
Return on equity	11.90%	10.59%

VL China Fund

Top 5 Stock Holdings

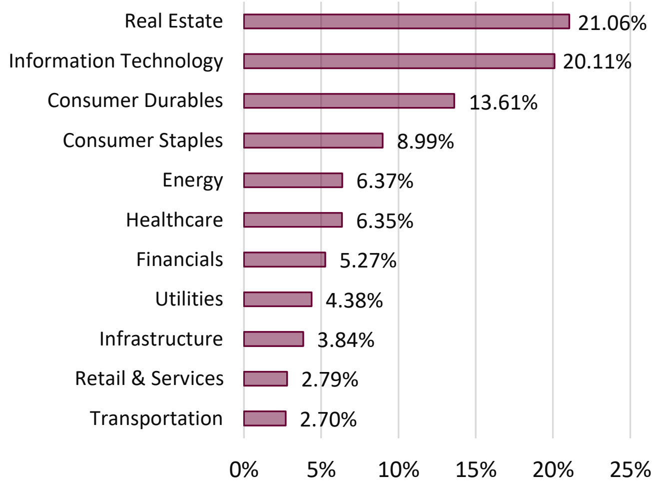
Name	Bloomberg Code	Sector	%
Tencent	700 HK Equity	Information Technology	8.19%
China Resources Land	1109 HK Equity	Real Estate	6.69%
Longfor Group	960 HK Equity	Real Estate	6.53%
Alibaba Group	9988 HK Equity	Information Technology	6.45%
Meituan Dianping	3690 HK Equity	Consumer Durables	5.65%
Total			33.51%

Exposure by Geography

HK	H Shares	13.48%
	Red Chips	18.57%
	P-Chips	47.54%
	HK	0%
	Others	0%
	Sub-Total	***79.59%***
China	A Shares	12.87%
	B Shares	2.51%
	Sub-Total	***15.38%***
US	ADRs of PRC companies	0.50%
	Others	0%
	Sub-Total	***0.50%***
Cash		**4.53%**
	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)	

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.

Address: Unit 1807, FWD Financial Centre, 308 Des Voeux Road Central, Sheung Wan, Hong Kong
Tel: (852) 2851 8177, (852) 2851 8587 Fax: (852) 2851 8580 Email: enquiry@vlasset.com Website: www.vlasset.com

VL China Fund
First-Half Commentary

The Fund Yet to Pick Up in 1H amid Limited Exposure in Growth Stocks

For the six months ended 30 June 2022, VL China Fund (The Fund) was down 23% (Class A: -23.30%; Class B: -23.02%). For reference only, the MSCI China Total Return Index had tumbled 10.70% and the Hang Seng Total Return Index had dropped 4.90%.

The market picked up in recent weeks as investors regained interest in growth stocks but the fund has not substantially increased its weighting in those stocks (in particular stocks related to Internet and electric cars) hence lagging behind. Our core allocations, largely in value-based sectors including real estate, transportation and coal, underperformed when growth stocks were in the market spotlight.

Starting from April, the fund has concentrated more on China's economic recovery. We reduced investing sectors which are more adversely affected by the global recession, and allocated more to China's domestic plays in particular Internet and consumer discretionary stocks. We also had a small allocation to new-energy cars.

China Aims for GDP Growth; Monetary Policy Not to Relax Further Amid Inflation & Interest Rates

A number of unexpected negative incidents took place in the first half and had dragged the stock markets down. That said, investor sentiment on the PRC stock market improved substantially after May following the government's lifting of the Shanghai lockdown and implementation of measures to stabilize the economy. The China stock market was, at one time, a safe haven to global investors.

The Chinese government's policy on the capital market tended to be stable and skewed towards a loose approach this year and the most relaxing time should have been seen during the second quarter. China may not relax its monetary policy further as prices of domestic consumer goods keep rising and the US may raise interest rates aggressively in the rest of the year. However, liquidity may remain relatively high given no obvious improvement in the economy and the employment market. The Chinese central bank may need to kick off a new round of loosening cycle in the fourth quarter or early next year.

