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

VL China Fund

Monthly Fund Factsheet

March 2019

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	6.22%	6.29%	2.44%	1.59%
3 month	21.91%	22.13%	17.96%	12.84%
6 month	8.93%	9.34%	5.39%	5.24%
YTD	21.91%	22.13%	17.96%	12.84%
Since fund launch	2.25%	5.77%	35.47%	33.67%
NAV per unit	102.2476	105.7670	n/a	n/a

* *NAVs and indices as of 29 March 2019.*

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	14.4X	11.24X
Price/book ratio	1.7X	1.24X
Dividend yield	3.22%	3.66%
Return on equity	11.82%	11.03%

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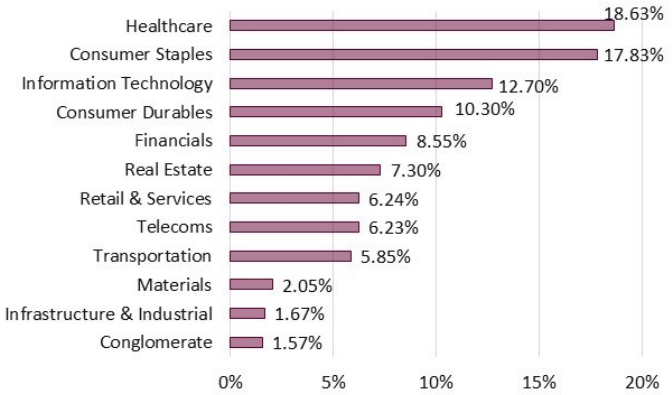
Top 5 Stock Holdings

Name	Bloomberg Code	Sector	%
Tencent	700 HK Equity	Information Technology	5.11%
Sino Biopharmaceutical	1177 HK Equity	Healthcare	4.87%
Kweichow Moutai Co Ltd	600519 C1 Equity	Consumer Staples	4.74%
Citic Telecom International Ho	1883 HK Equity	Telecommunication Services	4.36%
China Merchants Bank Co Ltd	3968 HK Equity	Financials	4.26%
Total			23.35%

Exposure by Sector



Exposure by Geography

HK	H Shares	15.09%
	Red Chips	11.00%
	P-Chips	27.76%
	HK	11.83%
	Others	5.31%
	Sub-Total	***70.98%***
China	A Shares	20.15%
	B Shares	0.80%
	Sub-Total	***20.96%***
US	ADRs of PRC companies	6.60%
	Others	0.39%
	Sub-Total	***6.98%***
Cash		**1.08%**
	Grand Total	100.00%

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

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 Managers	Kian Heng NG, Kenneth HO

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 China Fund

First Quarter Commentary

March 2019

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Strategic Actions in March

The Fund posted an investment gain of approximately 22% in the first quarter. The MSCI China Total Return Index and the Hang Seng Total Return Index was up approximately 18% and 13% respectively. Both the Hong Kong and Mainland China stock markets finished the first quarter higher notwithstanding various negativities lingering from the second half of last year such as the Sino-US trade disputes, the uncertainty of whether the US Fed would press forward with interest rate hikes and global economic growth slowing. In the end gradual monetary easing policies pursued by the central banks of US and China since the fourth quarter of last year brought liquidity and salvation to the markets.

We took some strategic actions in March to more effectively lock up profit and deploy our capital. For instance, following a sharp rally in the stock price of PRC-based consumer durable goods manufacturers, we sold one of our holdings to lock up partial profit. We also offloaded some shares in selected telecoms counters but topped up in two Chinese wine manufacturers.

Diversification to Mitigate Volatility

During the quarter, our top 3 investment gainers were Sino Biopharmaceutical (Sino Biopharm, 1177 HK), Kweichow Moutai (000519 C2) and Citic Telecom International (1883). Other key contributors included Midea (000333 C2), China Merchants Bank (3968 HK), 3SBio (1530 HK), Luzhou Laojiao (000568 C2) and Wuxi Biologics (2269 HK). As shown above and more particularly in the list of our top 5 holdings on page 2 of this report, prudence dictates that we did not rely on one single sector to generate investment profits. Instead we had diversified into several sectors (covering healthcare, consumer goods and IT). Such spread could help reduce any mark-to-market volatility should a specific sector experience~~s~~ a temporary set-back.

