Premium China Fund (ARSN 116 380 771)

August 2021
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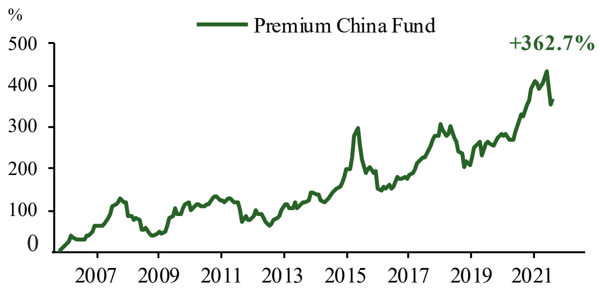
Investment objective

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 112.9 million [2]

Performance since inception [1, 2]



Performance update [1, 2]

	Premium China Fund
One month	+3.2%
Three months	-10.2%
Six months	-7.4%
One year	+8.4%
Since inception	+362.7%
Annualised return	+10.2%
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)	-5.1%
2013	+21.9%		

Unit price: *AUD 2.5786* ***Entry price:*** *AUD 2.5851* ***Exit price:*** *AUD 2.5722*
Distribution: *AUD 0.6153 (for the year ended 30 June 2021)*

Manager's commentary

Market review

After the dismal performance of Greater China equities in July, which was mostly dragged by policy headwinds, sentiment has gradually eased. Although concerns continue in China's macro environment, company fundamentals remain strong.

Macro indicators continue to point towards moderating growth in China. China's Purchasing Manager Index (PMI) eased to 50.1% from 50.4% in July, while the business activity index of the non-manufacturing sector was down to 47.5% from 53.3%[1]. These are in line with our expectations that China's growth will moderate for the remainder of 2021, driven by a stringent liquidity environment and a higher base effect versus last year. That said, China's central bank reiterated that policies will remain targeted and reasonable. This indicates that policy direction will be accommodating as economic stability remains to be a top priority.

The regulatory clampdown in late July is expected to drive market concerns in the near term, as it could take months for policy overhang to settle. While we expect short-term volatility to continue, the earnings seasons that started in August can help drive sentiment recovery. So far, second-quarter earnings results were robust. Company fundamentals remain resilient, indicating that businesses are on track with the recovery path.

Portfolio review and outlook

In August, the Fund and the MSCI China Index were up 3.2% (in AUD) [2] and 0.5% (in AUD), respectively.

Our core holdings in the industrials and consumer sectors were among the top performance contributors of the month. Within the industrials space, our core holding of a Chinese shipping company announced solid earnings results, supported by the addition of newly acquired terminals and new shipping routes in the first half of 2021. In addition, a power tools and equipment manufacturer delivered robust results and strong margin expansion, leading to a re-rating of the stock. Meanwhile, consumer names, including sportswear and e-commerce, remain resilient amid China's gradual economic recovery and consumption upgrade.

On the flipside, our holding of an innovative drug manufacturer slightly detracted amid the continued policy overhang in the healthcare sector. That said, we continue to have a positive outlook in the sector, particularly in innovative drugmakers, as they are positioned to gain market share following the expected market consolidation from policy changes.

We believe that bottom-up stock picking has become more crucial in identifying companies that will be rewarded in the current investment landscape. Although short-term volatility may continue, some names will still benefit from China's long-term goal of achieving quality and sustainable growth. We continue to favor consumer, technology hardware and industrials-related names, which are riding on the structural growth cycle, and focus on quality companies that have strong balance sheets and showcase robust fundamentals.

Source:
1. National Bureau of Statistics of China, 1 September 2021
2. MSCI, 31 August 2021

[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 31 August 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.*

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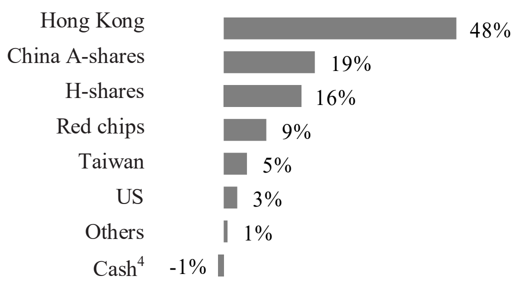
Top 10 holdings

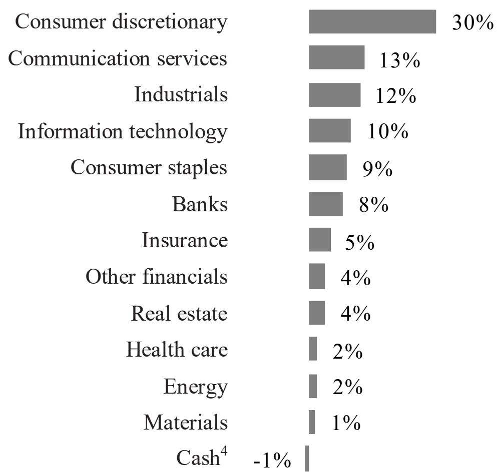
Name	Industry	Listing	%
Tencent Holdings Ltd	Media & entertainment	Hong Kong	8.7
COSCO SHIPPING Holdings Co Ltd	Transportation	Hong Kong	6.1
China Merchants Bank Co Ltd	Banks	Hong Kong	5.1
Meituan	Retailing	Hong Kong	4.7
ANTA Sports Products Ltd	Consumer durables & apparel	Hong Kong	4.6
China Tourism Group Duty Free Corp Ltd	Retailing	China	4.6
Techtronic Industries Co Ltd	Capital goods	Hong Kong	4.4
AIA Group Ltd	Insurance	Hong Kong	3.9
Chinasoft International Ltd	Software & services	Hong Kong	3.9
Li Ning Co Ltd	Consumer durables & apparel	Hong Kong	3.7

These holdings made up 50% of the Fund.
No. of holdings : 37
Level of currency hedge : 50.0%

Geographical exposure by listing [3]



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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