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

VL China Fund

Monthly Fund Factsheet

30 June 2016

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 Hong Kong-listed stocks and if investing in overseas stocks, no more than 30% of its NAV in non-Hong Kong listed stocks.

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.

Manager's Comments

The China market rally in the first two weeks of June was disturbed by the negative market response to the results of the UK's referendum on European Union membership on June 24th which was in favour of an exit. A surprising month-end rally pushed major equity indices back to where they were at the start of the month, with the Hang Seng Index ended slightly down by 0.1% and the MSCI China Index slightly down by 0.64% (respectively up by 1.44% and 0.94% including dividends).

The overall market was actually weaker than the above two indices would have indicated as the flat index performance was attained at the expense of capital outflow from small-to-mid-cap stocks into index heavyweights. Despite the challenging market environment, recent macro data hinted that China has quickened its growth in money supply year-to-date. Meanwhile, since the beginning of this year, mainland Chinese investors have also increased their investment in Hong Kong-listed index heavyweights through the Shanghai-Hong Kong Stock Connect program. These two positive forces should help uphold the Chinese stock markets at their respective present levels, and one might be able to see a gradual recovery in sentiment when the market starts to feel the impact of monetary loosening in the second half of the year.

Portfolio Characteristics

	Fund	Hang Seng Index
Price/earnings ratio	10.48	10.99
Price/book ratio	1.15	1.02
Dividend yield	4.04%	3.86%
Return on equity	11.02%	9.30%

Performance Update*

	A Units	B Units	MSCI China (NDEUCHF)	Hang Seng Total Return Index
1 month	-1.58%	-1.52%	0.94%	1.44%
YTD	-9.93%	-9.59%	-4.58%	-2.44%
Since fund launch	-15.51%	-14.94%	-14.01%	-11.88%
NAV per unit	84.4911	85.0625	n/a	n/a

**A and B units are invested in the same fund. Dividends are reinvested into the fund. Performance of 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 in the Standard and Hong Kong Economic Times and www.vlasset.com. Indices are derived from Bloomberg and are valued in HKD with dividend reinvested. All indices and figures are for reference only.*

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
ISIN code:	Class A - HK0000262953 Class B - HK0000262961

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30 June 2016

Exposure by Geography

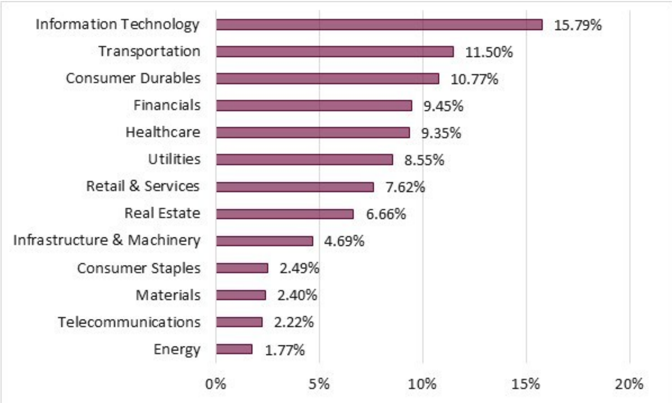
Hong Kong	
H Shares	20.48%
Red Chips	13.67%
P-Chips	16.18%
HK	19.69%
Others	6.93%
China	
B Shares	6.19%
US	
ADRs of PRC companies	10.13%
Cash	6.74%
	100.00%

No derivative exposure

Top 5 Stock Holdings

Name	Code	Sector	%
Transport International	62 HK	Transportation	6.13%
Sinopharm	1099 HK	Healthcare	5.47%
Alibaba	BABA US	IT	5.16%
Spring Real Estate	1426 HK	Real Estate	4.41%
Cosco International	517 HK	Transportation	4.39%
Total			25.56%

Exposure by Sector



Fee Structure

	Class A	Class B
Minimum subscription	HK$50,000	HK$39,000,000
Subsequent subscription	HK$5,000	HK$1,000,000
Subscription fee	up to 5%	up to 5%
Redemption fee	nil	5%
Management fee	1.5%	0.75%
Performance fee	15% (high on high)	7.5% (high on high)
Lock-up	nil	3 years
Dealing day	daily (Hong Kong business day)	

VL Investment Team

Chief Investment Officer	Vincent LAM
Portfolio Manager	Ean Kiam NG

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.

