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

VL China Fund

Monthly Fund Factsheet with Annual Review

December 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	-4.08%	-4.01%	-3.14%	-0.31%
3 month	-3.58%	-3.40%	-5.92%	-4.69%
6 month	-18.29%	-17.98%	-22.82%	-17.97%
YTD	-9.78%	-8.11%	-21.28%	-11.94%
Since fund launch	38.61%	52.75%	43.09%	17.19%
NAV per unit	138.6117	152.7530	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 2021.*

Fund Facts

Manager:	VL Asset Management Limited
Fund Managers:	Martin Zheng, Vincent Lam
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

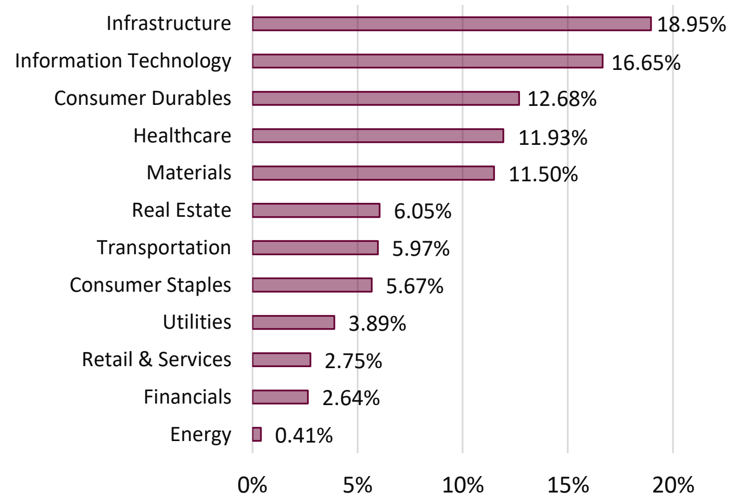
	Fund	Hang Seng Index
Price/earnings ratio	13.77X	10.94X
Price/book ratio	1.93X	1.14X
Dividend yield	2.53%	3.17%
Return on equity	14.00%	10.43%

VL China Fund

Top 5 Stock Holdings

Name	Bloomberg Code	Sector	%
Tencent Holdings Ltd	700 HK Equity	Information Technology	7.06%
SITC International Holdings Co	1308 HK Equity	Transportation	4.56%
China Resources Power Holdings	836 HK Equity	Utilities	3.89%
China Everbright Environment	257 HK Equity	Infrastructure & Industrial	3.54%
Hang Zhou Great Star Industrial	002444 C2 Equity	Consumer Durables	3.53%
Total			22.58%

Exposure by Sector



Exposure by Geography

HK	H Shares	9.86%
	Red Chips	10.24%
	P-Chips	39.06%
	HK	0.70%
	Others	1.16%
	Sub-Total	***61.03%***
China	A Shares	36.03%
	B Shares	1.17%
	Sub-Total	***37.21%***
US	ADRs of PRC companies	0.85%
	Others	0%
	Sub-Total	***0.85%***
Cash		**0.91%**
	Grand Total	100.00%

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

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 finished 2021 with a drawdown of near 10% (Class A: -9.78%; Class B: -8.11%) with both classes down approximately 4.1% in December. Meanwhile, the MSCI China Total Return Index had tumbled 21.28% in full-year 2021 (down 3.14% in December) and the Hang Seng Total Return Index had dropped 11.94% (down 0.31% in December).

Monthly Review

The sentiments of the Hong Kong and China equity markets remained lackluster and healthcare stocks faced a further sell off. Against this background and despite the generally sound fundamentals of companies in our portfolio, the value of our fund was pulled back. Pharmaron Beijing (3759 HK) (which we will talk more of later) and Medlive Technology (2192 HK) constituted the biggest value detractors in our portfolio after their share prices cascaded 25.1% and 31.5% month-on-month (MoM) respectively. Also, the 9.8% drop in the share price of SITC International (1308 HK) in December, a container and shipping logistics provider and the No. 2 position in the fund, did not help the fund's performance either. That said and putting things in context, year-to-date (YTD), the share price of SITC International was still 68.5% higher and remained the biggest profit contributor in our fund for the year.

We are not perturbed by the temporary setback. Indeed these changes in the market conditions have offered us an opportunity to reduce certain stocks and topped up on a number of quality companies with high earnings visibility in the following sectors: energy, infrastructure and information technology. China Everbright Environment (257 HK) is an example from the first category.

Annual Reflections

It is a good discipline to examine the reversal first.

With a view that overall China A-share market would witness greater growth momentum than the Hong Kong market, we tuned our geographical allocation since the third quarter by topping up on A-shares but reducing certain Hong Kong stocks which had been flat or underperforming. The following table shows the fund's major changes by region and sector.

