Premium China Fund (ARSN 116 380 771)

January 2022
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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 96.6 million [2]

Performance since inception [1, 2]

Performance update [1, 2]

	Premium China Fund
One month	-0.3%
Three months	-3.5%
Six months	-4.8%
One year	-15.0%
Since inception	+327.1%
Annualised return	+9.4%
Annualised volatility	17.9%

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	-12.1%
2013	+21.9%	2022 (YTD)	- 0.3%

Unit price: *AUD 2.3804* ***Entry price:*** *AUD 2.3863* ***Exit price:*** *AUD 2.3744*
Distribution: *AUD 0.6153 (for the year ended 30 June 2021)*

Manager's commentary

Market review

Investor sentiment remained subdued towards the Greater China equities market in January.

Global markets became jittery in the month amid a more hawkish Fed tone, with the market expecting five to six interest rate hikes this year. In China, fears about growth moderating domestically continued to linger on the back of weakening property home sales, which many see may drag the country's economy. That said, GDP for the whole year reached 8.1%, which was above the government's "more than 6%" growth target.

Following its shift to a pro-growth stance in December, the government has started monetary easing, which should help lift investor confidence and help the economy to achieve stable growth for the rest of the year. For example, following the RRR cut in December, the interest rate for the medium-term lending facility (MLF) operation has been lowered by 10 bps, and the one-year and five-year Chinese loan market quoted rates (LPR) have been lowered by 10 and 5 bps, respectively. The reduction of the 5-year LPR, which is the benchmark for mortgage interest rates, is the first cut since April 2020.

Apart from rate cuts, more measures are called for given the continued lackluster demand. Recent reports reveal that regulators are drafting new rules to potentially relax property developers' use of funds in pre-sale escrow accounts to assist in timely project delivery, payments to suppliers and outstanding financing. On the fiscal side, the government has extended some tax cuts for the technology and healthcare sectors while planning to provide more support for high-end manufacturers and SMEs and accelerate renewable power investment.

Portfolio review and outlook

In January, the Fund was slightly down 0.3% (in AUD), while the MSCI China Index was a bit flat at 0.2% (in AUD)[1].

Our exposure to onshore equities dragged the Fund's performance. During the month, sentiment was dented by the soft macro numbers as well as sharp volatility of the overseas market due to the US tapering pace. In particular, there was a sell-off in technology stocks as investors got concerned about oversupply and slowing demand. That said, the global structural trend of digitalization and electrification is still intact and we continue to hold a positive outlook on our industry leader holdings, particularly companies that continue to see high earnings visibility. Other A-share exposures that pulled back amid the moderating growth outlook include industrials and an online financial platform. Despite the short-term setback, we view that growth continues to be sustainable, supported by accommodative policies, and the pullback in the market has also made their valuations more attractive.

Meanwhile, our holdings in telecommunications and real estate yielded positively, as investors rotated from growth names to the more value and high yield stocks amid the faster-than-expected tightening of the US Fed. For example, our holding of a Chinese telecommunications company continues to benefit from improving dynamics in the sector, including higher pricing for 5G, and is riding on the industrial digitalization trend in China. Our bottom-up picks within real estate benefitted from the more eased policy stance by the government, such as the reduction of the 5-year LPR. Our view remains the same that high-quality names will benefit from industry consolidation as sales and liquidity conditions are expected to be polarized between the healthy and high-geared developers.

Against the current macro backdrop, we continue to be optimistically cautious of the Greater China market. We continue to monitor downside risks, including the pace of tapering by the Fed and ongoing domestic regulatory headwinds, as we view that these uncertainties may drive volatility in the short- to medium-term. That said, valuations have retreated to undemanding levels, while the government's more pro-growth policy stance should promote stable growth in China. We believe that the current investing landscape should offer bottom-up investing opportunities as we expect more diverged performances among companies and sectors. We continue to favor quality names are beneficiaries of growth policies, including tech leaders, consumer-related names, and financial companies that provide wealth management services.

Source:
1. MSCI, 31 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 January 2022. 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

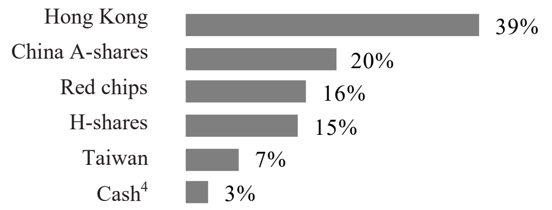
Think Asia
Think Premium

Top 10 holdings

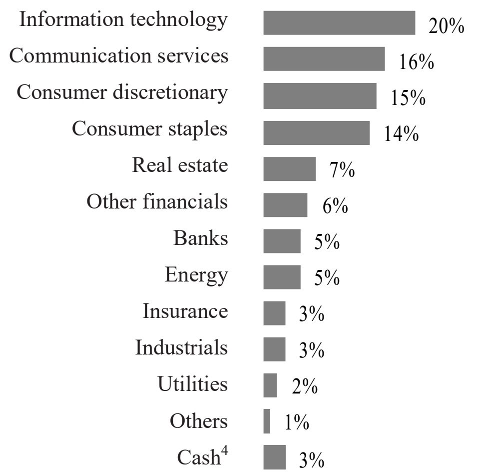
Name	Industry	Listing	%
Tencent Holdings Ltd	Media & entertainment	Hong Kong	9.5
China Merchants Bank Co Ltd	Banks	Hong Kong	5.0
GoerTek Inc	Technology hardware & equipment	China	4.4
China Mengniu Dairy Co Ltd	Food, beverage & tobacco	Hong Kong	4.4
Kweichow Moutai Co Ltd	Food, beverage & tobacco	China	4.0
East Money Information Co Ltd	Diversified financials	China	3.9
CNOOC Ltd	Energy	Hong Kong	3.6
Meituan	Retailing	Hong Kong	3.5
AIA Group Ltd	Insurance	Hong Kong	3.4
ANTA Sports Products Ltd	Consumer durables & apparel	Hong Kong	3.4

These holdings made up 45% of the Fund.
No. of holdings : 42
Level of currency hedge : 43.6%

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).*