Premium China Fund (ARSN 116 380 771)

March 2022
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 74.7 million [2]

Performance since inception [1, 2]

Performance update [1, 2]

	Premium China Fund
One month	-13.3%
Three months	-20.8%
Six months	-26.2%
One year	-30.0%
Since inception	+239.2%
Annualised return	+7.7%
Annualised volatility	18.5%

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)	-20.8%

Unit price: *AUD 1.8904* ***Entry price:*** *AUD 1.8952* ***Exit price:*** *AUD 1.8857*
Distribution: *AUD 0.6153 (for the year ended 30 June 2021)*

Manager's commentary

Market review

Several uncertainties weighed on investor sentiment in March, resulting in Greater China equities' lackluster performance.

Following the events of the military conflicts between Russia and Ukraine, investor sentiment was further dampened by ADR delisting risks. While talk of potential delistings is not new, the Holding Foreign Companies Accountable Act (HFCAA) implementation began in early March. Sentiment has improved after the CSRC's proposal to improve cross-border cooperation. Although some of the US regulators' concerns could be addressed, uncertainties remain until a resolution is reached. That said, the direct impact on our portfolio is immaterial, given zero exposure to Chinese ADRs.

Meanwhile, the spike of COVID infections in China has also added to investors' concerns, as the lockdowns may affect supply chains and further weaken consumption in the near term. The targeted lockdown measures have proven to be effective in most cities, with the majority of new cases happening within the Shanghai and Jilin regions. Data also suggested a manageable impact on production compared to the first wave of COVID in 2020. If control measures are managed properly, we expect that China's production activities would recover quickly from the lockdown disruption. While we are optimistic about the containment of the virus, we continue to monitor the frequency of lockdowns and their impacts on the economy.

During the National People's Congress in March, the government further articulated its more pro-growth stance, setting its target GDP growth to be around 5.5% for 2022[1], which may be challenging given the pandemic disruption. It is expected that the government will employ a combination of proactive fiscal and monetary policies. For example, the government will be increasing infrastructure spending on the fiscal front. Tax rebates are also expected to be rolled out, especially for SMEs, to support the economy. On the monetary front, policies will be more accommodative. With CPI remaining low, China has more room for rate cuts, contrary to most developed markets in the west. In the wake of market weakness, we expect a further step up in easing is almost a must scenario from policymakers. The loosening would also become more apparent as various departments work together to reflect the easing stance.

Portfolio review and outlook

In March, the Fund and the MSCI China Index were down 13.3% (in AUD) and 11.1% (in AUD), respectively.

Amid a risk-off sentiment, all sectors recorded losses in March. Our exposure to hardware technology was among the hardest hit amid end demand weakness, including smartphone and PC shipments, leading to fears of inventory correction in the consumer electronics and semiconductor space. While we remain cautious of their near-term outlook, our holdings focus on high-quality leaders in the industry that should benefit from the continued digitalization trend. Our top holding of a leading online entertainment provider also detracted as growth headwinds continued to cloud the near-term internet sector outlook. Other detractors included our holdings in consumer-related names amid the weaker demand outlook caused by the pandemic. That said, we remain constructive on our consumption upgrade holdings as they continue to deliver decent long-term earnings growth.

On the flipside, our holdings of energy and fertilizer companies yielded positively as they continue to benefit from rising commodities and food prices. Our holdings in the more defensive sectors, such as in selective financials, also rose, as investors continue to rotate towards value and high-yielding stocks from the growthier parts of the market amid the faster-than-expected tightening of the Fed.

Overall, we view that volatility will remain in the near term as the abovementioned risks have created many uncertainties, with investor sentiment outweighing the change in fundamentals. However, the current investment landscape has created bottom-up opportunities, with diverging performances in sectors and companies. At the same time, the continued easing policy should pave the way for a more favorable backdrop. While we remain cautious in assessing the impacts of COVID resurgence, medium-term, we view that the government's pro-growth stance should eventually uplift market sentiment, although it will take time for monetary and fiscal actions to be reflected in the economy. We continue to prefer high-quality companies with earnings visibility and those that will benefit from policy tailwinds, including consumer names, hardware technology, and financial companies that provide wealth management services.

Source:
1. National People's Congress, 5 March 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 March 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.*

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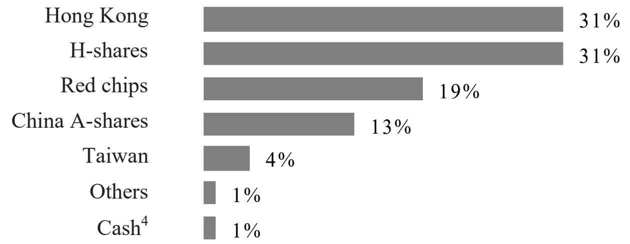
Top 10 holdings

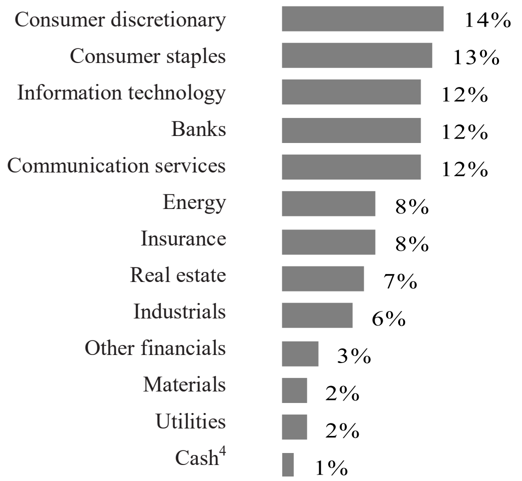
Name	Industry	Listing	%
China Merchants Bank Co Ltd	Banks	Hong Kong	5.7
CNOOC Ltd	Energy	Hong Kong	5.0
China Mengniu Dairy Co Ltd	Food, beverage & tobacco	Hong Kong	4.8
China Telecom Corp Ltd	Telecom services	Hong Kong	4.6
China Construction Bank Corp	Banks	Hong Kong	4.4
Tencent Holdings Ltd	Media & entertainment	Hong Kong	4.3
AIA Group Ltd	Insurance	Hong Kong	4.2
ANTA Sports Products Ltd	Consumer durables & apparel	Hong Kong	3.5
Taiwan Semiconductor Manufacturing Co Ltd	Semiconductors & semiconductor equipment	Taiwan	3.5
China Resources Land Ltd	Real estate	Hong Kong	3.4

These holdings made up 43% of the Fund.
No. of holdings : 48
Level of currency hedge : 52.4%

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.premiumasiafunds.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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