ZEAL Voyage China Fund

BENCHMARK FUND OF THE YEAR HOUSE AWARDS 2021 MUTUAL FUND HONG KONG GREATER CHINA EQUITY OUTSTANDING ACHIEVER ^

MORNINGSTAR Awards 2017 + Best Greater China Equity Fund

Monthly Report January 2024 www.zealasset.com

Important Information

- ZEAL Voyage China Fund constituted in the form of a unit trust established under the laws of Hong Kong. The Fund primarily invests in listed equities with a China focus.
- The Fund's investments are concentrated in Mainland China and Hong Kong. This may result in greater volatility than portfolios which comprise broad-based global investments.
- Investing in emerging markets such as China involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.
- The Fund may invest in derivative instruments and access products which may involve additional risks (For example, counterparty, market and liquidity risk).
- HKD (dist) Units pay dividends on a semi-annual basis at the Manager's discretion. Distributions will not be paid out of capital or effectively out of capital of the fund. There is no guarantee that any distributions will be made and there is no target level of distribution payout.
- For currency hedged share classes, the currency hedging may not be a precise hedge and there is no guarantee that the hedging will be entirely successful.
- The RMB is not a freely convertible currency as it is subject to foreign exchange control policies and repatriation restrictions imposed by the PRC government. Such government policies and restrictions are subject to change, and there can be no assurance that the RMB exchange rate will not fluctuate widely against the US dollar or any other foreign currency in the future.
- The Fund may invest in other funds (including ETFs) which make direct investments in A-shares and there will be additional costs involved when investing into these underlying funds. This may involve additional risk (e.g. investment objective risk, conflicts of interest risk etc.). The Fund is also subject to performance fee risk which may adversely affect the Fund's value.
- The Fund's investment through the Stock Connect may involve additional risks (e.g. quota limitations, operational risk, suspension risk, regulatory risk, taxation risk etc). Investment in certain Mainland China securities may be subject to Mainland China tax risk.
- You may lose part or all of your investment. You should not invest in the Fund solely based on this information. Prior to investing, please refer to the Explanatory Memorandum of the fund for details including the risk factors.

Investment Strategy

The fund seeks to achieve its objective primarily through exposure to companies established in China or those which, whilst established outside China, derive a significant proportion of their revenue from business related to China.

The fund primarily invests in stocks listed in Hong Kong, Shanghai and/or Shenzhen. Generally, the asset allocation strategy is that at least 70% of the fund's non-cash assets will be invested in Hong Kong stocks, and 0% to 20% in stocks listed in Shanghai or Shenzhen (exposure to A-shares and B-shares may be obtained in different ways, including indirect exposure, such as through investing in exchange traded funds ("ETFs") and/or other funds that invest in the relevant PRC listed shares, and direct exposure (in the case of A-shares, such as via the Shanghai-Hong Kong Stock Connect or other relevant programmes, when they become available). In addition, at least 80% of the fund's non-cash assets will be invested in China-related investments.

Eligible Fund under the Hong Kong Capital Investment Entrant Scheme◊

Fund Information

Manager	Zeal Asset Management Limited	
CIO	Jacky CHOI Nga Chung	
Portfolio Manager	Zeal Investment Team	
Fund Size	HKD1,305.19 million	
Subscription Fee	Up to 5% of NAV	
Management Fee	1.75% p.a.	
Performance Fee	15% (High-Water Mark)	
Trustee	BOCI-Prudential Trustee Limited	
Classes	Current NAV/Unit	Launch Date
HKD Units	HKD1.1468	17-09-2010
USD Units	USD1.0390	31-03-2011
RMB (hedged) Units	RMB0.7836	30-05-2014
AUD (hedged) Units	AUD0.7712	30-05-2014
HKD (dist) Units	HKD0.7029	30-05-2014
Classes	ISIN Code	Bloomberg Code
HKD Units	HK0000068285	VOYZECH HK
USD Units	HK0000077773	VOYZECU HK
RMB (hedged) Units	HK0000199692	VOYZECR HK
AUD (hedged) Units	HK0000199676	VOYZECA HK
HKD (dist) Units	HK0000199684	VOYZCHD HK

Fund Manager's Report

The Hong Kong market experienced extreme volatility in January, with the corresponding Hang Seng Index Volatility Index surging by +18%[1]. The market witnessed a significant downturn in the initial three weeks, resulting in major indices falling more than the entire year of 2023. After a robust rebound in the fourth week, followed by another substantial dip at month-end, Hang Seng Index, Hang Seng China Enterprises Index, and MSCI China index recorded declines of -9.2%, -10.0%, and -10.5%, respectively[2].

