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

VL China Fund

Monthly Fund Factsheet

September 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 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	-2.28%	-2.44%	-2.74%	-6.45%
3 month	10.07%	11.15%	12.49%	-2.72%
6 month	33.45%	36.74%	29.67%	1.79%
YTD	23.24%	26.58%	15.86%	-14.37%
Since fund launch	34.45%	43.55%	63.38%	14.48%
NAV per unit	134.4512	143.5459	n/a	n/a

* *NAVs and indices as of 30 September 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	20.21X	10.82X
Price/book ratio	2.53X	0.96X
Dividend yield	1.63%	3.61%
Return on equity	12.54%	8.83%

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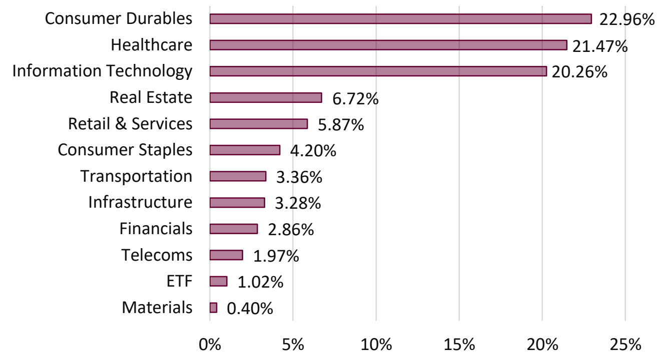
Top 5 Stock Holdings

Name	Bloomberg Code	Sector	%
Tencent	700 HK Equity	Information Technology	8.37%
Alibaba Group	BABA US Equity	Information Technology	4.27%
Wuxi Biologics	2269 HK Equity	Healthcare	4.20%
Zhongsheng Group	881 HK Equity	Retail & Services	4.19%
Midea Group	000333 C2 Equity	Consumer Durables	3.62%
Total			24.65%

Exposure by Sector



Exposure by Geography

HK	H Shares	10.49%
	Red Chips	4.01%
	P-Chips	46.24%
	HK	2.08%
	Others	2.92%
	Sub-Total	***65.75%***
China	A Shares	23.31%
	B Shares	0%
	Sub-Total	***23.31%***
US	ADRs of PRC companies	5.12%
	Others	0.20%
	Sub-Total	***5.32%***
Cash		**5.62%**
	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.

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

Third-Quarterly Commentary September 2020

Fund Up Over 23% YTD Outshining Major Indices

The Fund extended its gain in the third quarter ended September (Class A up 10.07%; Class B up 11.15%). For reference, the MSCI China Total Return Index ("MSCI Index") was up 12.49% while the Hang Seng Total Return Index ("Hang Seng Index") headed off 2.72% in the quarter.

For the nine months through September, the Fund's Class A was up 23.24% and Class B up 26.58%. The MSCI Index was up 15.86% while the Hang Seng Index was down 14.37% during the same period.

During these nine months, the Fund's top 5 investment gain contributors were Wuxi Biologics (2269 HK), followed by Tencent (700 HK), Meituan (3690 HK), Zhongsheng (881 HK) and Innovent (1801 HK).

Our Picks Unveil Beating Profits Defying Weak Sentiment

Market sentiment remained frail in general amid slowed economic activities due to COVID-19 pandemic and geo-political tensions. Nonetheless, the majority of the companies we invested in were able to deliver results either in line with or above our forecast.

For instance, our biggest position Tencent recorded revenue of RMB114.88 billion in the quarter ended 30 June 2020, up 29% year-on-year (YoY) and net profit of RMB33.1 billion, up 37% YoY. Notwithstanding such sound results, some are concerned that its outlook may be overshadowed by the swinging policies of the US which may refrain WeChat (the messaging app owned by Tencent, which serves users outside Mainland China) from running its business in the US. Our initial view is the US market may account for only a tiny portion of Tencent's income. In 2019, Tencent's revenue from outside the territory of Mainland China represented only less than 5% of its total and a majority of that was from its Finland subsidiary Supercell. However, given the deteriorating Sino-US relations, we will closely monitor if any policies may restrict Tencent's international expansion.

Take Zhongsheng, among the Fund's top 5 holdings, as another example. As one of the largest automobile distributors in the PRC, the company announced that for the six months ended 30 June 2020, total revenue was up 1.4% YoY to RMB58.2 billion and net profit up 10.1% YoY to RMB2.3 billion. New car sales volume was down 7.8% YoY to 197,000 units but new car margin was 3.0% (vs 2.7% in 1H2019, and 2.8% in 2H2019), which was better than the market had expected.

WuXi Biologics, also among our top 5, beat market consensus in terms of both revenue and profit - revenue was up 21% YoY to RMB1.94 billion (consensus was zero growth) whilst adjusted net profit rose 40.7% to RMB734 million. The company managed to sign 38 new projects in the first half of 2020, greatly surpassing its previous guided target of 20. The surprise mainly came from contributions from COVID-19 related projects as well as non-operating income such as foreign exchange and investment gains. In spite of the impact from the pandemic and escalating Sino-US tensions, WuXi management foresees continuing strong outsourcing demand. As a global leader in the outsourcing industry, WuXi is well positioned to sustain strong growth in the near term and our conviction in the stock remains unchanged.

China's Growth Improving Despite US Tensions

In the near to middle term, China's growth momentum is likely to be continually overshadowed by US-China tensions, geopolitical hostility from overseas countries and the potential falling of certain high profile companies in the banking or property sectors caused by high gearing and unhealthy debt-to-asset ratios. Nevertheless, China has thus far fought off the pandemic and, backed by robust domestic consumption and stable exports growth (thanks to strong global demand for medical equipment and work-from-home technology equipment), China's economy is steadily picking up steam. This is no mean feat as many other parts of the world are still implementing lockdown rules to combat the virus hence hindering their economic recovery.

China's GDP expanded 4.9% YoY in the third quarter, weaker than market consensus of 5.2% but faster than the 3.2% increase in the second quarter. For the first nine months of the year, her GDP grew 0.7%, recovering all the lost ground in the first half.

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Third-Quarterly Commentary

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Yuan in Rising Demand; Domestic Consumption Robust

The strength of the Chinese yuan and rising global demand for this currency are also worth-noting. Global capital has been flowing to yuan-denominated assets at high speed ever since the outbreak of COVID-19, and that has urged the Chinese government to, in early October, uplift the yuan shorting restrictions imposed on foreign capital. Under this overlay, the prospect of the yuan should not be overlooked. Furthermore, China's government bond yield is the highest among all major economies in the world at present.

The world's spotlight is on the upcoming presidential election in the US (set for 3rd November) but whoever wins finally does not matter too much as the US political and legal systems are well established. The macro performance and economic fundamentals of the US as a country, we would suggest, play a bigger part. The China policy by Donald Trump versus Joe Biden may well be very different affecting the outcome of the current Sino-US trade war and/ or technology war but we believe China's domestic consumption power should be strong enough to offset this unfavorable external factor.

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