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

VL China Fund

Monthly Fund Factsheet

December 2020

Important Notice

It has come to our notice that someone has been using the name and photograph of our director and Chief Investment Officer, Mr. LAM Siu Yeung, and placing adverts on Facebook offering free investment tutorials and inviting the public to join. Those adverts are without Mr. LAM's permission and are completely fake. Mr. LAM has filed a written complaint with Facebook about those false adverts. The SFC and the Hong Kong Police have too been notified. Please be aware that those adverts may be some form of a scam to elicit personal data (including bank account details) from the unsuspecting public. Both Mr. LAM and VL Asset Management Limited reserve the rights to take legal actions against the imposter/ perpetrator.

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	7.19%	7.90%	2.78%	3.39%
3 month	14.27%	15.81%	11.26%	16.24%
6 month	25.77%	28.73%	25.15%	13.09%
YTD	40.83%	46.59%	28.90%	-0.46%
Since fund launch	53.64%	66.24%	81.77%	33.08%
NAV per unit	153.6400	166.2401	n/a	n/a

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.

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

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

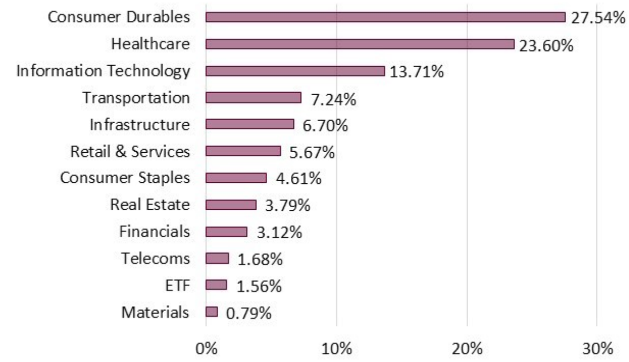
	Fund	Hang Seng Index
Price/earnings ratio	26.86X	10.8X
Price/book ratio	3.13X	1.08X
Dividend yield	1.26%	3.40%
Return on equity	11.65%	10.04%

VL China Fund

Top 5 Stock Holdings

Name	Bloomberg Code	Sector	%
Tencent	700 HK Equity	Information Technology	7.98%
Wuxi Biologics	2269 HK Equity	Healthcare	5.93%
Pharmaron	3759 HK Equity	Healthcare	4.52%
Midea Group	000333 C2 Equity	Consumer Durables	4.42%
SITC International	1308 HK Equity	Transportation	3.85%
Total			26.71%

Exposure by Sector



Exposure by Geography

HK	H Shares	14.61%
	Red Chips	2.66%
	P-Chips	44.97%
	HK	2.27%
	Others	4.20%
	Sub-Total	***68.71%***
China	A Shares	27.39%
	B Shares	0%
	Sub-Total	***27.39%***
US	ADRs of PRC companies	3.74%
	Others	0.17%
	Sub-Total	***3.91%***
Cash		**-0.02%**
	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	Ringo SINN Pak Ming

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The information published here is current as at the date of publication but is subject to change without notice. If you are in any doubt about any of the information contained herein, you should consult your professional adviser.

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.

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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 8587 Fax: (852) 2851 8580 Email: enquiry@vlasset.com Website: www.vlasset.com

Fund Rises Over 40% YTD; Hang Seng Index Down

VL China Fund rallied more than 7% (Class A: +7.19%; Class B: +7.90%) in December (MoM). For the full-year ended 31 December 2020 (YTD), the two classes were up 40.83% and 46.59% respectively. MoM, the MSCI China Total Return Index was 2.78% higher (YTD: +28.90%) and the Hang Seng Total Return Index* up 3.39% (YTD: -0.46%).

In December, our fund outshone the boarder market. The sharp rallies of healthcare positions we picked (including Wuxi Biologics (2269 HK; up over 33% MoM), Phamaron Beijing (3759 HK; up 39% MoM) and Innovent Biologics (1801 HK; up 60% MoM)) played a role in it. The healthcare sector bounced back following the announcement by the National Healthcare Security Administration that 119 drugs were added to the 2020 National Reimbursement Drug List (NRDL) with an average price cut of 50.64%, which was largely in-line with market consensus. On the other hand, Alibaba ADR (BABA US) and Alibaba (9988 HK) fell over 11% MoM on news that the Chinese government would launch an anti-trust investigation into the e-commerce giant and at the same time tighten regulation on micro-finance business operators including Ant Group. The latter has resulted in the cancellation of the initial public offering of Ant Group.

