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

VL China Fund

Monthly Fund Factsheet

December 2017

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.

Performance Update*

	Class A Units	Class B Units	MSCI China (NDEUCHF)	Hang Seng Total Return Index
1 month	2.85%	3.16%	1.94%	2.56%
3 month	2.90%	3.36%	7.62%	8.84%
6 month	10.26%	11.59%	23.48%	18.10%
YTD	28.02%	29.93%	55.23%	41.04%
Since fund launch	10.11%	12.93%	41.21%	32.63%
NAV per unit	110.1069	112.9260	n/a	n/a

* *NAVs and indices as of 29 December 2017.*

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 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

Portfolio Characteristics

	Fund	Hang Seng Index
Price/earnings ratio	13.57X	12.17X
Price/book ratio	1.57X	1.28X
Dividend yield	2.78%	3.34%
Return on equity	11.56%	10.55%

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Top 5 Stock Holdings

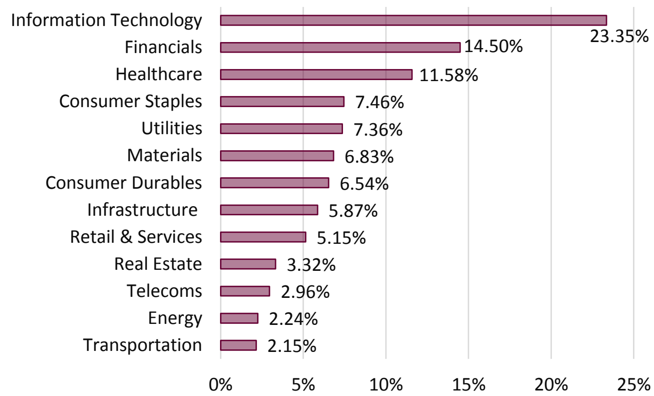
Name	Bloomberg Code	Sector	%
Alibaba Group - ADR	BABA US Equity	Information Technology	5.81%
Tencent	700 HK Equity	Information Technology	5.36%
China Construction Bank - H	939 HK Equity	Financials	3.83%
China Mobile	941 HK Equity	Telecommunication Services	2.96%
IGG Inc	799 HK Equity	Information Technology	2.77%
Total			20.74%

Exposure by Geography

Hong Kong	
H Shares	22.78%
Red Chips	12.85%
P-Chips	25.15%
HK	7.29%
Others	6.29%
China	
A Shares	12.50%
B Shares	3.47%
US	
ADRs of PRC companies	8.49%
Others	0.49%
Cash	0.69%
	100.00%

No derivative exposure; Cash refers to cash in bank, trade and dividend receivables, prepaid expenses and expense accruals.

Exposure by Sector



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%	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

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.

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VL Asset Management Limited
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VL China Fund

Commentary — Fourth Quarter 2017

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Growth stocks lift the fund up in 4Q

The fund rose in the fourth quarter (Class A: 2.90%; Class B: 3.36%) backed by a broad-based rally of our portfolio members, the top performers of which were Tencent (700 HK) and China Construction Bank (939 HK) which had respectively soared about 21% and 11% during the period.

In 2017, the fund registered investment gain of close to 30% (Class A: 28.02%; Class B: 29.93%) spurred by the strong performance by Alibaba (BABA US), Tencent, IGG (799 HK), Plover Bay Technologies (1523 HK), China Taiping Insurance (966 HK) and Sino Biopharmaceutical (1177 HK) – we put these stocks under the growth category given keen customer demand for their services/products and these businesses are expected to continue to expand. The fund also benefited from its investments in companies with turnaround expectations – those with underlying healthy businesses and whose profits are anticipated to increase significantly once temporary obstacles are removed or projected catalysts realized. China Oriental (581 HK), Transport International (62 HK) and China Construction Bank (939 HK) fall into this category.