Region	**Allocation as of**	
Weighting *increased*	30 Jun 2021	31 Dec 2021
China A	23.41%	36.03%
Weighting *reduced*		
Hong Kong	68.70%	61.03%
US	3.87%	0.85%

Sector	**Allocation as of**	
Weighting *increased*	30 Jun 2021	31 Dec 2021
Infrastructure	2.94%	18.95%
Materials	2.85%	11.50%
Utilities	0.96%	3.89%
Weighting *reduced*		
Healthcare	22.52%	11.93%
Consumer durables	19.69%	12.68%

For the full year, the fund's biggest investment losses stemmed from Tencent (700 HK), the household electrical appliance manufacturer, Midea (000333 C2), the medical instrumentation developer and manufacturer, Shenzhen Mindray Bio-Medical Electronics (300760 C2) and Alibaba (BABA US).

During the year, Tencent and Alibaba suffered from policy pressure targeting privately-run IT enterprises and their share prices fell 19% and 49% YTD respectively. In the middle of last year, we had exited our position in Alibaba due to both the competitive landscape in the e-commerce sector and the higher political risk it was facing. Meanwhile, we elected to hold onto Tencent for its better management quality and a less competitive business environment in the social media segment. At end-December, Tencent was our top holding in the portfolio.

Healthcare stocks had a roller-coaster ride this year. A number of our positions in that sector were star performers in the first half but sectoral sentiment took a U-turn since July following the announcement by the Chinese Government of principles on oncology drugs and amid market worries on GPO tendering. That said, we believe the principles issued (or any future policy) would serve to weed out the less sophisticated players. In the longer run, drug manufacturers will need to spend more resources on R&D thus relying more on CRO (Contract Research Organization) companies. Many of the CROs, including Wuxi Biologics (2269 HK) and Pharmaron, are anticipated to maintain an annual growth of 30% to 50% hence our conviction in this segment remains. Pharmaron, which develops small molecule drugs as well as providing testing services for medical devices, was still among our top 10 investment gainer YTD.

We had fared very well with our positions SITC International, China Resources Power (836 HK), Xinte Energy (1799 HK), Xiamen Faratronic (600563 C1), Viva China (8032 HK; an operator of sportswear brand and sports events) and Wolong Electric (600580 C1).

Future Prospects

We remain optimistic about the investment outlook of the fund in the New Year.

While some market uncertainties have extended to 2022 from 2021, they have in general been made known and they may have been factored into the prices.

We remain concerned however that US-stock investors are turning a blind eye on the signs of rate hikes by the Federal Reserve and that Hong Kong-stock investors are not prepared to acknowledge the potential positive catalyst from a loosening cycle will soon be rolled out in China.

To tackle these concerns, we are taking the following actions:

Region-wise, we shall hold our existing positions on the Hong Kong bourse and we will not be topping up on A-shares in the near term given that a large number of Hong Kong stocks held by the fund are highly correlated to A-share related industries (for example, electricity and electrification). On the other hand, valuation of many quality Hong Kong companies has fallen to relatively low levels - and we tend to make a rotation from those smaller caps which are less liquid to the bigger quality caps which have corrected more sharply.

Sector-wise, we believe de-carbonization is not just in vogue but a serious matter every responsible investment manager must deal with and act on diligently and intelligently. This means we shall focus more on transportation, logistics, natural resources related to energy storage technologies and green energy stocks. Select stocks in those fields had outperformed the market in the past year and they are likely to extend their rally going forward. China Everbright Environment, for example, has seen its share price up 42.9% YoY. The stock represented approximately 3.5% of the fund by the year end. We believe there are still more legs in its growth and the company's operating efficiency is the highest among the Everbright Group. We are accumulating the same as and when the opportunity presents itself.

Technology and healthcare shall continue to interest us. We had as early as in 2014 envisioned that they would become two of the major growing trends in the stock market and that view has not changed an iota with the passing of time. Indeed the advance in the development of/ demand for artificial intelligence, metaverse, factory automation and electric vehicles only adds impetus in the technology sector. As for healthcare, it will for sure be a long lasting theme in light of the aging population and the emergence of a wealthier middle class in China.

In addition, we will keep a close eye on the consumer sectors. Take the sportswear segment as an example, its long term growth potential remains solid having undergone a slow-down amid high base effect and macro economic recession. We are planning to gradually increase our exposure to a number of consumer stocks.

The Chinese New Year of the Tiger is fast approaching and we take this opportunity to wish you a prosperous, healthy and joyous new year. We remain thankful for your continuous support and trust and, with it, we look forward to pouncing like a tiger at and hunting down the many and different investment opportunities appearing in 2022!

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