The reasons behind the dramatic January decline are outlined below:

1. Struggling Real Economy:
High-frequency data indicated a year-on-year decline of -34.2% in property sales in January among the top 100 developers, although the nationwide decline should be more moderate[3]. The market extrapolated this data to signal a potential crunch, with even top developers experiencing liquidity dry-up, leading to escalating systematic risks. Tesla's price cut for its Model 3 in China also triggered responses from domestic EV makers. As the real estate and auto sectors are pivotal in the economy, these events induced nervousness in the market.

2. Derivative and technical issues:
A report from Samsung Securities prompted investors to worry about the potential fallout from Equity-Linked Securities (ELS) products issued by Korean financial institutions to retail investors on the Hang Seng China Enterprises Index, with a notional amount exceeding RMB 80 billion. Additionally, a Chinese derivative known as snowballs has encountered similar pressure from short selling. Snowballs, as they are called, promise a stream of interest payments as long as stock indices (mostly tied to CSI300 index) trade within a specific range. With Chinese equity indices breaching the lower limit specified in these contracts, both products teetered on the brink of knock-ins/strikes, prompting substantial forced selling during the unwinding process.

3. Trump's rhetoric:
Trump's threats of launching a more aggressive trade war with China if re-elected had a significant impact. Companies with overseas exposure, not limited to the US, suffered notable declines. Despite both parties having to bear the cost of an escalated trade war, as evidenced by the experience in 2018-2019, the market seems to be less forgiving of the China market because of these threats. This also highlights how fragile sentiment is in the market.

Despite acknowledging the economic headwinds, the magnitude of market decline in January, the indiscriminate sell-off, the total lack of attention paid to valuation, and the unusually high percentage of short-selling, demands our attention. We refrain from joining the queue of panic selling, which is irrational and may damage our investments. Instead, with ample cash reserves at our disposal, we remain poised to capitalize on certain contrarian opportunities when the timing is right.

While many rely on a country's GDP for market performance indicators, the MSCI China Index, Producer Price Index (PPI), and GDP trends reveal a stronger correlation between PPI and equity index returns. PPI serves as an indicator of the relationship between aggregate demand and supply in the real economy. A mildly positive PPI suggests a healthy supply-demand dynamic, while a negative PPI indicates over-supply and insufficient demand.

China's PPI turned negative in October 2022 and has remained in deflationary territory for 15 months. The prices of major industrial goods and commodities peaked in 1Q last year due to reopening impacts, followed by lows in 2Q and 3Q amid subdued economic momentum. There is a possibility that a similar trend in PPI may see a return to positive figures sometime this year on low base. A positive PPI will bring considerable improvement in market confidence.

Overall, MSCI China Index currently trades at 8.9x FY24 earnings, even if we apply the most bearish earnings forecast in the market[4]. It follows that the equity risk premium (ERP) stands at 7.7%, even surpassing the 6.5% ERP in October 2022 when the market experienced a massive sell-off after the 20th Party Congress, driven by political panic and the fear of a prolonged lockdown[4]. In addition to the compelling valuations, we underscore the pivotal role of three elements crucial for harnessing the potential rebound: cash, patience and courage. Through discipline, we are committed to ensure attaining these elements, thereby maximizing the benefits for our valued clients.

[1] Source: Hang Seng Indexes, as of January 31 2024
[2] Source: Bloomberg, as of January 31 2024
[3] Source: CRIC Research, as of February 5 2024
[4] Source: Zeal Asset Management Ltd., as of February 1 2024

ZEAL Voyage China Fund (HKD Units) vs China Indexes

	1 month	3 months	6 months	YTD	Since Inception
ZEAL Voyage China Fund	-7.78%	-10.49%	-22.74%	-7.78%	14.68%
Hang Seng Index	-9.16%	-9.16%	-21.96%	-9.16%	11.41%
Hang Seng China Enterprises Index	-9.96%	-11.26%	-24.09%	-9.96%	-31.18%

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ZEAL Voyage China Fund

Exposure by Industry

Communication Services	3.84%
Consumer Discretionary	19.07%
Consumer Staples	5.00%
Energy	7.36%
Financials	4.06%
Health Care	7.36%
Industrials	7.46%
Information Technology	0.00%
Materials	2.68%
Real Estate	1.58%
Utilities	8.19%
Others	24.52%
Cash & Cash Equivalents	8.88%
Total	100.00%

Portfolio Characteristics*

Price/Earnings Ratio	9.90
Price/Book Ratio	2.18
Dividend Yield	4.52

* based on market consensus for FY 2024 and the internal estimates of Zeal Asset Management Limited of the Long Equity Exposure

Exposure by Asset Class

Equity	66.60%
Government Bond	24.53%
Index Futures	0.00%
Currency Forward Contracts	0.00%
Cash & Cash Equivalents	8.88%

