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

VL China Fund

Monthly Fund Factsheet

September 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	-1.76%	-1.70%	-0.05%	1.85%
3 month	-1.39%	-1.20%	-4.39%	-7.54%
6 month	-3.87%	-3.50%	-8.68%	-7.69%
YTD	17.20%	17.86%	7.72%	4.16%
Since fund launch	-1.71%	2.06%	23.71%	23.39%
NAV per unit	98.2913	102.0614	n/a	n/a

* *NAVs and indices as of 30 September 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	11.64X	9.99X
Price/book ratio	1.37X	1.08X
Dividend yield	3.14%	4.11%
Return on equity	11.81%	10.76%

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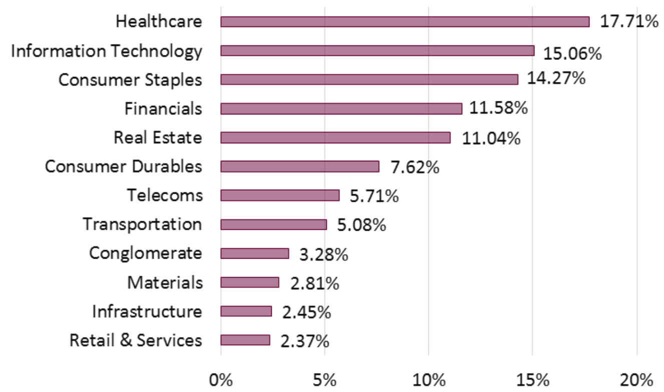
Top 5 Stock Holdings

Name	Bloomberg Code	Sector	%
Citic Telecom International	1883 HK Equity	Telecoms	5.71%
Sino Biopharmaceutical	1177 HK Equity	Healthcare	4.96%
China Merchants Bank	3968 HK Equity	Financials	4.46%
Tencent	700 HK Equity	Information Technology	4.06%
Travelsky Technology	696 HK Equity	Information Technology	3.78%
Total			22.97%

Exposure by Sector



Exposure by Geography

HK	H Shares	11.84%
	Red Chips	17.78%
	P-Chips	23.72%
	HK	11.04%
	Others	7.20%
	Sub-Total	***71.58%***
China	A Shares	23.04%
	B Shares	0%
	Sub-Total	***23.04%***
US	ADRs of PRC companies	4.00%
	Others	0.36%
	Sub-Total	***4.36%***
Cash		**1.02%**
	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 Siu Yeung
Portfolio Manager	Andy NG Kian Heng

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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Third Quarter Commentary September 2019

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Portfolio Up 17% YTD

The Fund retreated 1.39% (Class B: 1.20%) in the quarter ended September. That said, the Fund recorded an investment return of 17.20% (Class B: 17.86%) year-to-date (YTD). The MSCI China Total Return Index and the Hang Seng Total Return Index was down 4.39% and 7.54% respectively in the quarter, but up 7.72% and 4.16% YTD.

During the first nine months, the most profit-making members in the Fund were primarily PRC healthcare stocks, Chinese white liquor producers, and household electrical appliance manufacturers. The top profitable holdings included Sino Bio-pharmaceutical (Sino Biopharm,1177 HK), Kweichow Moutai (600519 CH), Luzhou Laojiao (000568 CH), Wuliangye Yibin (000858) and Midea (000333 CH), followed by China Merchants Bank (3968), Wuxi Biologics (2269), Jiangsu Hengrui Medicine (600276 CH) and Ping An Insurance (2318).

Defensiveness in Q3 Further Enhanced

During the quarter, we took partial profit on select stocks following their sharp rally YTD and deployed the proceeds to invest in laggards in the relevant sectors and defensive plays. The switching was more concentrated on the healthcare and property sectors but minor actions were also taken on consumer staples.

On a YTD basis, looking at the investment returns generated by the five biggest profitable positions respectively in the China A-share and Hong Kong universe, our positions in China A provided nearly 20% more investment gains than those listed in Hong Kong supporting our decision to increase exposure to China A-shares in the first place (from 9.3% last December to 23% as of 30 September 2019).