Striving for balance with inclusion of both new and old economy counters

For the full year, the Hang Seng Total (Net) Return Index shot up approximately 41% propelled by a few big caps such as Tencent. Tencent was (and is still) held by the fund albeit not in as large a size as in the benchmark index. Securing longer term value appreciation and maintaining sustainable growth with lower-than-market volatility is always our goal and priority. Accordingly, we have rarely allowed ourselves to rely too heavily on a single stock and have tended to contain the weighting of our most convicted positions (top 5 holdings) to approximately 20% to 25% of NAV. Our investment thesis has been that a balanced investment portfolio should comprise a blend of new-economy and old-economy stocks so as to capture the best of both worlds – the boom from the technology-driven sectors riding high on an accelerating globalization trend and the steady progress of those traditional sectors which are indispensable to our daily lives. In the past year, old-economy stocks that have generated superb investment returns to the fund ranged from the materials sector (China Oriental), pharmaceutical (Sino Biopharmaceutical) to financial (China Taiping Insurance) – all of them are low-beta investments with solid business models. Also catching our eyes are new-economy players such as IT counters Alibaba and Tencent which have seen their business volume and profits soaring due to ever-stronger demand from consumers becoming highly dependent on the Internet or technology.

HK equity market not yet bearish given stable China outlook

Valuation of the Hong Kong equity market has yet to touch dangerous level and we do not see any signs that we are in the last phase of a bull market, especially when the China macro political and economic outlook appears stable. The broader market may continue to be driven by a few giant stocks in a selected number of sectors but we believe maintaining a balanced investment portfolio with a healthy mix of value and growth stocks should yield decent medium to long term risk adjusted returns.

Following the completion of the 19th National Congress of the Chinese Communist Party, regulators in different disciplines have expressed that they will step up to reduce the reliance on financial leverage. For example, the China Insurance Regulatory Commission has recently announced a series of measures to tighten the industry regulations, including the prohibition of insurers with poor asset/liability management capabilities from owning sizeable equity stakes in listed companies, the tightening of scrutiny over mid-and short-term universal life insurance products to avoid the risk of asset/ liability mismatch. Also, a number of high-profile, over-leveraged entities whose subsidiaries have been aggressive in overseas balance sheet expansion might fall into the radar screen of the China Banking Regulatory Commission (CBRC), and they may find themselves in an increasingly difficult position to refinance their already overextended debt loads. No doubt certain stakeholders will be affected with the introduction of any deleveraging measures but it will do good to the healthy development of China in the longer run.

Meanwhile, China Securities Regulatory Commission has said regulators will continue to optimize “stock connect” schemes between China and overseas markets and promote the opening-up of capital markets. CBRC has also pledged new steps toward liberalizing banking, including broadening the business scope of foreign banks. All these are suggesting the forming of a more internationalized China.

Market volatility likely to intensify; Tech remains one of our focuses

In the new year, our primary focus will be on (1) big corporations with the DNA to innovate and increase their competitive edge, be them new or old economy stocks; (2) software technology, for example, Internet/mobile service operators; (3) hardware technology such as REM (recognition memory) and manufacturers of OLED and telecoms equipment; (4) manufacturers of electric vehicles; and (5) pharmaceutical and biotech sectors. Consistent and sustainable investment results from a combination of intelligence, vision, discipline and patience and the last two aspects – discipline and patience are often the most difficult to attain. We believe market volatility will increase sharply in 2018 but so long as we remain steadfast on our long-held value-investing with a growth and catalystic approach, good investment opportunities abound. We look forward to continuing serving you and enhancing the fund’s investment returns with vision and prudency.

Our fund admitted to the CIES list

Last but not least, we announce with pleasure that the fund has been approved by the Immigration Department as an acceptable investment product for entrants of the Capital Investment Entrant Scheme (“CIES”) and is now on the List of the Eligible Collective Investment Schemes under CIES. While the CIES has been suspended with effect from 15 January 2015, the government said it will continue to process applications received before that specific date. As a result, the fund can now be a choice of investments amongst permissible assets for CIES entrants.

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