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

VL China Fund

Monthly Fund Factsheet with Quarterly Commentary

June 2023

Important Notice

It has come to our notice that someone has been using the name and photographs 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	2.94%	3.01%	4.04%	4.47%
3 month	-5.89%	-5.72%	-9.86%	-6.09%
6 month	-1.29%	-0.92%	-5.04%	-2.79%
YTD	-1.29%	-0.92%	-5.04%	-2.79%
Since fund launch	-15.80%	-6.17%	6.14%	-0.55%
NAV per unit	84.1973	93.8341	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 2023.*

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

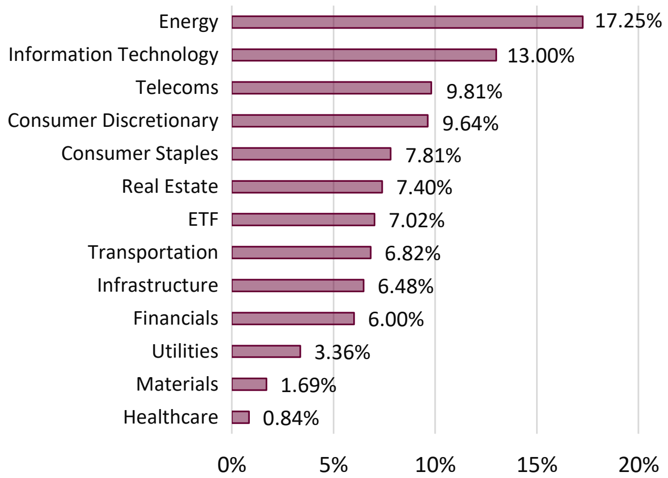
	Fund	Hang Seng Index
Price/earnings ratio	7.47X	9.09X
Price/book ratio	0.90X	1.01X
Dividend yield	5.56%	3.91%
Return on equity	12.33%	11.09%

VL China Fund

Top 5 Stock Holdings

Name	Bloomberg Code	Sector	%
CNOOC	883 HK Equity	Energy	7.90%
China Shenhua Energy	1088 HK Equity	Energy	6.60%
China Mobile	941 HK Equity	Telecoms	6.28%
CSI 500 ETF	512500 C1 Equity	ETF	6.22%
China Resources Land	1109 HK Equity	Real Estate	5.92%
Total			32.93%

Exposure by Sector



Exposure by Geography

HK	H Shares	18.09%
	Red Chips	36.26%
	P-Chips	15.77%
	HK	0%
	Others	2.47%
	Sub-Total	***72.59%***
China	A Shares	14.39%
	B Shares	9.71%
	Sub-Total	***24.10%***
US	ADRs of PRC companies	0.43%
	Others	0%
	Sub-Total	***0.43%***
Cash		**2.88%**
	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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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.
In case of any discrepancies between the English and Chinese versions of this document (except for the commentary session), the former takes precedence.

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VL China Fund

Second Quarter Commentary

Fund & Market Picking Up

In June, VL China Fund (The Fund) was up approximately 3% (Class A: 2.94%; Class B: 3.01%). For reference only, the MSCI China Total Return Index (MSCI China) had risen 4.04% and the Hang Seng Total Return Index (Hang Seng) was up 4.47% month-on-month (MoM).

China Resources Land (1109 HK), China Shenhua Energy (1088 HK), China Mobile (941 HK) and Shenzhen International (152 HK) constituted some of our most profitable positions MoM. China Unicom (762 HK), Li Ning (2331 HK), China AMC CSI 500 ETF (512500 C1) and GTJA Allianz CSI All-Share Semi ETF (512480 C1) comprised some of the key performance distractors MoM.

Energy & IT Robust in 1H

For the six months ended 30 June 2023, the Fund was down 1.29% for Class A and 0.92% for Class B. Meanwhile, the MSCI China and the Hang Seng was down 5.04% and 2.79% respectively.

During the period, the Fund's outperformers were from sectors including energy and IT. CNOOC (883 HK), China Shenhua Energy and China Mobile were among the most profitable. The worst performers were Meituan (3690 HK), JD.com (9618 HK) and Poly Developments (600048 C1).

Tourism Backed by Demand

In light of the slower-than-expected pace of economic recovery in the second quarter (2Q), some investors switched to stocks related to recession and contraction, making market sentiment pessimistic temporarily. It is never our view that China's recovery will be a through train and it is particularly true in the case of the property market. During the quarter, both domestic and overseas consumption had weakened and the consumer price index was flat. Among all the key economic indicators, only power consumption and travel data were relatively strong. We anticipate that the Chinese government may announce a series of counter cyclical stimulus to boost the economy.

"Economic re-opening", as a theme, has receded from public attention in Q2 but the micro economic data showed that citizens' willingness to travel and resume social activities is stronger than expected. Demand for hotels, food and beverages as well as travel remains high. In the first quarter, we underweighted "economic re-opening" themed positions but increased our allocation after their share price correction in Q2. We continue to hold tourism stocks and moderately-priced bai jiu (white liquor) as well as increased brewery stocks. Also, we added sportswear on the belief that offline consumption should remain vibrant in the second half of the year.

State-Owned Big Developers Promising

The mainland property market stepped back since May after a strong rebound in the first quarter. Sales in June retreated sharply year-on-year and was lower than market consensus. We anticipate that the government would announce certain policies in July, which might allow regional governments to revitalize its property market and the overall market to pick up in the months thereafter. We foresee that, in two to three years' time, property prices in top-tier cities are likely to go up due to an under supply of new flats.

Energy, Telecoms & Semi-Conductors Promising

Investment opportunities in the energy sector, whether it be petroleum, petrochemical or coal, remain decent to us given the long-term uptrend of energy prices and the higher dividend yields they offer. Energy prices are expected to stay high due to the weakening of the US dollar and consensus that the US interest rate hike cycle is near an end.

We continue to find the prospect of telecom operators promising for their high dividend payout. Also, their cloud services should see sustainable growth due to the overwhelming development of artificial intelligence.

As regards the semi-conductor manufacturing chains and other high-end manufacturing sectors, we are partial towards their development as their prospects should not be severely affected by the volatility of the macro economy. In the shorter term, they should benefit from rising prices due to inventory shortage. Moreover, suffering from the increasingly severe ban of semiconductor sales by the US and her allies since the start of the year, China may accelerate its own research and development of chips to replace foreign ones. Also, as the dawning of the artificial intelligence era quickens and new electronic products keep coming to the market, the longer term outlook of semiconductors is beyond question.

In addition, there exist many high quality companies within the A-share market under the carbon-neutral theme and in connection with self-driving car manufacturing. What has particularly drawn our attention is the breakthrough in China's auto driving policy in June – China has advanced the implementation of level 3 auto driving. Certain segments in the related manufacturing chain could soon experience an exponential growth.

Risks of the China Market

That being said, we are aware of the risks involved in the China market. In the short term, they might originate from regional debts and the government's hesitation to implement stimulating policies (which in turn affects market confidence). In the longer run, the risks can be associated with the acceleration of her population ageing (which affects various aspects such as labor force, consumption demand and patterns). In recent years, the dawning of deglobalization is bringing unprecedented challenges to certain manufacturing chains. We will continue to keep an eye on the risks and act in a prudent fashion.

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