Patience with Quality Stocks Will be Paid Off

Prudence aside, patience is equally vital and to which every investor must pay heed (including yours truly) and Sino Biopharm, mentioned above, offers a good illustration of this investment wisdom. First listed on the Growth Enterprise Market (GEM) 20 years ago and later re-listed on the main board, Sino Biopharm is a stock which our Chief Investment Officer has been following and bought for funds/ accounts he has managed for two decades. Unlike most GEM-listed companies, it was profit-making before going public. The most profitable business the company owned was the manufacture of eye care products under the brand Bousch & Lomb, which was then sold for several billions Hong Kong dollars. The second half of last year had been a very difficult time for the PRC healthcare sector due to policy changes. Yet Sino Biopharm managed to report full-year 2018 revenue and adjusted earnings which grew 41% year-on-year (yoy) and 37% yoy in RMB terms respectively. Notably, their oncology drugs posted a strong performance, with sales reaching RMB3.2bn, up 100% yoy on the back of its newly launched anlotinib capsule which entered the national reimbursement drug list. Anlotinib is expected to win further approvals in additional indications as and when upcoming trials results are announced. We expect the company's fast growing oncology franchise to mitigate the negative revenue impact of its entecavir generic from price cuts in the centralized procurement program. So, despite the dramatic stock price decline last year, being patient with (namely buying and steadfastly holding onto) Sino Biopharm (an industry leader with solid growth prospects) would have offered a more handsome pay off than exiting at the first sight of perceived trouble and having to buy back at a price higher than the exit level.

Healthcare Companies Unveil Robust Results

Indeed during March, the PRC healthcare sector regained momentum as the annual results of most companies were largely in line and their business updates were positive – (i) most companies took the view that the current pilot program on centralized procurement may still undergo some fine-tuning before being rolled out fully and nationwide implementation of generics procurement would be towards the end of the year; (ii) R&D progress on product pipelines was satisfactory; and (iii) most companies were optimistic that their upcoming new product launches in the near to mid-term should partially offset the pricing pressures of old generic drugs.

The best outperformer among all PRC healthcare companies would be Wuxi Biologics as its FY2018 revenue and earnings respectively shot up 57% yoy and 150% yoy in RMB and their total order backlog had more than doubled in 2018 giving us good visibility into their growth prospects for 2019. Wuxi Biologics continued to gain in strength on their follow-the-molecule strategy as their global and China market share increased to 3.2% and 75.6% respectively in 2018.

A-Shares Backed by Fund Flow, Government Stimulus

On 25 March, the yield on the US 10-year Treasury note fell below that of the 3-month paper – the first time since mid-2007 that a yield curve reversal emerged triggering worries that the world's biggest economy may fall into recession. Market fear can sometimes be a good thing as investors will be more risk-aware allowing any potential upward momentum to last longer. We are not too worried about the implication of the inversion as the US yield curve has been flat for some time suggesting that it is easier to reverse than in the past. Also, the Fed's decision to delay interest rate hikes does not necessarily lead to the development of an economic downturn.

Following the China A-share market rally from January to mid-March (Shanghai Composite Index up approximately 25% over that time), foreign investors opted to stay sidelined and became passive buyers. On 28 March, the aggregate monthly value of northbound buy trade was still below that of sell trade. However, on 29th March (the last trade day), there came an influx of buy trades after a number of Chinese white horse companies (i.e. manufacturers of Chinese white wine and household electrical appliances) announced better-than-expected earnings results. At the month end, a net inflow of RMB4.4 billion was recorded though the number dwarfed when compared with the monthly net inflow of over RMB60 billion in the previous two months. It is rare to see an influx of more than RMB10 billion in one single day in the past few years and the turnaround implies that technically the momentum for A-shares should remain strong in the near term. Having said that, we are getting more cautious to top up our existing exposure as valuations of the highest equality A-shares are retreating to less compelling levels.

Economic Data Beat Forecast, China Picking Up

The latest round of China economic data was largely better than market expectation. March exports (in USD) were up 14.2% yoy and trade surplus hit a new high. Caixin China Manufacturing Purchasing Managers' Index (PMI) rebounded to 50.8 in March beating market consensus of 50 after three months of contraction. Social financing figures also exceeded market forecast. All of these hint that China's economy might have begun to pick up faster than expected. At the same time, listed companies are likely to benefit from improved liquidity environment as the government continues to stimulate the economy with increased fiscal spending, loosening monetary policies (five reductions in bank reserve requirement ratios since 2018) and tax cuts in value-added and personal income taxes. Having said that, we will always stay alert to any shift in market conditions and cautiously control our exposure having taken into account emerging potential policy and/ or investment risks.

**Index figures are dividend reinvested.*

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