PREMIUM ASIA FUND (ARSN 134 226 029)

FEBRUARY 2022
2 PAGES

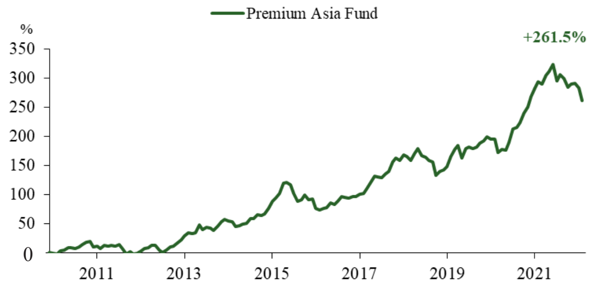
Investment objective

The Premium Asia Fund aims to generate positive returns, consisting of both capital growth and income, over a three to five year period prior to accounting for movements in currency exchange rates. It will seek to achieve this objective by constructing a portfolio of securities which provides exposure to the Asia ex-Japan region. The Fund is denominated in Australian dollars and typically will not hedge its currency exposure.

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:	MAQ0635AU
Inception date:	1 December 2009
Fund size:	AUD 38.7 million [2]

Performance since inception [1, 2]



Performance update [1, 2]

	Premium Asia Fund
One month	-5.6%
Three months	-7.2%
Six months	-10.9%
One year	-8.3%
Since inception	+261.5%
Annualised return	+11.1%
Annualised volatility	12.9%

Volatility is a measure of theoretical risk. In general, the lower the number, the less risky the investment.

Annual return since inception [1, 2]

2009 (Since inception)	+1.2%	2016	+2.0%
2010	+9.2%	2017	+31.8%
2011	-9.9%	2018	-6.1%
2012	+22.1%	2019	+23.3%
2013	+29.3%	2020	+23.0%
2014	+12.1%	2021	+6.0%
2015	+9.2%	2022 (YTD)	-7.5%

***Unit price:** AUD 1.2463 **Entry price:** AUD 1.2495 **Exit price:** AUD 1.2432*
***Distribution:** AUD 0.3397 (for the year ended 30 June 2021)*

Manager's commentary

Market review

The Fed's hawkish stance and geopolitical tensions took the center stage in February, triggering a risk-off sentiment globally.

In China, we view that it will be in a better position than the west, as it has been counter-cyclical with its monetary policies. Due to softer demand domestically, inflation has been under control and trending down in recent months. With more room to provide stimulus to the economy, China has already shifted to a more pro-growth stance and have made moves to monetary or credit easing. Following these moves, new bank loans reached nearly RMB 4 trillion in January, up from RMB 1.1 trillion in December[1]. Meanwhile, the country's outstanding TSF (total social financing), an indicator of credit and liquidity in the economy, increased 10.5% YoY reaching RMB 6.2 trillion. History suggests these pro-growth moves will take several months to take effect and shall lift market sentiment towards the Greater China market eventually.

Sentiment was also subdued in Taiwan, with the MSCI Taiwan Index down 2.6%[2]. However, its economy remains resilient despite external headwinds. Domestically, retail consumption continued its upward trend, up 6.4% in January[3]. Externally, exports in February expanded 34.8% YoY[4], driven by the demand for technology products as well as increasing commodity prices[4]. Taiwan's administration also revised up its 2022 GDP growth estimate to 4.4% from its 4.2% projection in November, driven by exports, recovery of private consumption, and strong fixed investments, particularly in the semiconductor industry, as well as in the offshore wind industry[5].

After plunging in January, South Korea's equities market was slightly up the following month, with the MSCI Korea Index returning 0.7%[2]. Following three interest rate hikes since August, Bank of Korea decided to leave the rate unchanged at 1.25% in February, although the market expects further rate hikes this year, the next one potentially in April[6]. The central bank acknowledged that CPI may run above 3% this year, versus its 2% projection in November, driven by rising commodity prices. That said, it maintained its GDP forecast of 3%, taking into consideration the upside coming from healthy exports and downside from pandemic and geopolitical risks.

Southeast Asia markets outperformed their regional peers in February, with the MSCI ASEAN Index up 2.5%[1]. Performing strongly included Indonesia, Thailand and Malaysia, with each market returning about 5%. Markets in the region have inflation under control and most are looking past the milder Omicron variant and have continued on their reopening. We are seeing opportunities in the market, especially for net-exporters of commodities like Indonesia and Malaysia, which should benefit from the rising prices of commodities and energy prices. For Indonesia, its economy has also improved structurally. Its current account has turned positive and the high commodity prices will improve it further.

Portfolio strategy and outlook

In February, the Fund and the MSCI AC Asia ex Japan Index were down 5.6% (in AUD) and 5.2% (in AUD), respectively.