Owing to the limitation on monetary policy, slower-than-expected recovery of the real estate market and a possible slowing in exports, China, in the near term, will need to substantially enhance its stimulation impact (mainly including traditional and new infrastructure as well as automobile consumption) and increase the macro leverage rate and request municipal governments to deploy their assigned credits. With less income from the land market, the Chinese government is expected to support real estate further until the fundamentals of the land market return normal. A further relaxation in covid-19 prevention policies will also be key to the stabilization of domestic consumption. As a result, we anticipate that the government will continue to adjust its covid-19 prevention measures.

In the next few months, there remain many unknowns for China's economic recovery and external environments. If we put the timeline to 2023 (by which automobile consumption and infrastructure investment shall have less stimulating impacts on the economy), China can have a chance to maintain her economic growth roughly at her targeted levels (while the world is largely at recession) but only by dealing with her two major hurdles (covid-19 prevention and real estate market). These two major factors will form the basis of the fund's medium to long term investment direction.

We believe both China's economy and investor confidence have bottomed out in the second quarter. As and when more policies to stabilize growth are implemented, the economy shall have a more obvious recovery in the next two quarters. However, China's 2022 growth target (set at approximately 5.5%) looks unattainable amid the pandemic and a slow recovery of the real estate sector. For the second half of this year, we believe more economic activities will resume but accompanied by inflation. Against this backdrop, we will look for companies in the traditional industries demonstrating a turnaround in their corporate results. Having said that, rising inflation pressure in the PRC and the sharp increases in interest rates by the Fed may lead to more capital outflow causing disturbance to the capital market in the coming months.

To cope with the challenges described above, we have taken/ are taking the following actions:

Balance Our Sector Allocation to Focus on China's Domestic Recovery

In the next 6 to 12 months, our investment portfolio will be made more balanced so as to respond better to an anticipated economic recovery and be more flexible to move up.

On sectors, PRC's real estate shall remain one of our core allocations. This is because the evolution of the fundamentals of the sector and market leaders over the past few months is within our expectation in general. The on-going industry consolidation should benefit the leading players and there could be an even more obvious polarization among the bigger and smaller players. We believe sales of the mainland real estate market in the second half will continue to narrow or even turn to the positive territory. Some of the leaders may record positive growth in sales for the next 6 to 12 months.

The fund had substantially increased its holdings in quality Internet companies in the past. Share prices of those companies had picked up from the bottom but the overall valuation of the Internet sector is still at historical lows. We believe most of the market leaders will see a turnaround in their fundamentals in the third quarter. As the macro economy of the PRC and its retail sales are about to rebound, leading Internet companies should gradually enjoy a growth in revenue. For the medium to longer term, having a wider moat, Internet companies could be able to see a persistent recovery in mean reversion and earnings ability.

We will also pay attention to the investment opportunities expected to be brought by a relaxed anti-covid policy. Though the Chinese government is still emphasizing dynamic "zero infection", the quarantine measures have been less strict so offline discretionary consumption should improve further – in particular, demand for food and beverages, tourism and hotel-related services should improve remarkably. We have already started to allocate funds on some market leaders.

We will continue to monitor the energy sector. Whether it is thermal power generators or green power operators, they have an important role – helping China to get rid of reliance on energy and maintain stability in energy supply. As a result, we will continue to hold coal and green power stocks. Apart from a relatively higher margin of safety and dividend yield, they shall benefit from rising electricity demand boosted by the government's policy to stabilize growth.

Market to Face Pressure After Bottoming Out; Fund Eyes on Listcos Turning Around

In anticipation of less liquidity relaxation in the mainland in the near term, the market will face more volatility. We will keep an eye on China's Politburo meeting (set for the end of July) to see its tone on economic policy for the second half. We will also pay attention to the potential changes of China's anti-covid measures. In an aim to capture the rise in both valuation and earnings, we will focus on sectors and companies which have low valuations and are likely to experience a turnaround in their fundamentals.

Address: Unit 1807, FWD Financial Centre, 308 Des Voeux Road Central, Sheung Wan, Hong Kong
Tel: (852) 2851 8177, (852) 2851 8587 Fax: (852) 2851 8580 Email: enquiry@vlasset.com Website: www.vlasset.com