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

Quarterly Commentary

Second Quarter 2016

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Dig opportunities out from market volatility

The broader market remained bumpy in the quarter due to uncertainties ahead and after the UK's referendum on European Union membership, worries on interest rate movement and policy headwinds in China.

With a long-only mandate, the Fund's performance has inevitably been hampered temporarily by abrupt market volatility. Our net exposure was kept at a level of over 90% as we believe the positions that we hold can generate better returns than cash in the longer run - We have mentioned months ago that interest rates are in no way to go up substantially in the medium term. In fact, the 10-year government bond yields for some developed countries including Switzerland, Japan, and Germany have now dropped to below zero suggesting that holding cash is no longer a wise choice.

Don't chase momentum, but stocks with hidden value

As a portfolio which aims to generate sustainable absolute returns in the longer term, growth and deep value strategies together make up approximately three quarters of our book while the remaining quarter is event-driven related stocks. Naturally, growth and deep value stocks may take more time to reach their full value but they often generate stable and decent dividends. As for event-driven stocks, we expect a specific event (business turnaround, restructuring or merger arbitrage) to take place in the short to medium term boosting the share price. What we don't do is momentum chasing.

One of the event-driven themes the Fund has been pursuing is the turning around of a business which should bring a stock to be re-rated. Bus operator Transport International (62.HK), our top position during the quarter, is an example to illustrate our philosophy. Its fare revenue is trending upwards amid patronage growth and the impact of a bus fare hike since mid-2014. In addition, a major catalyst is the prospective unlocking of hidden value in its non-franchised bus services and the redevelopment of its various parcels of land in Hong Kong (primarily in Kwun Tong, Shatin and Tuen Mun districts). Its current price remains attractive with a dividend yield of approximately 6%.

Identifying global trend

Another theme that we have been focusing on is technology and Internet in light of the rapid development of artificial intelligence which is expected to lift up operational efficiency. At the same time, some traditional retail and middlemen servicing operators are put under threat. However, sectors in which personal experience is what customers count on, such as food and beverages, healthcare, education and entertainment are not likely to be replaced by machines in the foreseeable future. Our team will continue to dig into this global trend and we are confident to continue identify more winners and avoid losers.

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Second Quarter 2016

The broader market always swings in tandem with psychological instability but we should take advantage of Mr. Market and not let him unsettle us.

The China story remains sound

Some people worry that Brexit will add uncertainties to the Greater China market. We believe the real post-Brexit negative impact on Hong Kong and China's economies is not likely to be material because, in terms of trade flows, Hong Kong and China's link to Britain is not as close compared to other countries. However, the post-referendum turmoil has made the equity and forex markets particularly volatile triggering a global risk-off. In the longer-run, subdued economic growth might give rise to more aggressive monetary easing by Central banks, leading to a prolonged low interest rate environment.

Underpriced stocks offer defensiveness

Stock prices have been hounded by geo-political uncertainties (US election, Brexit, Japan's enhanced stimulus package and economic problems in Europe, to name a few). However, these are not causes for discouragement or inaction. If market conditions were rosy, stocks would be overpriced and be not worth owning. There is value in selected under-researched stocks, blue chips whose businesses are monopolistic, technology companies riding on the global application of technological development, property stocks which are beneficiaries of the persistently low interest rate environment as well as leaders in healthcare, education or catering industries in which men still hold the upper hand against machines, which we are pursuing and which shall offer defence and help buttress the volatility that everyone is experiencing now.