

ZEAL Voyage China Fund



Monthly Report June 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 this class of units. HKD (E dist) Units pay dividends on a bi-monthly basis at the Manager's discretion. Dividend may be paid out of capital or pay out of gross income of the relevant Class (that is, income before taking into account any fees or expenses) while charging all or part of the relevant Class's fees and expenses to the capital of the relevant Class, resulting in an increase in distributable income for the payment of dividends by the relevant Class and therefore, the relevant Class may effectively pay dividend out of capital. Payment of dividends out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of capital or effectively out of capital of the relevant Class (as the case may be) may result in an immediate reduction of the net asset value per Unit of the relevant Class. 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.

Fund Manager's Report

After four months of consecutive gains, the Chinese equity market retreated in June. Despite the overall decline, it is notable that the offshore market outperformed the onshore market. The Hang Seng Index (HSI) fell -1.1%, while the onshore CSI300 dropped by -3.0%, and the CSI1000, which tracks 1000 small and mid-cap companies, fell by -8.5%¹. Year-to-date performance shows a similar trend, with HSI's +6.2% gain significantly exceeding the negative returns of both the CSI300 and CSI1000¹.

We attribute this divergence in index performance to the involvement of foreign investors. As mentioned in previous commentaries, the market rally since February has been primarily driven by inflows from overseas investors who have underweighted China for years and are now buying extremely cheap Chinese stocks as an option play. While overseas funds account for over 30% of the total free-float market cap in Hong Kong, their stakes in A-shares average at less than 5%. Predominantly influenced by domestic investors, A-shares are more likely to be impacted by shifts in local sentiment. In June, we observed that Chinese investors' risk appetite deteriorated due to a lack of fresh stimulus and lukewarm economic data.

Recent economic data has sent mixed signals. For instance, the official manufacturing PMI in June remained in contraction territory. However, the Caixin PMI, which covers more activities of small and medium-sized private-owned manufacturing corporations, rose to 51.8 in June from 51.7 in May, the highest figure since May 2021¹. Indicators for China's deflation pressure, CPI and PPI, also showed improvement, with the PPI in June recording the smallest drop since the current price contraction cycle began in 4Q22 and the CPI remaining slightly inflated at 0.2%¹. Exports continued to shine, rising by 8.6% YoY in dollar terms in June, beating expectations¹.

Overall, the economy is not spectacular, but it is not materially worsening either. This may fall short of domestic investors' expectations for strong stimulus to ramp up economic recovery momentum. But we believe the government is intentionally refraining from implementing overly aggressive policies that could derail the country's transformation from an infrastructure and real estate-fuelled model to one driven by technology, service, and consumption.

In terms of positioning, we find opportunities in high-dividend stocks during this stage of economic transformation. We also believe that valuations of some platform companies, which are shifting their priorities to investor returns amidst slower domestic consumption growth, have become appealing.

In the past, China's Internet companies heavily prioritized investment and growth. From 2015 to 2022, the investment growth of Chinese internet giants averaged 35% per year². Some invested all of their incremental profits in new projects, businesses, user acquisition, and supply chain upgrades, aggressively competing with each other. This also contributed to the oversupply issue in the economy and partially led to the current deflation pressure. After the government's regulatory overhaul in 2022, investment growth sharply slowed. Now, we see the industry's focus shifting from solely on growth to generating free cash flow and enhancing shareholder returns through higher dividend payouts and share buybacks. We believe this is a more mature approach to the changing economic and market outlook.

¹ Source: Bloomberg, as of July 15 2024

² Source: Zeal Asset Management Ltd., as of June 30 2024

Eligible Collective Investment Scheme under the New Capital Investment Entrant Scheme⁹

Fund Information

Manager	Zeal Asset Management Limited	
CIO	Jacky CHOI Nga Chung	
Portfolio Manager	Zeal Investment Team	
Fund Size	HKD1,393.54 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	HKD1.3202	17-09-2010
USD Units	USD1.1976	31-03-2011
RMB (hedged) Units	RMB0.8718	30-05-2014
AUD (hedged) Units	AUD0.8831	30-05-2014
HKD (dist) Units	HKD0.8091	30-05-2014
HKD (E dist) Units	HKD0.9820	21-06-2024
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
HKD (E dist) Units	HK0001033817	VCFHKED HK

ZEAL Voyage China Fund (HKD Units) vs China Indexes

	1 month	3 months	6 months	YTD	Since Inception
ZEAL Voyage China Fund	-1.95%	6.79%	6.17%	6.17%	32.02%
Hang Seng Index	-1.09%	8.97%	6.22%	6.22%	30.27%
Hang Seng China Enterprises Index	0.16%	10.55%	11.38%	11.38%	-14.87%

ZEAL Voyage China Fund

Exposure by Industry

Communication Services	6.02%
Consumer Discretionary	41.58%
Consumer Staples	4.83%
Energy	0.00%
Financials	3.16%
Health Care	11.71%
Industrials	0.00%
Information Technology	8.33%
Materials	2.06%
Real Estate	0.00%
Utilities	8.61%
Others	2.12%
Cash & Cash Equivalents	11.57%
Total	100.00%

Portfolio Characteristics*

Price/Earnings Ratio	15.13
Price/Book Ratio	3.79
Dividend Yield	3.55

* 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	86.31%
Government Bond	2.15%
Currency Forward Contracts	-0.03%
Cash & Cash Equivalents	11.57%

Exposure by Geography

Hong Kong	74.41%
Mainland China	11.99%
United States	2.06%
Others	-0.03%
Cash & Cash Equivalents	11.57%
Total	100.00%

Market Capitalisation Exposure (Equity)

>US\$20Bn	32.92%
US\$5-20Bn	45.17%
US\$1-5Bn	8.07%
<US\$1Bn	0.15%
Total	86.31%

Number of Positions

Long	30
Short	0

Top 5 Stock Holdings#

Alibaba Group Holding Ltd - SW	5.87%
Kweichow Moutai Co., Ltd. - A	5.64%
Shenzhou International Group Holdings Limited	5.64%
Tencent Holdings Limited	5.39%
China Resources Power Holdings Company Limited	5.32%
Total	27.86%

data as of 30 April 2024

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	5.91	1.79	5.99	2.76	-1.95							

Performance Since Launch (HKD Units)



Data relates to ZEAL Voyage China Fund, as of 30 June 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%.

° For the list of Eligible Collective Investment Schemes under the New Capital Investment Entrant Scheme (New CIES), please refer to SFC website (<https://www.sfc.hk/en/Regulatory-functions/Products/List-of-Eligible-Collective-Investment-Schemes-under-new-CIES>) for most updated information. For further details of the New CIES, please refer to the website of the New CIES hosted by Invest Hong Kong (<https://www.newcies.gov.hk/en/index.html>).

^ 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.