Exposure by Geography

Hong Kong	82.40%
Mainland China	8.73%
Others	0.00%
Cash & Cash Equivalents	8.88%
Total	100.00%

Market Capitalisation Exposure (Equity)

>US$20Bn	26.12%
US$5-20Bn	29.65%
US$1-5Bn	8.62%
<US$1Bn	2.21%
Total	66.60%

Number of Positions

Long	26
Short	0

Top 5 Stock Holdings#

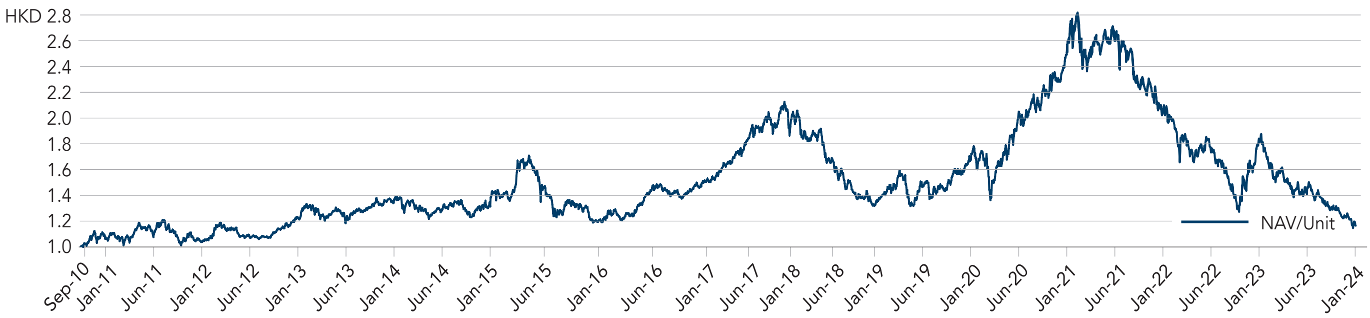
Alibaba Group Holding Ltd - SW	6.01%
China Resources Power Holdings Company Limited	5.97%
Shenzhen Mindray Bio-Medical Electronics Co Ltd -A	5.49%
Shenzhou International Group Holdings Limited	4.89%
PetroChina Company Limited - H	4.80%
Total	27.16%

data as of 30 November 2023
Note that stock holding may be invested indirectly through derivative instruments (such as participatory notes). For such indirect exposure, the underlying stock is counted as the stock holding in this table.

Monthly Performance Since Launch (%, HKD Units)

	January	February	March	April	May	June	July	August	September	October	November	December	Annual
2010									1.37	4.18	1.81	-0.21	7.29
2011	-1.37	-2.22	5.23	5.91	-0.39	0.37	2.87	-4.86	-8.87	5.86	-3.79	-0.21	-2.58
2012	2.23	10.46	-4.47	1.15	-4.91	-0.87	-0.75	0.37	5.36	2.37	3.89	2.87	18.09
2013	5.95	-1.24	-4.20	0.91	2.35	-3.33	2.40	0.70	2.17	2.06	2.53	1.17	11.63
2014	-4.72	2.83	-3.73	-3.89	1.50	1.47	3.54	-0.05	-6.23	2.60	3.32	5.72	1.55
2015	-0.57	2.19	2.78	13.54	-0.56	-6.58	-9.14	-9.05	-1.82	6.40	-2.74	0.80	-6.78
2016	-7.93	-0.91	7.35	-3.01	1.80	0.55	4.38	7.79	2.54	-2.21	-0.10	-2.53	6.79
2017	3.26	1.86	3.09	1.37	3.97	4.27	5.09	4.40	3.27	1.90	1.64	2.14	42.81
2018	4.11	-2.82	-7.33	-1.44	1.43	-7.38	-3.93	-4.94	-4.01	-8.96	1.35	-4.75	-33.13
2019	5.13	3.32	3.26	1.83	-12.68	10.65	1.82	-4.29	0.40	9.11	-0.44	6.46	24.85
2020	-3.21	1.34	-6.99	11.11	4.56	8.27	4.51	6.55	0.08	1.80	5.91	8.08	49.02
2021	3.55	-1.81	-1.87	4.69	3.03	1.20	-7.20	-0.56	-7.05	-3.28	-3.54	-3.36	-15.77
2022	-5.60	-4.05	-3.37	-4.77	0.87	3.65	-7.58	-3.10	-12.93	-12.02	22.08	6.95	-21.95
2023	9.43	-11.07	-0.31	-5.18	-8.46	1.53	6.69	-6.36	-3.49	-4.49	-2.73	-0.22	-23.58
2024	-7.78												

Performance Since Launch (HKD Units)



Data relates to ZEAL Voyage China Fund, as of 31 January 2024. Fund performance based on HKD Units NAV-NAV with dividend reinvested. Sources: BOCI-Prudential Trustee Limited; Bloomberg; Zeal Asset Management Limited.
Due to rounding, the sum of the portfolio may not be equal to 100%.

