PREMIUM CHINA FUND (ARSN 116 380 771)

NOVEMBER 2021
2 PAGES

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 102.2 million [2]

Performance since inception [1, 2]

Performance update [1, 2]

	Premium China Fund
One month	-0.4%
Three months	-4.7%
Six months	-14.4%
One year	-3.6%
Since inception	+340.9%
Annualised return	+9.7%
Annualised volatility	18.0%

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)	-9.6%
2013	+21.9%		

Unit price: *AUD 2.457* ***Entry price:*** *AUD 2.4631* ***Exit price:*** *AUD 2.4508*
Distribution: *AUD 0.6153 (for the year ended 30 June 2021)*

Manager's commentary

Market review

Investor sentiment towards Greater China equities was dented with unexciting third quarter earnings results and news of a new coronavirus variant.

There was a divergence in earnings growth during the quarter. Upstream companies reported strong earnings growth, driven by rising commodity prices, while earnings and margins of downstream names, especially in the consumer space, squeezed amid weaker-than-expected demand and inflation.

Meanwhile, the new variant, Omicron, sent shockwaves across global markets at the end of November, further exacerbating sentiment. The variant's strength or virulence is still being assessed, and thus, it is too early to gauge its impact on economic recovery.

On a positive note, China's manufacturing industry returned to the expansion range in November, with the Manufacturing PMI up 50.1%, after being below the 50% level for two consecutive months[1]. We are also seeing signs of demand recovery, with total retail sales of consumer goods continuing their rebound in October from the yearly low in August[2].

On the geopolitical front, the virtual meeting between US President Biden and China's leader Xi Jinping did not bear immediate or concrete breakthroughs in the ongoing tensions between the two countries. However, both sides took the opportunity to negotiate and move away from any disputes. Although the relationship between the two countries remains unchanged, we view that the most heightened tensions are behind us.

Portfolio review and outlook

In November, the Fund and the MSCI China Index were both down 0.4% (in AUD).

Our selective exposure in e-commerce dragged the Fund's performance in November. As increased scrutiny over the internet sector continues to moderate the sector's growth outlook, we maintain our cautious view of the sector and remain underweight and selective in this space. That said, longer-term, the internet space continues to play a key role in China's economy. Meanwhile, our exposure in the real estate sector also detracted. Despite easing sentiment over policy risks, the sector continues to see downward pressure, with most developers recording softening contracted sales performances. That said, we remain constructive on our property management holdings, which offers growth visibility.

On the flipside, our holdings in hardware technology yielded positively during the month as they continue to ride on the digitalization trend domestically and globally. One of them is a forerunner in electronic component parts and a major AR/VR headset assembler. It benefitted from continued demand for wearables, including wireless earphones, as well as the revenue growth expected from new AR/VR models that will be released next year, driven by various companies' adoption of the metaverse. Our selective exposure to various consumer names also contributed. They include Chinese sportswear and white liquor companies, which benefited from an improving consumer outlook in the country, as well as a Taiwan-based bicycle manufacturer, which continues to ride on the rising e-bike trend globally.

We remain optimistically cautious of the market. Although valuations have gone down to undemanding levels, we expect near-term volatility to continue amid ongoing regulatory headwinds and external uncertainties. We continue to monitor the situation of the new coronavirus variant, as well as other external events, including the pace of tapering by the Fed, as well as developments in US-China relations. We view that the current landscape should offer selective bottom-up investing opportunities and continue to favor quality names that have earnings visibility, including technology leaders, consumer-related names, and industrial companies.

Source:
1. National Bureau of Statistics, 1 December 2021
2. National Bureau of Statistics, 11 November 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 30 November 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.

www.premiumchinafunds.com.au
Tel: (02) 9211 3888 Email: info@premiumchinafunds.com.au

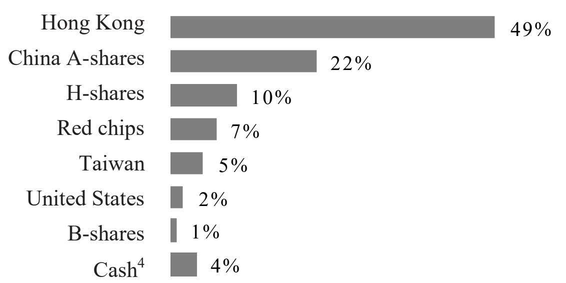
Think Asia Think Premium

Top 10 holdings

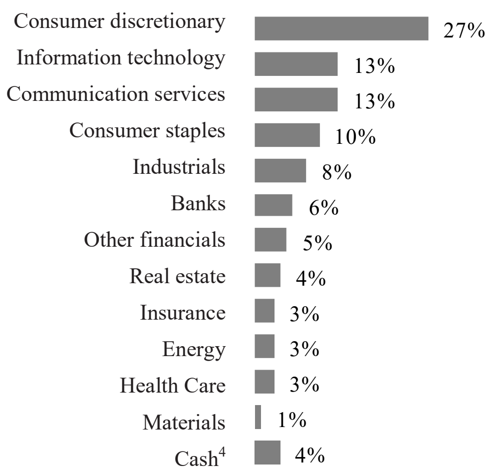
Name	Industry	Listing	%
Tencent Holdings Ltd	Media & entertainment	Hong Kong	8.7
Meituan	Retailing	Hong Kong	6.0
Techtronic Industries Co Ltd	Capital goods	Hong Kong	4.6
Chinasoft International Ltd	Software & services	Hong Kong	4.5
China Merchants Bank Co Ltd	Banks	H-shares	4.3
East Money Information Co Ltd	Diversified financials	China A-shares	4.0
China Mengniu Dairy Co Ltd	Food, beverage & tobacco	Red chips	3.9
Kweichow Moutai Co Ltd	Food, beverage & tobacco	China A-shares	3.7
ANTA Sports Products Ltd	Consumer durables & apparel	Hong Kong	3.4
AIA Group Ltd	Insurance	Hong Kong	3.2

These holdings made up 46% of the Fund.
No. of holdings : 40
Level of currency hedge : 50.1%

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

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).*

Think Asia
Think Premium