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

VL China Fund

Monthly Fund Factsheet

June 2021

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 to place **adverts on WhatsApp, Facebook and Telegram offering free investment tips or tutorials and inviting the public to join. Those adverts are without Mr. LAM's permission and are completely fake.** Mr. LAM has filed written complaints with the platform operators. 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) and possibly money from the unsuspecting public and do not succumb to such scam. 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	1.67%	1.83%	0.16%	-0.67%
3 month	8.04%	9.01%	2.16%	2.69%
6 month	10.41%	12.03%	2.00%	7.36%
YTD	10.41%	12.03%	2.00%	7.36%
Since fund launch	69.63%	86.24%	85.40%	42.87%
NAV per unit	169.6345	186.2352	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 30 June 2021.*

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	21.37X	12.73X
Price/book ratio	2.77X	1.28X
Dividend yield	1.73%	2.77%
Return on equity	12.98%	10.09%

VL China Fund

Top 5 Stock Holdings

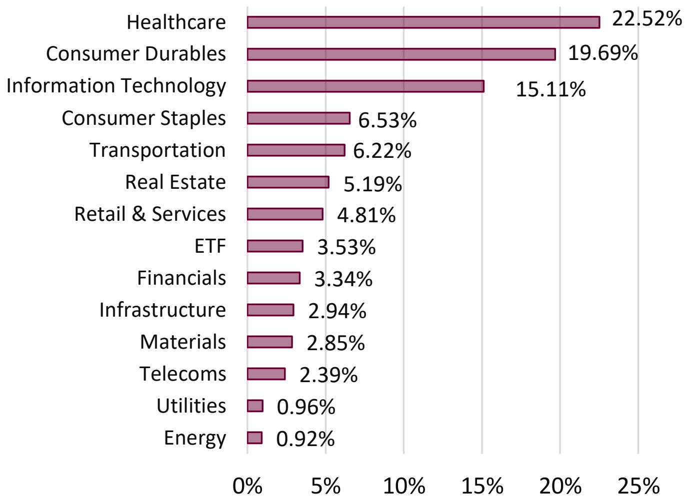
Name	Bloomberg Code	Sector	%
Tencent	700 HK Equity	IT	6.93%
Pharmaron	3759 HK Equity	Healthcare	4.72%
Wuxi Biologics	2269 HK Equity	Healthcare	4.55%
SITC International	1308 HK Equity	Transportation	4.34%
Mindray Bio-Medical Electronics	300760 C2 Equity	Healthcare	3.49%
Total			24.04%

Exposure by Geography

HK	H Shares	13.77%
	Red Chips	2.56%
	P-Chips	46.03%
	HK	3.70%
	Others	2.63%
	Sub-Total	***68.70%***
China	A Shares	23.41%
	B Shares	1.03%
	Sub-Total	***24.44%***
US	ADRs of PRC companies	2.97%
	Others	0.90%
	Sub-Total	***3.87%***
Cash		**2.99%**
	Grand Total	100.00%

No derivative exposure; Cash refers to cash in bank, trade and dividend receivables, prepaid expenses and expense accruals.

Exposure by Sector



Terms & 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%	
Redemption fee	nil	5%
Management fee	1.5%	0.75%
Performance fee (high on high)	15%	7.5%
Lock-up	nil	3 years
Dealing day	daily (HK business day)	

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VL China Fund

Fund rises over 10% in first half

The fund rose 8.04% (Class A units) and 9.01% (Class B units) in the second quarter. During the same period, the MSCI China Total Return Index (MSCI China Index) was 2.16% higher and the Hang Seng Total Return Index* (Hang Seng Index) up 2.69%.

In the six months ended 30 June 2021, the fund rallied more than 10% (Class A: +10.41%; Class B: +12.03%). The MSCI China Index was 2% higher and the Hang Seng Index up 7.36%.

Geo-diversification plus precise identification

The adoption of a strategy of keeping a well diversified geographical allocation and picking the right companies in the right sectors (namely, those which are more likely to attain secular business and revenue growth) has enabled the Fund to grow its NAV steadily despite market volatility and uncertainty.

