

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 110.3 million ² |

Performance since inception^{1,2}



Performance update^{1,2}

| Premium China Fund | |
|-----------------------|---------|
| One month | -0.7% |
| Three months | -13.2% |
| Six months | -5.2% |
| One year | +9.2% |
| Since inception | +359.4% |
| Annualised return | +10.1% |
| 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) | -5.8% |
| 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 September 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 2.5603 Entry price: AUD 2.5667 Exit price: AUD 2.5539
Distribution: AUD 0.6153 (for the year ended 30 June 2021)

Manager's commentary

Market review

The continued policy overhang and the more recent power supply crunch in China have further dented sentiment for the Greater China equities market in September.

Policy headwinds continue to loom in the market, this time in the property space. The sector has been more regulated since last year by the "three red lines policy" to control the amount of debt developers have. This hit Evergrande, which missed paying bond interest, causing concerns over the sector.

Given Evergrande's size, investors fear that it may pose systemic risks in the country if the company defaults. That said, we expect systemic and contagion risks can be contained as the size of the developer liabilities is manageable. While a massive scale bailout does not seem to be the current approach, policymakers may help alleviate Evergrande's problems. The government may prevent a crisis-like scenario by potentially restructuring its debt and purchasing discounted assets.

The more recent power supply crunch in China has also led to concerns of domestic economic growth to further moderate. The move, however, should help curb the surging prices and shortage of coal, as well as reduce carbon emissions in high carbon intensity sectors, which is one of many measures for the country to meet its carbon neutrality targets.

Despite tightening measures, we expect the targeted policy approach will support a stable growth outlook in China. The central bank reiterated that monetary policy will be flexible, targeted and reasonable, and will even greater priority to keeping the domestic economy stable¹.

Portfolio review and outlook

In September, the Fund had muted returns of -0.7% (in AUD), but continued to outperform the MSCI China Index's -3.9% (in AUD) performance.

Our positions in defensive sectors, including consumer staples and healthcare, helped the Fund outperform the Index. For example, our holding of a Chinese white liquor producer contributed as it expects to see quality growth opportunities from its plans to focus on direct sales. Meanwhile, our holding of a leading biotechnology company is set to benefit from the long-term structural growth of the healthcare sector on the back of its continued development of innovative drugs. Our underweight in Chinese internet names also helped with the Fund's outperformance. The Fund also does not hold Evergrande.

On the flipside, our exposure in consumer discretionary and in industrials detracted amid concerns on weaker consumer outlook on both fronts. That said, our holdings in these sectors, including sportswear manufacturers and a power tools and equipment manufacturer, remain resilient on the back of the gradual economic recovery both in China and globally. Consumer names also continue to be supported by the country's ongoing consumption upgrade theme.

With the policy overhang in the past few months, we expect the market sentiment will take time to recover. However, despite these challenges, we continue to find opportunities in the Greater China equities market. On the back of the government's policy agenda of promoting quality and sustainable growth and equality, we view that it is crucial to identify quality companies that are either immune to policy headwinds or benefit from reform, as well as benefit from the country's long-term structural growth trends. These include technology leaders, consumer-related names, healthcare, and industrial companies.

Source:

1. The People's Bank of China, 30 September 2021

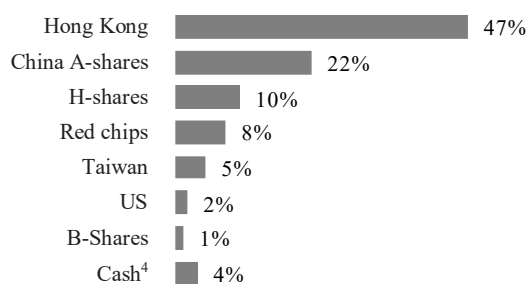
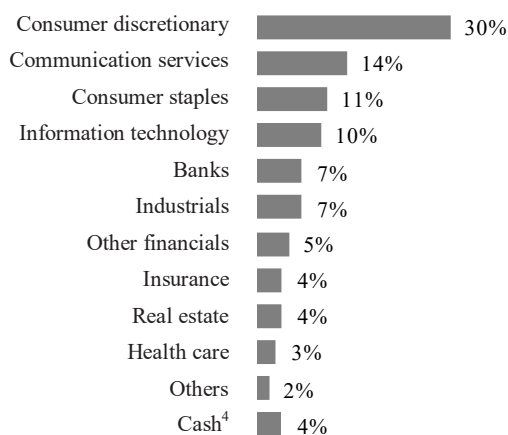
Top 10 holdings

| Name | Industry | Listing | % |
|--|-----------------------------|-----------|-----|
| Tencent Holdings Ltd | Media & entertainment | Hong Kong | 8.0 |
| China Tourism Group Duty Free Corp Ltd | Retailing | China | 5.4 |
| Meituan | Retailing | Hong Kong | 4.8 |
| Chinasoft International Ltd | Software & services | Hong Kong | 4.2 |
| China Mengniu Dairy Co Ltd | Food, beverage & tobacco | Hong Kong | 4.1 |
| China Merchants Bank Co Ltd | Banks | Hong Kong | 4.1 |
| Techtronic Industries Co Ltd | Capital goods | Hong Kong | 4.1 |
| ANTA Sports Products Ltd | Consumer durables & apparel | Hong Kong | 3.7 |
| East Money Information Co Ltd | Diversified financials | China | 3.6 |
| Li Ning Co Ltd | Consumer durables & apparel | Hong Kong | 3.3 |

These holdings made up 45% of the Fund.

No. of holdings : 41

Level of currency hedge : 50.1%

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

Link to TMD

https://www.premiumchinafunds.com.au/wp-content/uploads/2021/10/Premium_China_Fund_EN_AU_1630674978.pdf

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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