VL China Fund Monthly Fund Factsheet with Quarter Commentary

March 2023

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	3.28%	3.34%	4.52%	3.48%
3 month	4.89%	5.09%	5.35%	3.51%
6 month	3.23%	3.62%	18.86%	19.07%
YTD	4.89%	5.09%	5.35%	3.51%
Since fund Iaunch	-10.53%	-0.48%	17.76%	5.90%
NAV per unit	89.4704	99.5245	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 2023.

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	8.53X	9.47X
Price/book ratio	1.10X	1.04X
Dividend yield	4.58%	3.77%
Return on equity	12.95%	10.99%

VL China Fund

Top 5 Stock Holdings

Name	Bloomberg Code	Sector	%
CSI 500 ETF	512500 C1 Equity	ETF	7.19%
CNOOC	883 HK Equity	Energy	7.00%
China Shenhua Energy	1088 HK Equity	Energy	6.65%
China Resources Land	1109 HK Equity	Real Estate	6.18%
China Mobile	941 HK Equity	Telecoms	5.05%
Total			32.08%

Exposure by Geography

НК	H Shares	12.24%
	Red Chips	26.99%
	P-Chips	16.69%
	НК	0%
	Others	0%
	Sub-Total	55.93%
China	A Shares	33.76%
	B Shares	8.23%
	Sub-Total	41.99%
US	ADRs of PRC companies	0.42%
	Others	0%
	Sub-Total	0.42%
Cash		1.65%
	Grand Total	100.00%

19.23% Energy 18.02% Information Technology Infrastructure 9.92% Consumer Discretionary 9.39% Real Estate 9.08% Telecoms 7.23% ETF 7.19% **Consumer Staples** 5.23% Utilities 4 87% Transportation 4.35% Financials 2.98% Materials 0.56% Healthcare 0.29% 0% 10% 15% 20% 5%

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.

Exposure by Sector

Fund & Market Both Pick Up

In March, VL China Fund (The Fund) was up approximately 3.3% (Class A: 3.28%; Class B: 3.34%). For reference only, the MSCI China Total Return Index (MSCI China) had risen 4.52% and the Hang Seng Total Return Index (Hang Seng) up 3.48% month-on-month (MoM).

Tencent (700 HK), CNOOC (883 HK), GTJA Allianz CSI All-Share Semiconductors ETF (512480 C1) and Inner Mongolia Yitai Coal (3948 HK) constituted some of our most profitable positions MoM. Poly Developments (600048 C1), Chongqing Changan Automobile (200625 CH), Wolong Electric (600580 C1) and Beijing Zhong Ke San Huan Highway (000970 C2) comprised some of the worst performers in terms of stock prices MoM.

Energy & IT Outshine in Q1

For the quarter ended 31 March 2023, the Fund was up approximately 5% (Class A: 4.89%; Class B: 5.09%). Meanwhile, the MSCI China and the Hang Seng rose 5.35% and 3.51% respectively.

The Fund's MoM outperformers were from sectors including energy, IT, semiconductors and small-to-midcaps in the A-share universe. CNOOC, Tencent, China Shenhua Energy (1088 HK) and GTJA Allianz CSI All-Share Semiconductors ETF were among the most profitable. The worst performers were Meituan (3690 HK), JD.com (9618 HK), Tongcheng Travel (780 HK) and Poly Developments (600048 C1).

Tourism-Related Consumption Beats Forecast

Over the past three months, investors' sentiment towards Greater China equities has improved and the market has started to stabilize. However, having been through so much over the past two years, it will take time for the economy to fully recover. During the first quarter, we can see that offline consumption and the property market have picked up. In addition, foreign trade data has recorded better-than-expected growth notwithstanding the harsh economic conditions prevailing in many overseas countries. For the full-year 2023, we anticipate that China will be able to see a mild economic recovery with investment opportunities for the equity market abound.

Though "economic re-opening", as a theme, has, in the short term, played out, citizens' extreme eagerness to travel and resume social activities are observed in various micro data revealing strong demand for hotels, food and beverages as well as travel. While we have reduced our allocation to "economic re-opening" themed positions, we are still optimistic on the consumer demand for tourism-related services. In anticipation that offline consumption may exceed market consensus, we are keeping our exposure to tourism, moderately-priced white wine and brewery stocks.

State-Owned Leading Developers Look Promising

As regards the mainland property market, our view remains largely unchanged. Indeed, during the first quarter, property sales of the leading state-owned developers have sharply beaten our forecast made at the end of last year, providing an inkling that the full-year 2023 sales volume of those leading developers may turn out to be better than market expectation. Meanwhile, we foresee that, in two to three years' time, property prices in some of the top-tier cities are likely to go up due to an under supply of new flats. Those leading state-owned developers able to refill their land banks should benefit as the valuation of those land banks should surge. To view from a longer term perspective, the China property market has peaked but it could hopefully remain stable at the 2023 level. Plus once private property developers have taken steps to clear their stocks, the investment value of leading state-owned developers will become more visible. We remain positive on this segment of property stocks in the coming months.

Good Prospects for Energy, Telecoms & Semi-Conductors

We continue to see decent investment opportunities in the energy sector, whether it be petroleum, petrochemical or coal, as they should ride on the long-term uptrend of energy prices and they should offer higher dividend yields.

In the quarter, the sector to which we had maximized our exposure was that of telecom operators. This was because the relevant listed companies were paying high dividends and we are optimistic about the development of digital economy in China. Furthermore, ChatGPT, having burst on the scene, is likely to lead to surging demand for data computation, which shall sustain the growth of state-owned telecom operators in the long term.

We are also partial towards the development of semi-conductor manufacturing chains and other high-end manufacturing sectors as their prospects should not be severely affected by the volatility of the macro economy and, in the short term, they should benefit from the rising demand brought by economic recovery. While the US and her allies have been taking steps to ban the sales of semiconductors to China and are escalating the sanctions, the move may force China to accelerate its own research and development of chips to replace foreign ones. Further, the emergence of ChatGPT signals a quickening of the dawning of the artificial intelligence era and related potential semiconductors are now accorded extra valuation premium by investors. We are hence optimistic about the long term prospects of A-share companies involved in the production of semiconductors.

In addition, there exist many high quality companies within the A-share market under the carbon-neutral theme and in connection with self-driving car manufacturing. We will keep tabs of them and continue to invest in them as and when appropriate.

Risks of the China Market

All that said, we are cognizant of the risks involved in the China market. They include the risks of changing policies with respect to different sectors, the geopolitical risks facing by China (which are ongoing and complicated) and a potential reduction of economic growth owing to the acceleration of the country's ageing population.

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