

PREMIUM CHINA FUND (ARSN 116 380 771)

FEBRUARY 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 87.8 million ²

Performance since inception^{1,2}



Performance update^{1,2}

Premium China Fund	
One month	-8.4%
Three months	-11.3%
Six months	-15.4%
One year	-21.7%
Since inception	+291.3%
Annualised return	+8.7%
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	-12.1%
2013	+21.9%	2022 (YTD)	-8.7%

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.

Unit price: AUD 2.1807 Entry price: AUD 2.1861 Exit price: AUD 2.1752
Distribution: AUD 0.6153 (for the year ended 30 June 2021)

Manager's commentary

Market review

Inflationary concerns and the heightened geopolitical tensions between Russia and Ukraine rattled markets globally in February.

In the US, inflation continues to increase. Besides the rise in commodity prices and supply chain bottlenecks, inflation in the country has become more structural, with the "great resignation" driving up wages. Investors are now expecting more than four rate hikes in the US this year, with the first one happening in March.

Geopolitical tensions between Russia and Ukraine are also putting a strain on investor sentiment, especially following their military conflicts. As tensions escalated, inflationary pressures were further exacerbated. With both Russia and Ukraine being major exporters of oil and other commodities, the tensions may cause more supply chain bottlenecks and push up energy and food prices.

While we view that sentiment will be weak globally in the medium-term, we expect that China will be in a better position compared to the west, as it has been counter-cyclical with its monetary policies. Due to softer demand domestically, inflation has been under control. 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 December¹. Meanwhile, the country's outstanding TSF (total social financing) increased 10.5% YoY reaching RMB 6.2 trillion. History suggests these pro-growth moves will take several months to take effect and shall eventually lift market sentiment towards Greater China equities.

Portfolio review and outlook

In February, the Fund and the MSCI China Index were both down 8.4% (in AUD) and 6.7% (in AUD), respectively. As the AUD appreciated against the USD, currency hedging attributed a loss of 1.7% to the Fund's performance.

Despite liquidity support, the Fed's hawkish stance and geopolitical tensions took the center stage during the month, triggering a risk-off sentiment. Our holdings of technology hardware 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 growth under the global structural trend of digitalization and electrification. Our selective exposure in the internet sector also detracted as investors anticipated a moderated first quarter macro environment. Investors, in particular, over-reacted 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". As investors continue to be sensitive to negative newsflow, we remain very selective in the sector and ensure our holdings continue to have intact fundamentals. We are also cautious of potential policy changes as the government rolls out its common prosperity agenda.

On the flip side, our selective exposures in 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.

Against the current macro backdrop, we are more cautious in assessing our holdings' vulnerability while remaining optimistic about the Greater China market in the whole year. On one hand, external risks, which we continue to monitor, continue to loom the market, including the ongoing tensions between Russia and Ukraine and the Fed's plan of trimming its balance sheet. On the other hand, 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. Overall, we are seeing bottom-up opportunities as we expect more diverged performances among companies and sectors. We continue to favor high-quality companies with strong balance sheets, earnings visibility, and are beneficiaries of growth policies, including tech leaders, consumer-related names, and financial companies that provide wealth management services.

Source:

1. People's Bank of China, 10 February 2022

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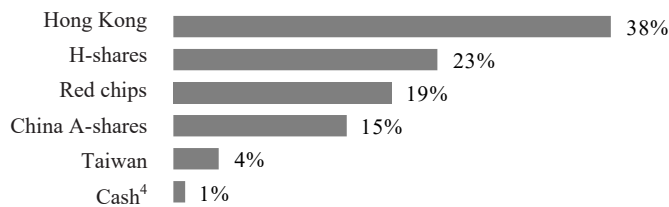
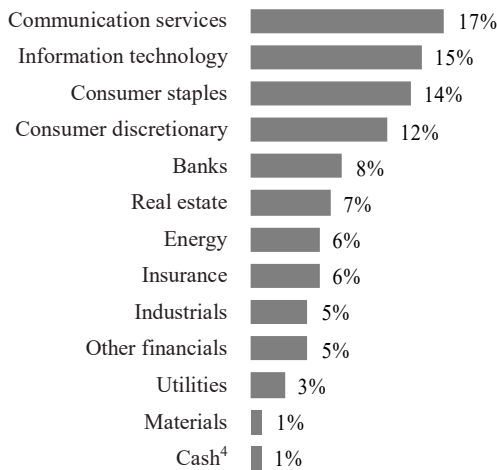
Top 10 holdings

Name	Industry	Listing	%
Tencent Holdings Ltd	Media & entertainment	Hong Kong	9.1
China Merchants Bank Co Ltd	Banks	Hong Kong	5.4
China Mengniu Dairy Co Ltd	Food, beverage & tobacco	Hong Kong	5.1
CNOOC Ltd	Energy	Hong Kong	4.1
China Telecom Corp Ltd	Telecom services	Hong Kong	4.0
ANTA Sports Products Ltd	Consumer durables & apparel	Hong Kong	3.7
AIA Group Ltd	Insurance	Hong Kong	3.6
East Money Information Co Ltd	Diversified financials	China	3.6
China Resources Land Ltd	Real estate	Hong Kong	3.1
Meituan	Retailing	Hong Kong	2.9

These holdings made up 45% of the Fund.

No. of holdings : 46

Level of currency hedge : 40.3%

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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