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

VL China Fund

Monthly Fund Factsheet

June 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 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 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	9.31%	10.62%	8.96%	7.34%
3 month	21.24%	23.02%	15.28%	4.64%
6 month	11.97%	13.88%	3.00%	-11.98%
YTD	11.97%	13.88%	3.00%	-11.98%
Since fund launch	22.16%	29.14%	45.24%	17.68%
NAV per unit	122.1560	129.1426	n/a	n/a

* *NAVs and indices as of 30 June 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 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.

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	21.64X	10.51X
Price/book ratio	2.63X	0.93X
Dividend yield	1.62%	3.89%
Return on equity	12.16%	8.82%

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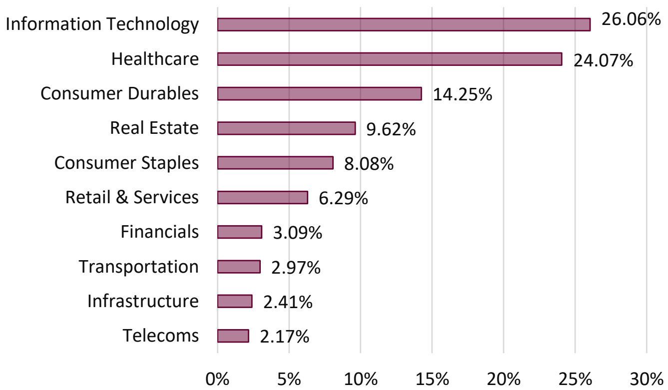
Top 5 Stock Holdings

Name	Bloomberg Code	Sector	%
Tencent	700 HK Equity	Information Technology	9.32%
Wuxi Biologics	2269 HK Equity	Healthcare	4.29%
Zhongsheng Group	881 HK Equity	Retail & Services	4.12%
Alibaba Group	9988 HK Equity	Information Technology	3.73%
Wuliangye Yibin	000858 C2 Equity	Consumer Staples	3.60%
Total			25.06%

Exposure by Sector



Exposure by Geography

HK	H Shares	9.81%
	Red Chips	4.44%
	P-Chips	52.50%
	HK	1.83%
	Others	0%
	Sub-Total	***68.58%***
China	A Shares	25.85%
	B Shares	0%
	Sub-Total	***25.85%***
US	ADRs of PRC companies	4.31%
	Others	0.25%
	Sub-Total	***4.57%***
Cash		**1.00%**
	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	Ringo SINN Pak Ming

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.

Address: Unit 1807, FWD Financial Centre, 308 Des Voeux Road Central, Sheung Wan, Hong Kong
Tel: (852) 2851 8177, (852) 2851 8581 Fax: (852) 2851 8580 Email: enquiry@vlasset.com Website: www.vlasset.com

VL China Fund

Second-Quarter Commentary June 2020

Fund Surges Over 21% in 2Q Outpacing Indices

For the second quarter, the Fund's net asset value (NAV) was up more than 21% (Class A: +21.24%; Class B: +23.02%) outperforming the MSCI China Total Return Index and the Hang Seng Total Return Index (Hang Seng Index), which rose 15.28% and 4.64% respectively.

During the quarter, the Fund's most profitable stocks were Tencent (700 HK; stock price up 31.14% quarter-on-quarter (QoQ)), ZhongSheng (881 HK; up 58.30% QoQ), Meituan Dianping (3690 HK; up 83.56% QoQ), Innovent Biologics (1801 HK; up 75.84% QoQ) and Wuxi Biologics (2269 HK up 41.09% QoQ) . These five outperformers accounted for approximately 24.52% of the portfolio's NAV, among which Tencent constituted our biggest position.

On regional books, China A-share composition was expanded to 25.85% (March: 20.06%) while those of Hong Kong dropped to 68.58% (March: 73.12%). US stocks, mostly listed ADRs, also dropped slightly to 4.57% (March: 4.87%). These allocation manoeuvres enabled the NAV of Class A and Class B units to appreciate by 21.24% and 23.02% respectively QoQ, sharply outpacing Hang Seng Index which rose only 4.64% during the same period.

Select HK & China-A Growth Stocks Outperform

For the first half, the Fund's NAV shot up by more than 10% (Class A units: 11.97%; Class B units: 13.88%). MSCI China was up 3.00% while the Hang Seng Index was down by 11.98%. The Fund's performance was a combined result of (i) our increased exposure to China A-shares; and (ii) our ability to identify the right sectors through picking up undervalued stocks or hidden jewels.

During the half year, the biggest profit-generating book was Hong Kong which made an investment gains of 10.87%, followed by China A-share which gained 4.78% and US by 0.33%. Tencent, Innovent Biologics, Meituan, Zhongsheng and Kaisa Prosperity (2168 HK) were the top performers among all positions in the Fund. As for our China book, C&S Paper (002511 C2) and Wuliangye (000858 C2) were the biggest profit contributors.

Sector-wise, among the top 10 investment return contributors, more than one third were healthcare companies, followed by information technology (IT) and consumer discretionary (each close to one-fourth). Real estates and consumer staples each took up approximately one-tenth.

China Recovery on Track

China's economic recovery looks to be on track and speeding up as many of the latest macro data beat consensus by a large extent. For example, trade surplus widened to US$6.29 billion in May (April: 4.23 billion) and official manufacturing PMI (Purchasing Managers Index) improved to 50.9 (May: 50.6). The Caixin Manufacturing PMI (which covers private enterprises and listed companies hence widely regarded as more representative) hit 51.2 in June, the highest since December and a further improvement from May's 50.7 beating consensus of 50.5.

Focus on Economic Data while Watch for Political Risks

The second-quarter GDP recently released by China stood at 3.2%, suggesting a strong recovery from the 6.8-percent contraction caused by the coronavirus lockdown in the first quarter. That said, there are queries, in the market, on the accuracy of the figures. On the political front, there have been escalating confrontations between China and other countries since weeks ago. The world is also watching how Sino-US relations will develop and so we too are reviewing if political risks may increase. That said, in carrying out our duty as your portfolio manager, we believe it is more useful to focus more on economic data and channel checks as opposed to zooming in political noises. We have said some years ago that GDP is not necessarily positively correlated to the performance of stock markets. The crux to capture value appreciation of stocks is to pick only those with solid fundamentals and growth outlook.

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Second-Quarter Commentary June 2020

Opportunities in A-Shares Remain

The sharp rally of select A-shares over the past one to two years may have scared some investors away. Nonetheless, our research findings show that a number of those stocks are still worth investing in the middle to longer term and their valuations are not particularly higher than their global peers. Our longstanding investors may recall what we had stated in our February 2019 newsletter - “If one is reluctant to invest in A shares merely due to the tensions between the US and China, one might miss a golden investment opportunity which may only emerge once in a decade.”

With abundant liquidity in the financial market due to quantitative easing programs by major countries, and a persistently low interest rate environment, asset prices of many “new economy” stocks have been pushed higher while certain “old economy” stocks see their stock price under pressure due to worsening fundamental. Going forward, we will continue to maintain a balanced exposure to both new and old economy stocks that are unaffected by the changing habits of consumers. For instance, IT companies benefiting from increased online consumption habits (such as Tencent and Meituan) should keep up their business volumes, and the property management sector should be able to boost their revenue and profits amid rising demand. A-Living (3319 HK) has just issued a profit alert that it expects at least 35% year-on-year growth in net earnings in 1H20E due to a significant increase in GFA and improved operation efficiency.

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