During the first half, the fund made a return of over 10%, remarkably outshining the MSCI China Index which had little weighting in healthcare counters. The fund also slightly outperformed the Hang Seng Index, 37% of which was made up of financial stocks. Investors who have closely followed us know well that we have favored healthcare as early as in 2014 and this investment theme has been yielding decent returns for our portfolios.

Healthcare and consumption – top investment themes

SITC International (1308 HK), Pharmaron Beijing (3759 HK), Wuxi Biologics (2269 HK), CanSino Biologics (6185 HK) and Xinte Energy (1799 HK) were the biggest profit generators of the fund during the past six months.

While healthcare remained our top sector, we were paying more attention to explore undervalued stocks in the consumer sector. Viva China (8032 HK), relatively new in our portfolio as we built this position last year, was among our top 10 profitable stocks. Viva is the holding company of Li Ning (2331 HK; founded by former Olympic gymnast Li Ning). Apart from owning a number of apparel and footwear brands including Bossini and Clark, its business also cover sports talent management as well as competition and event organizing.

Tightening threats may ease amid market liquidity

The broader markets are clouded by worries that global economic recovery may be disrupted by a new wave of pandemic as more delta variant cases are reported. At the time of writing, US 10-year bond yield, having shown a downtrend since April, fell further to around 1.2%. Accordingly, we believe the Federal Reserve may not tighten its quantitative easing measures as it takes the view that inflation is only temporary/ transitory. The pace of global recovery therefore depends largely on how the pandemic pans out.

That said, even if the pandemic worsens, with abundant capital in the global market, most corporates will manage to survive backed by their government and select sectors can continue to grow with specific demand.

What targets to pick to avoid policy risks?

As regards China, the Communist Party of China has recently celebrated its 100th anniversary. Stability will continue to be the core theme of the Chinese leadership. Against this backdrop, the Central Government has rolled out policies targeting the property, technology and education sectors over the past months and we have been avoiding companies with high policy risks. The following examples may help illustrate how we have refined our investment strategy to counter the above-mentioned risks and generated alpha for our fund.

On **healthcare** - We have been leaning towards CRO companies – A CRO is a Contract Research Organization which provides clinical research and testing services to pharmaceutical, biotechnology and medical device industries. High entry barrier but inelastic customer demand means CRO companies can enjoy high margin and high earnings visibility. Pharmaron and Wuxi Biologics fall into this category and have been our star performers year-to-date (YTD). Pharmaron's stock price was up 58% YTD and Wuxi up 38% YTD. Valuations of these stocks may look high but considering that their earnings growth may be maintained at 40-50% annually, we are confident to keep them as our core positions.

On **electric vehicle-related theme** – In light of the global pursuit of green living, demand for electric passenger cars and other vehicles should be on the rise. While most investors may focus on the electric vehicle manufacturers, we hold our spotlight on manufacturers in the supply chain of this high growth industry instead. One example is Contemporary Amperex Technology (300750 C2) listed in Shenzhen. As a major manufacturer of power battery systems, energy storage systems and lithium battery materials, the company is securing huge orders and we anticipate that its annual earnings can rise by 30% to 50%.

On **consumption** – Business performance in the consumption sector can be polarized but select manufacturers do benefit from the rise of China-centric design (China Chic, 國潮股) as in-bound travel has boosted domestic consumption. Domestic brand awareness and recognition have enhanced the values of Chinese brand owners. Sportswear manufacturers (including Anta Sports (2020 HK)) is an example. We hold this stock primarily due to its high growth and minimum policy risk.

Cautiously positive on China in medium/ longer term

Despite having to combat intensified political confrontations on the global stage, China, with its huge domestic market and structural socio-economic transformation, is expected to extend its growth story and is widely forecasted to record GDP of not less than 6% in 2021. In general, we remain cautiously positive about the medium to longer term outlook of the Greater China market and will seek opportunities to bargain hunt undervalued stocks.

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