

PREMIUM CHINA FUND (ARSN 116 380 771)

JULY 2021
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Investment objective

The Premium China Fund is a managed investment scheme which invests primarily in companies listed in Hong Kong, companies listed in Mainland China, companies listed in Taiwan and companies listed on other stock exchanges but with significant assets, investments, production activities, trading or other business interests in the Greater China region, or which derive a significant part of their revenue from the Greater China region.

Fund facts

Investment type:	Registered managed investment scheme
Jurisdiction:	Australia
Fund manager:	Premium China Funds Management Pty Ltd
Investment manager:	Value Partners Hong Kong Limited
Responsible entity:	Equity Trustees Limited
Custodian:	Link Fund Solutions Pty Ltd
Auditor:	Ernst & Young
APIR code:	MAQ0441AU
Inception date:	28 October 2005
Fund size:	AUD 110.2 million ²

Performance since inception^{1,2}



Performance update^{1,2}

	Premium China Fund
One month	-15.2%
Three months	-10.7%
Six months	-10.8%
One year	+9.5%
Since inception	+348.5%
Annualised return	+10.0%
Annualised volatility	18.1%

Volatility is a measure of theoretical risk. In general, the lower the number, the less risky the investment.

Annual return since inception^{1,2}

2005 (Since inception)	+7.0%	2014	+15.5%
2006	+48.0%	2015	+4.9%
2007	+36.1%	2016	-6.2%
2008	-33.6%	2017	+37.0%
2009	+50.2%	2018	-17.9%
2010	+2.3%	2019	+24.0%
2011	-21.2%	2020	+28.6%
2012	+13.1%	2021 (YTD)	-8.0%
2013	+21.9%		

¹ Past performance is not indicative of future results.

² Source: Link Fund Solutions Pty Ltd, Macquarie Investment Management Limited and Bloomberg, in AUD, NAV to NAV, with dividends reinvested. Performance data is net of all fees. Unless specified, all information contained on this report is quoted as at 30 July 2021. Investment involves risks. Investors should read the Product Disclosure Statement for details and risk factors in particular those associated with investment in emerging markets.

Unit price: AUD 2.4996 Entry price: AUD 2.5059 Exit price: AUD 2.4934
Distribution: AUD 0.6153 (for the year ended 30 June 2021)

Manager's commentary

Market review

In July, investor sentiment towards Greater China equities was dampened amid tightening regulatory concerns in the internet and education sectors.

Late last month, regulators released their views on setting substantial restrictions in the education sector, targeting the after school tutoring (AST) segment. Restrictions include requiring ASTs to be non-profit organizations and no longer allowing them to raise capital through IPOs. These have caused a huge concern about the profitability of ASTs.

The announcement comes after a series of regulatory changes targeted at various sectors, including internet and e-commerce, property and education. These have caused a ripple effect that drove a broad market correction. Investors are now assessing the impact of policy tightening in China.

We expect that near term volatility will remain, as policy reforms will be an ongoing focus. The more imminent impacts will be pointing directly to internet- and AST-related names.

However, we view that the policy reforms are part of China's long term quality growth agenda, in a move to pursue equality and balanced developments. They underscore China's move towards its "common prosperity" policy, which focuses on social welfare and social equality.

Portfolio review and outlook

In July, the Fund and the MSCI China Index were down 15.2% (in AUD) and 12.3% (in AUD)¹, respectively. Last month, the USD appreciated 2.1% against the AUD. The currency hedging, as a result, was a detractor to fund performance.

Our holdings in internet-related names were among the top detractors of the fund amid policy headwinds. As China continues to step up its scrutiny in the sector, we expect the sector to remain jittery in the coming months. In light of the policy overhang, we have reassessed the valuations of our holdings due to the potential impacts and have trimmed our position in the internet space, reflecting our cautious stance.

Our core holdings in consumer and industrial names were also among the key detractors of the fund amid the weakened sentiment. That said, we continue to have a positive outlook on these sectors. On the consumer front, we view that fundamentals remain intact and companies continue to benefit from China's ongoing premiumization story. Meanwhile, industrial names, particularly in shipping, continue to benefit from the global shortage of shipping containers.