Healthcare Earnings Robust, Defying Market Volatility

Despite the uncertainties over Sino-US relations and the socio-political movements in Hong Kong, the earnings results released by a number of our holdings, were respectable. Among the constituent stocks of the Hang Seng Index, the most outstanding ones were Sino Biopharm and CSPC Pharmaceutical (CSPC, 1093 HK) and they have been the Fund's holdings for respectively over 2 years and 4 years. As of 30 September, their stock prices have respectively jumped approximately 115% and 42% from our respective entry price.

For the six months ended 30 June 2019, Sino Biopharm, our second biggest holding at the quarter end, posted net profit of RMB1.44 billion, up 5.8% year-on-year (YoY). Those results were widely viewed as in-line and a reaffirmed Buy rating was given by many brokers. During the first half, oncology drugs sales was RMB2.57 billion, approximately 20% of the group's revenue. Leveraging on the successful launch of the blockbuster self-developed new Category 1 medicine Anlotinib and the regulator's acceleration of approval of oncology medicines, the group expects more oncology medicines to contribute a higher portion of sales (40-50%) in the coming years. Sino Biopharm stock was up approximately 93% YTD.

Healthcare has been the Fund's largest sector since late last year and selective big players have staged a sharp rally YTD. We have therefore been keeping an eye on any signal triggering partial profit-taking and/or rotation to other laggards in the same sector. The same applies to the PRC white liquor sector as the industry continues to be underpinned mainly by consumption upgrades and higher market concentration.

Kweichow Moutai, among our top 10 positions, recently reported its first nine-month earnings – revenue was RMB60.9

billion, up 16.6% YoY with a net profit of RMB 30.5 billion, up 23.1% YoY. Third-quarter revenue stood at RMB21.5 billion, up 13.8% YoY and earnings RMB10.5 billion, up 17.1% YoY. The results were slightly below expectation but according to their management, the impact was largely due to channel adjustments since early 2019 as opposed to a change in demand. Moutai stock price was up almost 95% YTD.

China GDP Slows But A-Share Opportunities Abundant

The latest economic indicators from China were mixed. GDP growth fell to 6% for the third quarter (Q2: 6.2%) hitting the lower end of Beijing's targeted range. Yet, the Caixin China General Manufacturing PMI unexpectedly rose to 51.4 in September (August: 50.4), the strongest expansion since February 2018. The Chinese government has still within her arsenal a variety of measures to boost or support her economy (including raising infrastructure spending, loosening corporate borrowing criteria, lowering tax rates, reducing banks' required reserve ratio and enhancing the social security or welfare system). All those policies, if deployed, should help cushion the downside risks of investing in China. Besides, one should not under-estimate the growth potential arising from the consumer demand and consumption power of her citizens.

In the near term, we will watch for opportunities to invest further in China A-shares with a focus on consumer staples. We believe PRC's condiment sector may offer us such an opportunity. Condiments are central to Chinese people's dining habits. Like Chinese white liquor (Baijiu), the condiment sector is often one of the most defensive plays when the macro environment is weak.

China Remains Resilient Despite Sino-US Tensions

On the other side of the pond - the US: Many of her economic figures were disappointing suggesting business confidence continues to fall. The ISM Manufacturing Purchasing Manager's Index fell to 47.8 in September from 49.1 in August, hitting a 10-year low and missing market consensus of 50.1. As mentioned, we have been cutting exposure to the US in view of Trump's temperamental approach and only a limited level of exposure to ADRs will be maintained in the foreseeable future. Trump may threaten to delist Chinese stocks again but in our view, a full delisting of all ADRs looks highly unlikely as China may have more US dollar assets to sell – the amount of which should be far greater than the Chinese yuan assets held by US investors.

We hold no crystal ball on the outcome of Sino-US trade war, which will no doubt stay in the spotlight over the coming months. That said, the following sentence from Frederick Langbridge's poem titled "Pessimist and Optimist": "Two men look out through the same bars: One sees the mud and one the stars." reminds us that, whilst it is how we view things, we always have a choice. You know of course that we have always picked and we will continue to pick the latter view and, to serve you, preserving our energy to investing in companies with sound fundamentals at reasonable prices caused by uncertainties in the stock markets for the creation of sustainable long-term returns remains our only mission.

**Index figures are dividend reinvested.*

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