Our holdings of regional hardware technology names dragged, as investors continued to be concerned about the slowing demand globally. That said, we continue to hold a positive outlook on our holdings, as they continue to offer high earnings visibility and strong ongoing growth under the global structural trend of digitalization and electrification. Meanwhile, our selective holdings in China internet was hit on a policy statement that food delivery operators should offer temporary preferential rates to restaurants that are located in the "medium-to-high COVID risk areas". While the risk-off sentiment ought to trigger over-reaction from investors on negative newsflow, we remain very selective in the sector to ensure its fundamentals remain intact and be cautious of potential policy changes as the government rolls out its common prosperity agenda.

On the other hand, our selective exposures in Chinese consumer-related names, which showed high earnings visibility, yielded positively. They rose as domestic consumption is expected to recover this year on the back of pro-growth policies from the government. These holdings in particular, which include clothing, dairy and beer names, remain to be beneficiaries of the country's consumption upgrade trend, backed by their continued product mix upgrades that should provide earnings visibility in the medium term. Our holdings of energy-related names also contributed on the back of increasing commodity prices.

We are more cautious in assessing our holdings' vulnerability amid the sudden pick up in inflation driven by geopolitical tension; while remaining optimistic on Greater China and Asia markets for the whole year. In China, valuations in the Greater China market have retreated to undemanding levels, and the government's more pro-growth policy stance should help boost the economy. We expect China's Two Sessions in March should shed more light on the materialization of the government's plan to promote stable growth in China. In some parts of Asia inflation is also more under control. Most markets in the ASEAN are also looking past the Omicron variant, as most have continued on their reopening, which should help the market catch up. That said, we continue to monitor external risks that continue to loom global markets, including the ongoing tensions between Russia and Ukraine and the Fed's plan of trimming its balance sheet. We expect our dynamic allocation in both stable and cyclical high yield equities, as well as value tilted exposures, would continue to be favored in the current macro backdrop.

Source:
1. People's Bank of China, 10 February 2022
2. MSCI, 28 February 2022
3. Ministry of Finance, Taiwan, 23 February 2022
4. Ministry of Finance, Taiwan, 8 March 2022
5. Directorate-General of Budget, Accounting and Statistics, Taiwan, 24 February 2022
6. Bank of Korea, 24 February 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 28 February 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. Index performance is for reference only.*

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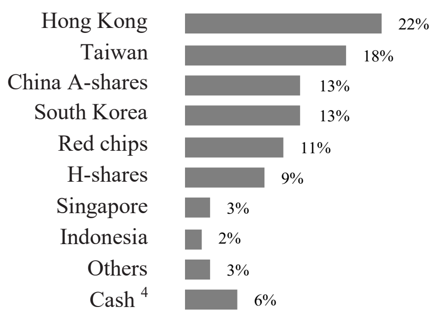
Top 10 holdings

Name	Industry	Listing	%
Taiwan Semiconductor Manufacturing	Semiconductors & semiconductor equipment	Taiwan	8.7
Samsung Electronics	Technology hardware & equipment	South Korea	5.8
Tencent	Media & entertainment	Hong Kong	3.6
Goertek Inc	Technology hardware & equipment	China A-shares	2.7
China Resources Land	Real estate	Red chips	2.4
China Mengniu Dairy	Food, beverage & tobacco	Red chips	2.3
China Mobile	Telecom services	Red chips	2.2
China Resources Beer (Holdings)	Food, beverage & tobacco	Red chips	2.1
China Merchants Bank	Banks	H-shares	2.1
ANTA Sports Products	Consumer durables & apparel	Hong Kong	2.1

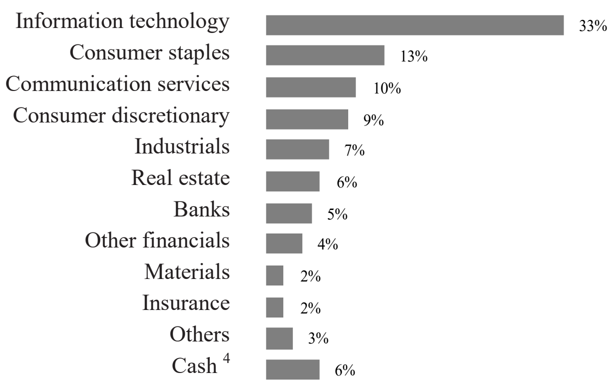
These holdings made up 34% of the Fund.

No. of holdings : 86

Geographical exposure by listing [3]



Sector exposure [3]



Fee structure

Management fee	1.33% p.a. of Net Asset Value
Performance fee	No performance fee
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 staff

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_Asia_Fund_EN_AU_1630674977.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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