Portfolio Review and Reflections

During the year, the fund's investment gains were largely attributable to our growth strategy. Among our top ten investment gain generators, five were consumer staples/ durables, another three being pharmaceutical companies, and the remaining an industrial, and an IT play respectively. Despite the impact of COVID-19, we topped up or added several pharmaceutical and consumer growth stocks which benefit the most from the recovery of China economy. Our biggest investment gains came from companies with solid business models, which included Wuxi Biologics, Tencent (700 HK), Meituan Dianping (3690 HK), Innovent Biologics, Zhongsheng (881 HK), Pharmaron, Midea (000333 CH) and SITC (1308 HK).

We stated about three years ago that the prominent investment theme ahead would be on healthcare, consumer-related sectors and information technology (IT). Our conviction in that direction remains unchanged. On healthcare, China's aging population and her citizens' propensity to increase spending on healthcare signal that the structural growth potential of the sector remains exponential and we believe the booming could easily extend to the next decade. The lockdown in the first quarter had hard hit China's consumption sector in general but, with a gradual re-opening since the second quarter, select consumer-related companies picked up fast in the remainder of the year. China's leading auto dealer Zhongsheng Group (stock price up 73% YoY) and C&S Paper (002511 C2; up 64% YoY) were some of the examples. On IT plays, as more spenders are switching from offline to online shopping and the usage of electronic payment gateways and mobile apps has become more widespread, many IT platforms are likely to record continued growth. That said, competition could appear fiercer ahead.

Upcoming Focus: New Energy, Transportation, Healthcare

Consumer staples/durables and healthcare were the top two sectors that created the most of investment returns to the fund in 2020. To boost household incomes and consumption, Chinese President Xi Jinping had raised the "internal circulation" strategy (rely mainly on the domestic cycle of production, distribution and consumption for the country's development) months ago. In light of this, we find it sensible to have more research and investment focus on the transportation sector and Chinese consumer brands in the coming year. In addition, all -electric vehicles and renewable energy could be an increasingly important theme in a multi-year horizon. Having said that, we will stay alert on any policy risks (such as GPO tendering for the healthcare sector).

As a disciple of value investing with a growth mindset, we take pride in going through a rigorous but exciting investment process when exploring, analyzing and monitoring stocks plus plenty of soul-searching. So, under such a peculiar climate last year, one of the questions we kept asking ourselves was "To chase beta or to be flexible and hold our guns?" Investors who know us well can tell that our answer is the latter. We are clear that the best way to preserve your wealth is to run an all-weather and sleep-well portfolio which is diversified enough and sustainable for the middle to longer term.

China's Recovery on Track But Exports May Slow

Looking into 2021, the crux of the global recovery lies in the effectiveness of vaccines. The market regards the launch of vaccines as good news but, once it is widely factored in, further positive factors will be needed to keep the upward momentum of stock prices. Separately, for China in particular, as her exports were boosted by her economic re-opening (which came in March, much earlier than most other countries), her exports base was higher in 2020. There is a chance that the growth momentum may weaken in the coming year.

Sino-US tensions continue to be a challenge. While we believe the new US president will adopt a less hostile policy towards China, the trade barriers might not be removed overnight and Joe Biden might re-propose the Trans-Pacific Partnership (TPP) which might effectively hit China's exports to countries including Australia, Japan and Singapore. Also, some investors are worried about China's liquidity tightening – one of the signs was the "three red lines" targeting property developers since the third quarter of 2020. Having said that, China's latest macro data suggested that economic activities are still sound. Caixin manufacturing PMI for December was 53, the eighth consecutive month of expansion though missing the consensus of 54.8 and down from November's 54.9. Further, China reported a YoY increase of 6.5% for the fourth quarter and a 2.3% increase for full-year 2020, beating analysts' forecasts and making China the only major economy to register positive growth in 2020.

Keep an Eye on Liquidity & Rates

Global liquidity and interest rates are important indicators to watch too. If the recovery pace in 2021 is slow, some of the major central banks might keep printing money leaving liquidity abundant. Interest rates might continue to linger near zero level. We will keep an eye on any sign of stagflation or shrinking global demand exposing financial assets to higher risks.

As regards our positioning, our stock-picking criteria will as always be based on the visibility, scarcity and business qualities of the companies we choose, as opposed to a simple differentiation between old economy and new economy stocks, or between recovery and growth plays.

2020 was such an exceptional year shackled by COVID-19, during which people were forced to keep a social distance in order to stay safe. For us, notwithstanding that on-site interviews with listed companies were transformed into virtual conferences, our team ploughed on, knowing full well that there are opportunities in every crisis, and our work has been amply rewarded - the fund hit another record high with a full-year performance of 40.83% for Class A shares and 46.59% for Class B.

With your keen support and trust, we are ready as ever to brave challenges ahead and build on the foundation laid more than a decade ago. We take this opportunity to express our gratitude to you and we wish you a Happy Lunar New Year and may the Year of the Ox bring everyone vitality, good health and great prosperity!

**Index figures are dividend reinvested.*

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