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

VL China Fund

December 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	-0.51%	-0.45%	-2.40%	0.16%
3 month	-6.07%	-5.90%	-4.46%	-3.90%
6 month	-8.13%	-7.78%	-6.38%	-8.04%
YTD	-9.31%	-8.63%	-11.10%	-10.61%
Since fund launch	-22.64%	-13.47%	-0.63%	-8.55%
NAV per unit	77.3561	86.5320	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 29 December 2023.*

Fund Facts

Manager:	VL Asset Management Limited
Fund Managers:	- Vincent Lam - Martin Zheng *(retired on 26 December 2023)*
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

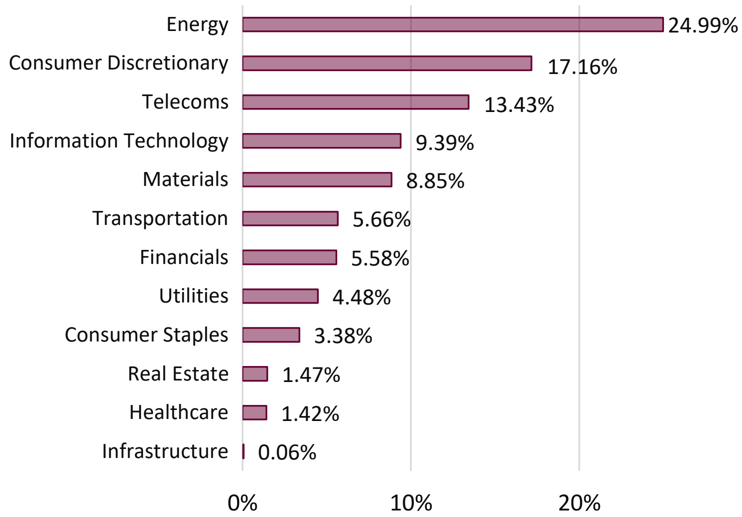
	Fund	Hang Seng Index
Price/earnings ratio	6.40X	7.96X
Price/book ratio	0.70X	0.90X
Dividend yield	7.74%	4.47%
Return on equity	10.99%	11.29%

VL China Fund

Top 5 Stock Holdings

Name	Bloomberg Code	Sector	%
CNOOC	883 HK Equity	Energy	9.23%
China Shenhua Energy	1088 HK Equity	Energy	8.96%
China Mobile	941 HK Equity	Telecoms	7.73%
Fufeng Group	546 HK Equity	Materials	6.99%
Sinopec	386 HK Equity	Energy	6.80%
Total			39.70%

Exposure by Sector



Exposure by Geography

HK	H Shares	26.61%
	Red Chips	30.86%
	P-Chips	25.16%
	HK	1.32%
	Others	2.11%
	Sub-Total	***86.07%***
China	A Shares	0.07%
	B Shares	8.99%
	Sub-Total	***9.06%***
US	ADRs of PRC companies	0.75%
	Others	0%
	Sub-Total	***0.75%***
Cash		**4.12%**
	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.
In case of any discrepancies between the English and Chinese versions of this document (except for the commentary session), the former takes precedence.

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Notice

Mr Martin Zheng, one of the portfolio managers for VL China Fund, has left our company effective 26th December 2023. Starting from the same date, Mr. Vincent Lam, Chief Investment Officer of our company, is in charge of the fund. We thank Martin for his in-depth analysis on the macro economy and listed companies during his time with us. May we wish him all the best in his future endeavors.

Review

In the second half of 2021, the fund increased its exposure to China A shares. In 2022, the Chinese government implemented a large-scale lockdown in a number of cities in response to localized outbreaks of COVID-19. Stock investors' sentiments towards the Greater China market were heavily dampened. Also, continuously rising tensions between China and the US, the Russian-Ukraine war, aggressive US rate hikes and decade-high inflation in the US and Europe further weakened sentiments.

In 2023, investors were in high anticipation of a rebound in domestic consumption due to "economic re-opening". However, the magnitude of recovery turned out to be smaller than expected. In addition, the mainland property market still needed more stimulating measures to regain market confidence.

