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

VL China Fund

Monthly Fund Factsheet

March 2020

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	-7.38%	-7.26%	-7.11%	-9.53%
3 month	-7.65%	-7.43%	-10.65%	-15.88%
6 month	2.51%	2.86%	1.84%	-8.85%
YTD	-7.65%	-7.43%	-10.65%	-15.88%
Since fund launch	0.75%	4.98%	25.99%	12.46%
NAV per unit	100.7537	104.9779	n/a	n/a

* *NAVs and indices as of 31 March 2020.*

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

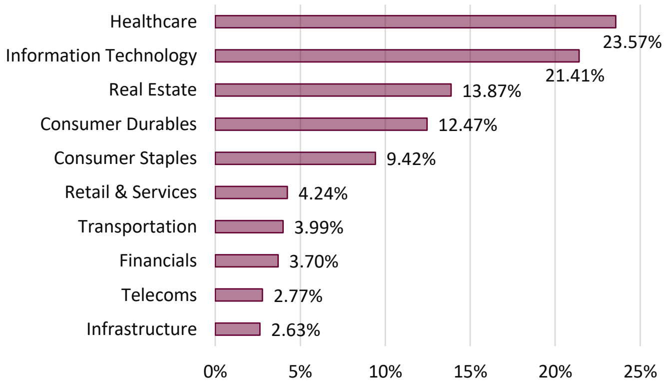
	Fund	Hang Seng Index
Price/earnings ratio	15.42X	9.51X
Price/book ratio	2.05X	0.94X
Dividend yield	2.45%	4.44%
Return on equity	13.33%	9.88%

VL China Fund

Top 5 Stock Holdings

Name	Bloomberg Code	Sector	%
Tencent	700 HK Equity	Information Technology	8.67%
Kaisa Prosperity	2168 HK Equity	Real Estate	4.85%
Wuxi Biologics Cayman	2269 HK Equity	Healthcare	4.27%
Zhongsheng Group	881 HK Equity	Retail & Services	4.12%
Alibaba Group	9988 HK Equity	Information Technology	3.98%
Total			25.89%

Exposure by Sector



Exposure by Geography

HK	H Shares	7.84%
	Red Chips	12.29%
	P-Chips	51.16%
	HK	1.84%
	Others	0%
	Sub-Total	***73.12%***
China	A Shares	20.06%
	B Shares	0%
	Sub-Total	***20.06%***
US	ADRs of PRC companies	4.66%
	Others	0.22%
	Sub-Total	***4.87%***
Cash		**1.94%**
	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

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Fund Down 7% in 1Q but Still Ahead of Indexes

For the first quarter, the Fund has contained its NAV decline to less than 8% (Class A: -7.7%; Class B: -7.4%) and stayed ahead of the MSCI China Total Return Index (MSCI China) and the Hang Seng Total Return Index (HS Index), which lost approximately 10.7% and 15.9% respectively. At the time of writing (mid-April), the Fund has rebounded by 6.3% (MSCI China: 3.4%; HS Index: 0.5%) and year-to-date, the Fund has narrowed the loss to 3.5% (MSCI China: -7.2%; HS Index: -15.5%).

During the quarter, the largest loss-making stocks included an online ticketing and travel services provider, a materials play and a real estate play. We have slightly trimmed our China A-share exposure to 20.1% (end-December: 22.6%) by offloading some Information technology counters to lock in profit given their stock price rally over the past few months.

Sentiment Dampened by Pandemic & Lock-Down

The HS Index failed to pick up in March. In fact its decline had widened in the second half, There is unfortunately no price for naming the main culprits, which were the novel coronavirus pandemic (which has led to extensive lock-down in many countries and anaemic consumption) and fall in oil prices. Also, in recent years and given the low interest rate environment, a practice has grown up locally for investors to employ high leverage to buy high-yield products made up of supposedly blue chips and exchange traded funds and stock market crash forced selling of such blue chips and ETFs to meet margin calls by banks which had provided the leverage and this in turn exacerbated the fall of the index.

Portfolio Members Unveil Robust Results

While market sentiment was frail in general, the majority of our holdings released satisfactory earnings results recently. Tencent (700 HK), the fund's biggest position by end-March, reported its 4Q2019 results which was largely in-line. Revenue was RMB106 billion, up 24.6% YoY and 8.8% quarter-on-quarter (QoQ). Social app users were stable QoQ (Mobile QQ monthly users declined 7.5% YoY/1% QoQ to 647 million, while Weixin/ Wechat monthly users were up 6% YoY/ 1% QoQ to 1.2 billion). Mobile game revenue was RMB26 billion (up 37% YoY/ 7% QoQ). Online advertising was RMB20.2 billion, with growth accelerated to 19% YoY (versus 13% in 3Q2019). Social Advertising saw faster growth of 37% YoY to RMB16.3 billion (versus 32% YoY in 3Q2019). We see ample growth potential for its Weixin Moments as its advertising load remains substantially lower than its global peers. Key risk to 2020 profitability is likely to lie in online advertising, partly due to competition and partly the impact of the coronavirus delaying (including the delay in Olympics) marketing plans of brands.