On the positive side, our core holding of a power tools and equipment manufacturer has benefited from a strong US housing market and Home Depot sales. Meanwhile, our holdings of two Taiwanese bicycle manufacturers have also helped the fund's performance, as both are benefiting from the rising trend of e-bike usage, especially in Europe and the US.

We view that the policy overhang will continue to drive volatility in the short term. However, we believe that this should pave the way for China to achieve quality and sustainable economic growth, which should continue to provide opportunities for long-term investors. We continue to focus on quality companies that are riding on the structural growth cycle, such as consumption-related names and technology hardware, as well as industrials, which showcase robust fundamentals.

Source:
1. MSCI, 31 July 2021

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Think Premium

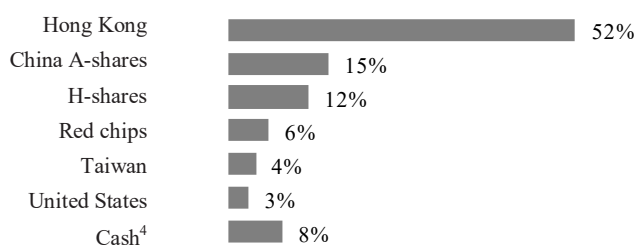
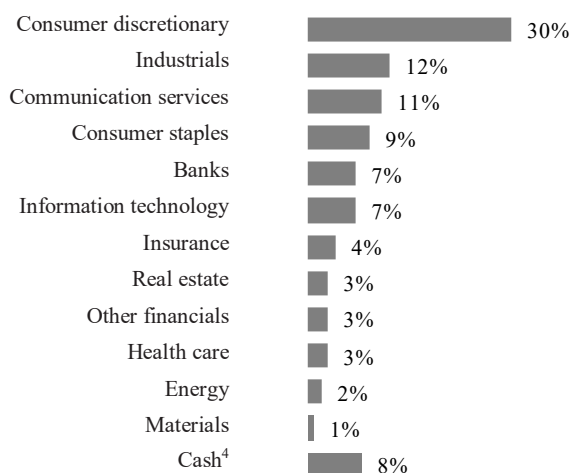
Top 10 holdings

Name	Industry	Listing	%
Tencent Holdings Ltd	Media & entertainment	Hong Kong	10.8
Li Ning Co Ltd	Consumer durables & apparel	Hong Kong	6.2
China Merchants Bank Co Ltd	Banks	H-shares	5.4
China Tourism Group Duty Free Corp Ltd	Retailing	China A-shares	4.9
COSCO SHIPPING Holdings Co Ltd	Transportation	H-shares	4.9
AIA Group Ltd	Insurance	Hong Kong	4.2
Chinasoft International Ltd	Software & services	Hong Kong	4.0
Kweichow Moutai Co Ltd	Food, beverage & tobacco	China A-shares	3.9
ANTA Sports Products Ltd	Consumer durables & apparel	Hong Kong	3.7
Techtronic Industries Co Ltd	Capital goods	Hong Kong	3.6

These holdings made up 52% of the Fund.

No. of holdings : 32

Level of currency hedge : 56.8%

Geographical exposure by listing³**Sector exposure**³**Fee structure**

Management fee	2.30% p.a. of Net Asset Value
Performance fee	15% of outperformance of the fund over MSCI China Free (High-on-high principle)
Transaction costs	Buy: +0.25% of unit price for applications Sell: -0.25% of unit price for redemptions
Minimum subscription	Dependent on IDPS provider / AUD 25,000 direct
Dealing frequency	Daily

Senior investment staffs**Co-Chairmen & Co-Chief Investment Officers:**

Cheah Cheng Hye; Louis So

Senior Investment Directors:

Norman Ho, CFA; Renee Hung

Investment Directors:

Chung Man Wing; Yu Chen Jun; Michelle Yu, CFA

Senior Fund Managers:

Lillian Cao; Anthony Chan, CFA; Kelly Chung, CFA; Doris Ho;

Glenda Hsia; Amy Lee, CFA, CAIA; Luo Jing, CFA; Frank Tsui

³ Exposure refers to net exposure (long exposure minus short exposure). Derivatives e.g. index futures are calculated based on P/L instead of notional exposure.

⁴ Cash includes receivables and payables (except cash for collaterals and margins).

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