In face of all the unfavorable factors, the fund has taken steps to reduce its holdings in China A shares since the second to third quarter of 2023. The proceeds were deployed to increase its exposure to higher-yielding China B shares and Hong Kong-listed Chinese companies. The following table shows the allocation to China A and B shares compared to Hong Kong stocks during the recent three years.

As of the end of	A Shares	B Shares	China A Shares and B Shares	Hong Kong Shares
December 2021	36.03%	1.17%	37.20%	61.03%
December 2022	32.86%	5.30%	38.16%	59.31%
June 2023	14.39%	9.71%	24.10%	72.59%
December 2023	0.07%	8.99%	9.06%	86.07%

Having considered the complexity of the investment environment and the underlying risks, when we increased our exposure or switched to Hong Kong listed equities, our top priority had been on those large cap companies with a sound business outlook and high dividend yields. Our main coverage towards the end of 2023 was as follows:

- Energy Stocks - Examples included CNOOC (883 HK), China Shenhua Energy (1088 HK);
- Telecoms Stocks - Examples included China Mobile (941 HK), China Unicom (762 HK);
- Financial Stocks – HSBC (5 HK) was a major example; and
- Raw materials – Examples included Fufeng (546 HK), a manufacturer of fermentation-based food additives and biochemical products and starch-based products.

On a yearly basis, all of the above stocks had generated investment profits for the fund. Among them, CNOOC, China Shenhua Energy and China Mobile were the top three contributors. During the full year, CNOOC stock price was up 30%, China Shenhua Energy up 18.63% and China Mobile up 25.22%. Fufeng was also among the 10 largest profit contributors to the fund.

Nevertheless, the adjustment of allocation was not timely enough to resist or offset the huge investment declines in select stocks across the consumer discretionary, mainland property and information technology sectors. The worst detractors in the year were Li Ning (2331 HK), China Resources Beer (291 HK), China Resources Land (1109 HK), Meituan (3690 HK), JD.com (9618 HK) and Tongcheng Travel (780 HK).

Outlook

The strategies of the fund over the past few years were not effective and we apologize for the dissatisfactory performance. Looking ahead, we strive to revive the fund's performance by adjusting its asset allocation and stock selection criteria. While challenges from the broader markets remain, after a series of portfolio adjustment last year, we are starting to see an improvement in the fund's performance as 2024 kicks off.

US interest rate movements, China's deflationary pressure and international geo-political tensions are the key factors which may materially affect the investment outlook of 2024. To tackle these concerns, we are taking actions to pursue the following themes:

Energy Stocks – The wars in the Middle East and Eastern Europe have formed an uptrend of global energy prices as a whole. Investment opportunities in the energy sector, whether it be petroleum, petrochemical or coal, remain decent to us.

Special Situation Opportunities – With an increasing number of listed companies trading at valuations below their respective net cash on hand, we see ample investment opportunities arising from special situations such as privatization, share buyback, divestiture of non-core/ non-performing assets as well as development of new businesses to drive growth. We have been identifying such opportunities in Hong Kong over the past 20-30 years as many major shareholders of Hong Kong-listed companies are capable and creative;

Re-Rating Opportunities of Chinese SOEs – Giant state-owned enterprises and red chips which are sanctioned by the US government and hence cold-shouldered by foreign institutional investors in recent years shall continue to extend their rallies as their outlook has become clear and they are steadily increasing dividend pay-out. Examples include CNOOC, China Mobile and China Unicom; and

Undervaluation of Traditional Big Caps – Hong Kong-listed conglomerates or big caps which are characterized by solid earnings, clean balance sheets, high dividend yields and sound corporate governance could be evergreen stars in our portfolio. Another beauty of them is that their management is willing to sharply increase dividends. HSBC is an example. These stocks have been on our radar screen for almost 30 years.

We would like to take this opportunity to express our gratitude to you and wish you a Brilliant Lunar New Year! May the Year of the Dragon bring everyone vitality, good health and great prosperity!

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