◊ Applicable to HKD Units and HKD (dist) Units.

^ Zeal Asset Management Limited was awarded BENCHMARK Fund of the Year Awards 2021, Hong Kong - Greater China Equity- OUTSTANDING ACHIEVER, House Awards. Source: BENCHMARK House Awards are based on the qualitative methodologies and tools determined by BENCHMARK and reflect the performance data between 1 July 2020 and 30 June 2021. For more information about the methodology, please visit https://www.benchmark.today/fund-awards/

+ Morningstar Awards 2017 ©. Morningstar, Inc. All Rights Reserved. Based on the performance as of 31 Dec 2016. Awarded to ZEAL Voyage China Fund (HKD Units) for Best Greater China Equity Fund, Hong Kong

ZEAL Voyage China Fund

All comments, opinions or estimates contained in this Fund's Manager's report are entirely fund manager's judgement as of the date of this report and are subject to change without notice. In preparing this report, we have relied upon and assumed without independent verification, the accuracy and completeness of all information available from public sources.

Investments involve risks. Like most funds, the Fund does not offer any guarantees. You may lose part or all of your investment. You should not make an investment decision solely based on this information. Prior to investing, please read the Explanatory Memorandum of the Fund for details including risk factors. Past performance is not indicative of future performance. If you have any queries, please contact your financial advisor and seek professional advice. This material is issued by Zeal Asset Management Limited and has not been reviewed by the Securities and Futures Commission.

The fund is subjected to distribution restrictions in certain other jurisdictions, please refer to the distribution restrictions in the Explanatory Memorandum for details.

Information for investors in Switzerland:
The offering of the Units in Switzerland will be exclusively made to, and directed at, qualified investors (the "Qualified Investors"), as defined in Article 10 para. 3 and 3ter of the Swiss Collective Investment Schemes Act of 23 June 2006, as amended from time to time ("CISA"), to the exclusion of any high-net-worth individuals and their private investment structures with an opting-out pursuant to the Article 5 para. 1 of the Swiss Financial Services Act ("FinSA"). The Fund has not been and will not be approved by the Swiss Financial Market Supervisory Authority ("FINMA") for offering to non-qualified investors. Therefore, the Explanatory Memorandum, any other offering materials and/or marketing materials relating to the Units may be made available in Switzerland solely to Qualified Investors.

Distribution in the European Economic Area ("EEA") and the United Kingdom:
In relation to each member state of the EEA and the United Kingdom (each a "Relevant State") which has implemented the Alternative Investment Fund Managers Directive (Directive (2011/61/EU)) (the "AIFMD") and/or as AIFMD forms part of local law of the Relevant State, this monthly report may only be distributed and Units may only be offered or placed in a Relevant State to the extent that (i) the Fund is permitted to be marketed to professional investors in the Relevant State in accordance with AIFMD (as implemented and as it forms part of the local law and regulations of the Relevant State) or (ii) this monthly report may otherwise be lawfully distributed and the Units may otherwise be lawfully offered or placed in that Relevant State (including at the initiative of the investor).
In relation to each Relevant State which, at the date of this monthly report, has not implemented AIFMD, this monthly report may only be distributed and Units may only be offered or placed to the extent that this monthly report may be lawfully distributed and the Units may lawfully be offered or placed in that Relevant State (including at the initiative of the investor).
This monthly report is being issued in the United Kingdom by Zeal Asset Management Limited to and/or is directed only at persons who are professional investors for the purposes of the Alternative Investment Fund Managers Regulations 2013 and is accordingly exempt from the financial promotion restriction in Section 21 of the Financial Services and Markets Act 2000 ("FSMA") in accordance with regulation 29(3) of the FSMA (Financial Promotions) Order 2005. The opportunity to invest in the Fund is only available to such persons in the United Kingdom and this monthly report must not be relied or acted upon by any other persons in the United Kingdom.
No key information document has been prepared in respect of any Class of Units in accordance with Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs) (including as implemented into the domestic law of the United Kingdom). Accordingly, such Classes of Units are not available to, and no person may advise on, offer or sell such Classes of Units for or to, any retail client (as defined in the EU's re-cast Markets in Financial Instruments Directive (2014/65/EU)) in a Relevant State.

The information provided herein is not intended for U.S. citizens, U.S. residents or U.S. companies established under the laws of the United States.

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