Kaisa Prosperity (1268 HK), our No. 2 holding, reported very strong operating results for full year 2019. Revenue was up 40.9% to approximately RMB1.26 billion. Net profit was up 203% to RMB163.9 million. As of 31 December 2019, net cash on hand was RMB753.9 million, up RMB46 million YoY. Trading at a prospective FY20 PE ratio of 15.5X with a PE growth rate of below 0.4X, Kaisa is one of the cheapest listed PRC property management companies (PMC). Valuation aside, it is one of the fastest growing PMCs in our research universe. Wuxi Biologics (2269 HK) was our top 3 holding. For full year 2019, revenue was up 57% YoY and net profit up 60% YoY. During the year, the number of projects continued to rise by a further 59 to 200. Among those projects, 16 were late-stage projects, according to Wuxi's management. In terms of the impact from coronavirus, they indicated that operational impact was less than one month and there had been no project cancellations. They were seeing increased interest for coronavirus projects and had already started eight programs with clients. The management expected 1H2020 to be softer with a recovery back-end loaded into 2H2020.

Stock prices of Tencent, Kaisa and Wuxi Biologics were respectively down 1.5%, 9.7%, 11.8% in March but this temporary ebb in stock prices should not affect our confidence in these companies given their good track records and positive outlook.

Embracing the Challenges

Health and safety come first – We are mindful of keeping ourselves physically fit and mentally healthy so that we can embrace the challenges in front of us. In the following paragraphs, we would like to share with you what we have done, what we are doing and what we will do in this unusual time of pandemic.

To ensure business continuity, we have split our operations team so that our settlement and valuation work can run seamlessly in case any team member cannot attend office. As regards our personnel on investment, compliance and investor relations, most face-to-face meetings with counterparties are replaced by conference calls. We are given the options to work from home or in office and most of us have chosen the latter for better productivity. Most importantly, we remain reachable during office hours.

To contain the volatility of the portfolio, we will continue to trim our positions in smaller-cap companies and switch to bigger-cap companies which are more resilient to economic downturn. As of the end of March, small and medium caps together represented 27% of our book (end-December: 32%).

Volatility is unavoidable when the Dow slides 2,000 points in one day and rebounds 2,000 points another day. That said, any short-term market volatility is not going to distort or affect our longer term investment strategy.

To capture bargain hunting opportunities – Under an adverse business environment, some segments or sectors will undergo consolidations, after which only those with quality (good fundamentals and strength) or having assets with a scarcity feature (e.g. biotech companies with unique skillset) will survive. Also, those with sustainable business themes (e.g. IT companies, data and electronic payment operators) will stand out. We will keep watching out for such opportunities.

China Expected to Rebound Amid Sound Fundamentals

China's economy shrank by 6.8% in the first quarter of 2020, the first contraction since 1992. The extensive shutdown over the past quarter had almost halted all PRC economic activities. However, different sectors have now begun to resume operation and GDP should recover. Indeed FY2020 growth may return to the positive territory hitting 2% or more given China's sound fundamentals (relative to most western countries, China is backed by high domestic savings ratio, robust consumption power and healthy government reserve). Of course, one assumes there is no second wave of virus outbreak. To date and despite an ineffective start China has fought back the coronavirus outbreak.

Index PB at Record Low; Hong Kong Stocks Undervalued

Similarly Hong Kong's economy faces big challenges ahead – unemployment is trending up, rents are likely to decline substantially and enterprises dependent on human interactions (small to medium ones, in particular) may topple due to the lack of cash flow or business suspension. Some fear that the HS Index might fall back to 18,000 or even 15,000 but that view may be unduly pessimistic. The fact is that, at around 21,000, the HS Index is already trading below 0.9X PB, an all-time low - even lower than in 2008 when the subprime crisis hit. In mid-April, with a current PB at roughly 1.0X, Hong Kong equities are in general undervalued and that presents an opportunity for us to buy select quality stocks.

Don't be Unduly Pessimistic on Sino-US Relationship

We believe also that panic selling in Hong Kong may have peaked on the third week of March, and going forward, individual stock performances should be back on track - driven largely by their respective fundamentals and earnings outlook as opposed to market momentum. Furthermore, as mentioned in our previous newsletters, more than 80% of the locally listed companies have their profits derived from China. The fate of the Hong Kong equity market hinges primarily on the economic prospects of China and China's relationship with the US (the former we remain confident of and although we are less certain about the latter, one should not be unduly pessimistic about it given the symbiotic nature of that relationship). Whilst the pandemic has yet to be subdued and it may take quite some time for lives to return to normal and the global economy to recover, there is every reason to believe that the Greater China region shall rebound faster and farther than the other parts of the world based on the effective measures taken by China to date to combat the coronavirus.

With the fundamental analysis that we have been doing on companies (and which we will continue to do), we are in a good position to seek out stocks which may benefit from a post-pandemic recovery.

Staying well and staying calm. With this in mind, we can look further and make wiser decisions.

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