

## VL China Fund

September 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	-0.22%	-0.17%	-2.91%	-2.61%
3 month	-2.19%	-2.00%	-2.01%	-4.31%
6 month	-7.95%	-7.61%	-11.68%	-10.14%
YTD	-3.45%	-2.91%	-6.95%	-6.99%
Since fund launch	-17.64%	-8.05%	4.01%	-4.84%
NAV per unit	82.3574	91.9550	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](http://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 29 September 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

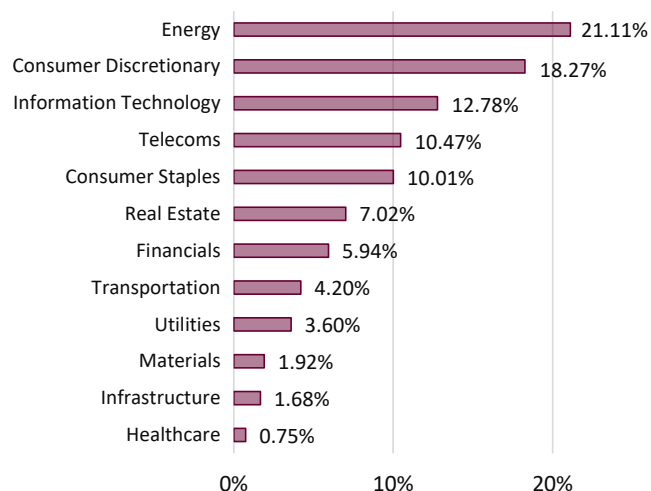
	Fund	Hang Seng Index
Price/earnings ratio	7.62X	8.39X
Price/book ratio	0.90X	0.94X
Dividend yield	5.87%	4.29%
Return on equity	12.09%	11.19%

# VL China Fund

## Top 5 Stock Holdings

Name	Bloomberg Code	Sector	%
CNOOC	883 HK Equity	Energy	9.35%
China Shenhua Energy	1088 HK Equity	Energy	7.15%
China Mobile	941 HK Equity	Telecoms	6.58%
China Resources Land	1109 HK Equity	Real Estate	5.68%
Anta Sports	2020 HK Equity	Consumer Discretionary	5.03%
Total			33.78%

## Exposure by Sector



## Exposure by Geography

<b>HK</b>	H Shares	23.49%
	Red Chips	37.49%
	P-Chips	25.47%
	HK	0%
	Others	1.74%
<b>Sub-Total</b>		<b>88.19%</b>
<b>China</b>	A Shares	0.07%
	B Shares	9.04%
<b>Sub-Total</b>		<b>9.11%</b>
<b>US</b>	ADRs of PRC companies	0.48%
	Others	0%
<b>Sub-Total</b>		<b>0.48%</b>
<b>Cash</b>		<b>2.23%</b>
<b>Grand Total</b>		<b>100.00%</b>
<i>No derivative exposure; Cash refers to cash in bank, trade and dividend receivables, prepaid expenses and expense accruals.</i>		

## 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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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.

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Classification is based on Global Industry Classification Standard (GICS). Exposure refers to long exposure unless otherwise specified.

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## VL China Fund

### Third-Quarter Commentary

#### Fund Down 3.5% YTD; MSCI China Slump 7%

In September, VL China Fund (The Fund) edged down less than 0.3%. For reference only, the MSCI China Total Return Index (MSCI China) had shed 2.91% and the Hang Seng Total Return Index (Hang Seng) down 2.61% month-on-month (MoM).

During the month, China Shenhua Energy (1088 HK), CNOOC (883 HK) and China Unicom (762 HK) were among the most profitable in the Fund's portfolio. The worst performers were China Resources Land (1109 HK), China Resources Beer (291 HK) and Shenzhen International (152 HK).

For the nine months ended 29 September 2023, the Fund was down 3.45% for Class A and 2.91% for Class B. Meanwhile, the MSCI China and the Hang Seng was 6.95% and 6.99% lower respectively.

#### Energy Stocks Outshine for 3 Quarters

Energy was the best performing sector in the Fund's portfolio in the nine months through September with CNOOC, China Shenhua Energy and China Mobile (941 HK) generating the most investment profit. Major performance distractors were Meituan Dianping (3690 HK), ID.com (9618) and Shenzhen International.

During the third quarter, China's economic data improved further but at a rather slow speed. A double dip was seen but the pace of recovery remained slow and the market is not yet ready to make a long-term growth forecast comparable to the potential growth level. If the central government does not increase the magnitude of its policies, a balance sheet recession will likely extend into the fourth quarter. For the People's Bank of China, its policy implementation may still be subject to the move of the US Federal Reserve. Given that China's macroeconomic target has basically been achieved, it may not appear necessary to strengthen its policy. Nevertheless, as the 2023 GDP growth target of 5% was accomplished under a low base in 2022, if China is to maintain a similar growth rate in 2024, the magnitude of policies should be enhanced by a larger extent.

#### Focus on High-Yield, Consumption & Tourism Stocks

Based on the government's actions in the past few economic cycles, the spotlight of policy enhancement in 2024 is likely to fall on real estate again. We will keep an eye on how things develop. Under the current macro environment, we believe a portfolio can benefit more by including more defensive plays and those offering high dividends. When we allocate assets, dividend policy is the most important criteria and energy as well as telecoms will remain our focus. Also, we have added some companies which are operators of water business and are generous in giving out dividend. The above measures aim to make our portfolio less sensitive to the macro economy.

Apart from dividend policy, we are relatively positive on the outlook of consumption stocks - consumer staples, emerging consumption as well as tourism stocks should particularly perform well in the middle to long term. Having paid attention to industry data for a long time, we have come to the views that the beer industry is attracting more high-end consumers, sportswear brands are getting more diversified and travelling has resumed normal for mainland residents. The above three areas appear to be forming a long term trend and hence a more visible long term growth outlook as consumers are stressing more on the quality of consumption, outdoor exercising and travel experiences.

## VL China Fund

### Third-Quarter Commentary

We are also optimistic on Chinese companies which manufacture semiconductors and chips as China is speeding up its IT development to cope with the technology decoupling from the US. China's IT giant Huawei launched in late August smartphones containing homemade chips. This breakthrough demonstrates that China has made good progress in that direction.

The current equity market is lackluster and we can expect to see an increasing number of undervalued but quality companies to come into play. As soon as we spot any material catalysts, we will promptly adjust our investment direction to catch those opportunities. The imminent major events to watch out for include how Sino-US relations may evolve during the Asia-Pacific Economic Cooperation (APEC) Summit in November, guidelines on economic development from the 20th National Congress of the Communist Party of China and the 2024 GDP target to be set at the Central Economic Work Conference in late December. The above three events are likely to influence the entire capital market in the medium term.

#### Risks of the China Market

We are aware of the risks arising from dealing in the China market. In the short term, they might originate from her relatively slow economic recovery. In October, the war breaking out between Israel and Hamas means escalating geo-political tensions and higher risk of a potential inflation, which will have an impact on global recovery. In the longer run, the risks can be associated with the acceleration in the ageing of China's population, the decoupling of the Sino-US economies and regional government debt. We will keep an eye on the risks and act in a prudent fashion.

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