

VL China Fund

Monthly Report with Quarterly Commentary

March 2024

Important Notice

It has come to our notice that someone has been using the name and photographs 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 | 0.36% | 0.41% | 0.89% | 0.64% |
| 3 month | 5.11% | 5.30% | -2.01% | -2.53% |
| 6 month | -1.27% | -0.91% | -6.38% | -6.33% |
| YTD | 5.11% | 5.30% | -2.01% | -2.53% |
| Since fund launch | -18.69% | -8.88% | -2.63% | -10.86% |
| NAV per unit | 81.3080 | 91.1206 | 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 28 March 2024.

Fund Facts

| | |
|---------------------------|--|
| Manager: | VL Asset Management Limited |
| Fund Managers: | Vincent Lam |
| Trustee | Standard Chartered Trustee (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

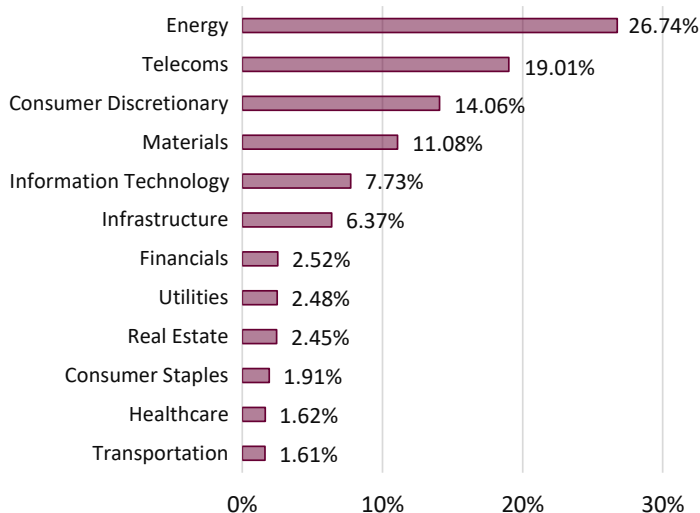
| | Fund | Hang Seng Index |
|----------------------|-------|-----------------|
| Price/earnings ratio | 6.12X | 8.18X |
| Price/book ratio | 0.6X | 0.88X |
| Dividend yield | 8.33% | 4.51% |
| Return on equity | 9.78% | 10.81% |

VL China Fund

Top 5 Stock Holdings

| Name | Bloomberg Code | Sector | % |
|----------------------|----------------|-----------|--------|
| CNOOC | 883 HK Equity | Energy | 9.47% |
| Fufeng Group | 546 HK Equity | Materials | 9.41% |
| China Shenhua Energy | 1088 HK Equity | Energy | 8.98% |
| China Mobile | 941 HK Equity | Telecoms | 8.35% |
| Sinopec | 386 HK Equity | Energy | 8.29% |
| Total | | | 44.51% |

Exposure by Sector



Exposure by Geography

| | | |
|--------------------|-----------------------|----------------|
| HK | H Shares | 29.05% |
| | Red Chips | 34.69% |
| | P-Chips | 20.16% |
| | HK | 3.08% |
| | Others | 2.52% |
| Sub-Total | | 89.51% |
| China | A Shares | 0.09% |
| | B Shares | 7.07% |
| | Sub-Total | 7.16% |
| US | ADRs of PRC companies | 0.92% |
| | Others | 0% |
| | Sub-Total | 0.92% |
| Cash | | 2.41% |
| 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) | |

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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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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

Quarterly Review

The Fund's NAV was up more than 5% in the first quarter (Class A units: +5.11% ; Class B units: +5.30%). For reference only, the MSCI China Total Return Index ("MSCI China Index") was down 2.01% while the Hang Seng Total Return Index ("Hang Seng Index") down 2.53% in the same period.

During the three months ended March, CNOOC (883 HK) was the biggest investment profit generator of the Fund with its stock price having soared 39.38% in the quarter.

Fufeng (546 HK), China Shenhua Energy (1088 HK), JNBY Design (3306 HK), China Unicom (762 HK) and Sinopec (386 HK) were also among the top contributors.

JNBY Design is a mainland-based designer brand fashion house which designs and sells contemporary apparel, accessories and household products. Its products target the middle-and-upper income customers. Its stock was up 40% in the quarter.

In terms of sector, our holdings in energy, raw materials, consumer discretionary and telecoms services were most profitable.

As mentioned in our previous commentary (December 2023), having considered the complexity of the investment environment and the underlying risks, when we made equity investment in the near future, our top priority would be on those large cap companies with a sound business outlook and high dividend yields. Energy, telecoms, raw materials and financial stocks were therefore among our main coverage. Over the past quarter, the Fund remarkably outpaced the MSCI China Index and the Hang Seng Index. We believe with the portfolio restructuring effectively implemented over the past six months, the Fund has found the right direction for asset allocation and stock selection. In spite of all the challenges from the broader markets, we were glad to have led the Fund to defy the overall market downtrend and record positive returns in the first quarter. Also, we expect that the strategies we are adopting will continue to work well.

During the month, Fufeng, the Fund's second largest position, released its annual results for the year ended 31 December 2023. The world's largest MSG (food additive) and xanthan gum (colloid) manufacturer reported full-year revenue of RMB28 billion, up 1.9% year-on-year ("YoY") while gross profit fell 13.4% (2023 first half: -17.4%) YoY to RMB6.25 billion. Net profit was down 18.6% YoY to RMB3.14 billion. Full-year dividend per share was HK\$0.58 (or RMB0.535, -16.8% YoY), representing a payout ratio of 43%.

Fufeng's management said it is still actively looking for opportunities to expand outside of China despite a "major setback" it encountered in the US for geopolitical reasons. The group is committed to building production facilities in Vietnam, Eastern Europe, and the US, subject to local regulatory approval. At HK\$5.07 per share, Fufeng is valued at 3.8x historical PER, with an annual dividend yield of 11.4% and a PBR of 0.68x. Against its ROE of over 18%, the current price is quite undervalued. Fufeng shares were up 17% year-to-date.

VL China Fund

First-Quarter Commentary

Outlook

Recent macroeconomic information has shown that the US economy is much stronger than what was anticipated at the beginning of 2024. The market was then expecting six to seven rounds of 25 basis points (“bps”) interest rate cuts by the Federal Reserve. In view of the exceptionally strong sets of employment and consumer price index data for February and March, the US Fed fund rate forward has indicated that there will only be a maximum of two 25-bps rate cuts this year.

Apart from Hong Kong and China, other financial markets in the world may also suffer from a prolonged high interest rate environment. The Hong Kong stock market has been lagging behind for years but we will continue to keep a close eye on how the market develops and will strive to capture any upcoming market mispricing opportunities.

Based on a scenario of a higher for longer interest rate environment, we fear that the Hong Kong property market will remain under pressure for quite some time. As a result, property stocks only represented less than 2.5% of our portfolio.

We understand that in a bearish environment, most investors may tend to over-react to negative news and sell all stocks in the same sector irrespective of their relative fundamentals. Whilst this may create certain short-term volatility to the mark-to-market profit and loss account of one’s investment portfolio, the astute and patient investors should be able to profit from such market anomaly.

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