PREMIUM CHINA FUND (ARSN 116 380 771)

DECEMBER 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 97.6 million [2]

Performance since inception [1, 2]

Performance update [1, 2]

	Premium China Fund
One month	-2.8%
Three months	-6.7%
Six months	-19.0%
One year	-12.1%
Since inception	+328.5%
Annualised return	+9.4%
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)	-12.1%
2013	+21.9%		

***Unit price:** AUD 2.3880 **Entry price:** AUD 2.3940 **Exit price:** AUD 2.3821*
***Distribution:** AUD 0.6153 (for the year ended 30 June 2021)*

Manager's commentary

Market review

Investor sentiment towards Greater China equities was mixed in December.

Concerns about the new COVID-19 variant remains, with China reporting increasing local infections in certain cities during the month, likely impacting domestic economic activity. Macro data released during the month also pointed to weakening demand since the onset of the new variant. Total retail sales on consumer goods were 3.9% YoY, down from 4.9% in October[1].

On the positive side, China's manufacturing industry continued to be in the expansion range, with the official manufacturing PMI rising to 50.3 in December, from 50.1 in the previous month[2]. There have also been signs of targeted easing policies to support economic recovery. The PBOC, for example, had another 50 bp RRR cut during the month and also cut the rates on its one-year loan prime rate. In addition, China's regulators have also encouraged banks to provide loans for M&A in the property market, which should further ease sentiment towards the sector.

Acknowledging the headwinds of demand contraction and supply shocks, China's top leaders also signaled a pro-growth stance during the annual Central Economic Work Conference. The country is expected to implement a combination of proactive fiscal and prudent monetary policies to achieve steady and quality economic progress in 2022. Prioritizing stable economic growth, the government also pledged to implement new tax policies, strengthen support for small and medium-sized enterprises and guide financial institutions to ramp up support for technological innovation and green development.

Portfolio review and outlook

In December, the Fund and the MSCI China Index were down 2.8% (in AUD) and 5.6% (in AUD), respectively.

A basket of our holdings in technology hardware companies yielded positively during the month as the demand for consumer electronics remained solid. Riding on the 5G wave globally, we continue to see ample investment opportunities in the technology hardware sector as 5G applications mature. A company engaged in animal feed manufacturing also rallied on improving competitiveness by providing comprehensive services and establishing a complete ecosystem. This leading business model should increase customer stickiness and the company's earnings stability.

On the other hand, our selective exposure in the internet space dragged the Fund's performance in December. As increased scrutiny over the internet sector continues to moderate the sector's growth outlook, we maintain our cautious view of the sector. Focusing on fundamentals, we remain underweight and selective in this space. Among these, companies with core competitiveness in providing online services should continue to see growth opportunities. Our healthcare exposures also detracted as the sector was hit on speculations that the US will be adding Chinese biotech companies to its trade blacklist, with investors overreacting to unverified news. In addition, currency hedging was also a detractor to Fund performance, as the AUD appreciated against the USD.

Overall, we remain optimistically cautious of the market. While we expect volatility to carry into 2022 amid ongoing regulatory headwinds and external uncertainties, valuations have retreated to undemanding levels and we expect more pro-growth policies as growth stability has become the policy focus. We continue to monitor the situation of the Omicron, as well as other external events, including the developments in the supply chain globally and the pace of tapering by the Fed. We view that the current investing landscape should offer selective bottom-up investing opportunities and continue to favor quality names that have earnings visibility, including tech leaders, consumer-related names, and wealth management service companies.

Source:
1. National Bureau of Statistics of China, 16 December 2021
2. National Bureau of Statistics of China, 4 January 2022

[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 December 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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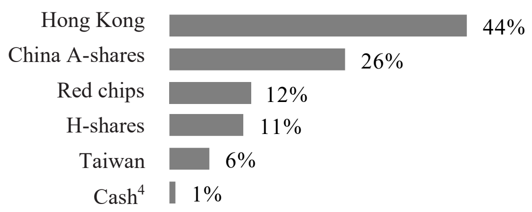
Think Asia
Think Premium

Top 10 holdings

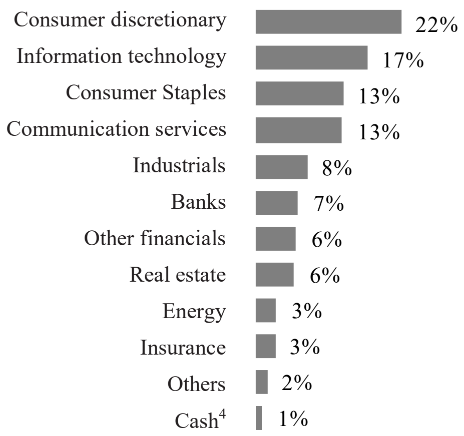
Name	Industry	Listing	%
Tencent Holdings Ltd	Media & entertainment	Hong Kong	8.9
Techtronic Industries Co Ltd	Capital goods	Hong Kong	4.6
China Merchants Bank Co Ltd	Banks	H-shares	4.4
East Money Information Co Ltd	Diversified financials	China A-Shares	4.4
GoerTek Inc	Technology hardware & equipment	China A-Shares	4.4
China Mengniu Dairy Co Ltd	Food, beverage & tobacco	Red Chips	4.0
Kweichow Moutai Co Ltd	Food, beverage & tobacco	China A-Shares	4.0
Giant Manufacturing Co Ltd	Consumer durables & apparel	Taiwan	3.5
China Tourism Group Duty Free	Retailing	China A-Shares	3.5
Meituan	Retailing	Hong Kong	3.4

These holdings made up 45% of the Fund.
No. of holdings : 41
Level of currency hedge : 47.7%

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).*