Premium China Fund (ARSN 116 380 771)

June 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 78.4 million [2]

Performance since inception [1, 2]

Performance update [1, 2]

	Premium China Fund
One month	+5.6%
Three months	+7.8%
Six months	-14.7%
One year	-30.9%
Since inception	+265.6%
Annualised return	+8.1%
Annualised volatility	18.2%

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)	-14.7%

***Unit price:** AUD 2.0375 **Entry price:** AUD 2.0426 **Exit price:** AUD 2.0325*

Manager's commentary

Market review

Although investors remained cautious about global markets, Greater China equities fared better on the back of an improving macro environment and more supportive economic measures expected from the government.

During the month, the government continued to roll out more supportive policies. For example, local governments have considerably accelerated the issuance of special bonds intended for infrastructure investments, with local government special bond issuance exceeding 90% of the annual target[1]. In addition, stock exchanges also published rules to allow real estate investment trusts (REITs) to raise fresh money for infrastructure projects.

At the beginning of June, the government also announced that policy banks' lending quota would be increased by RMB 800 billion to provide financial support for infrastructure construction[2]. Later, the government also decided to raise RMB 300 billion by issuing financial bonds to replenish the capital for major projects, such as new types of infrastructure. We expect that these initiatives to boost infrastructure investments should help stabilize the economy, spurring employment and wages, and in turn, consumption.

Meanwhile, the easing lockdowns and pandemic measures in China have also paved the way for economic resumption, as reflected by improving macroeconomic data. In June, China's manufacturing purchasing managers index (PMI) was up to 50.2, returning to the expansionary territory after three consecutive months of contraction[3]. Non-manufacturing business activity was also in the expansionary range at 54.7, 6.9 points higher than the previous month. That said, while we expect economic resumption to continue on the back of easing pandemic measures, we remain cautious and monitor how China's evolving zero-Covid strategy may impact businesses.

Portfolio review and outlook

Greeted by favorable news of easing lockdowns, better-than-feared economic data, and the announcement of additional stimuli, the MSCI China Index was up 11.2% (in AUD) in June[4]. During the period, the Fund returned 5.6% (in AUD).

Consumer-related names, including e-commerce, were the key contributors during the month, reflecting the market's enthusiasm towards China on the back of the continuous fiscal stimulus, policy normalization, and partial reopening that bolstered economic activities. With the expectation of additional stimuli and easing pandemic measures, we have increased our select consumer holdings to position for potential economic recovery. Our exposure to financial services also yielded positively, particularly from a leading wealth management platform with a strong retail franchise. Our real estate holdings also contributed as sentiment improved on signs of property sales recovery.

On the other hand, our positions in technology hardware component makers dragged the portfolio's performance. They were impacted by ongoing fears over a recession in the US, which could prompt further weakness in the demand for consumer electronics. It is worth noting that we have trimmed our exposure to electronic-related names in the month. Our active holding of a leading semiconductor foundry was also dragged by negative news of order cuts. That said, we view that its strong technology leadership should not be disrupted by short-term volatility. Our underweight in the e-commerce space has also hindered our performance relative to the benchmark.

Looking ahead, we are positive about China's accommodative policy stance. The continuous reopening, easing supply chain disruptions, and healthy economic fundamentals should support domestic consumption. That said, we view that a rapid economic recovery is less likely, and market volatility will remain amid ongoing concerns of a potential recession shock coming from the US. In addition, we are also keeping an eye on other parts of Asia as inflation has started to hurt some economies and how this may potentially affect China. We continue to favor high-quality, leading companies, especially those that sit favorably toward structural growth trends, such as consumption upgrade, the growth of wealth management businesses, and the adoption of new energy and technologies.

Source:

1. *South China Morning Post, 6 July 2022*
2. *The State Council of the People's Republic of China, June 2022*
3. *National Bureau of Statistics, 5 July 2022*
4. *MSCI, 30 June 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 30 June 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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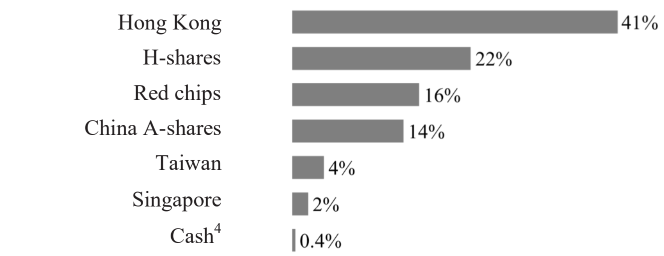
Top 10 holdings

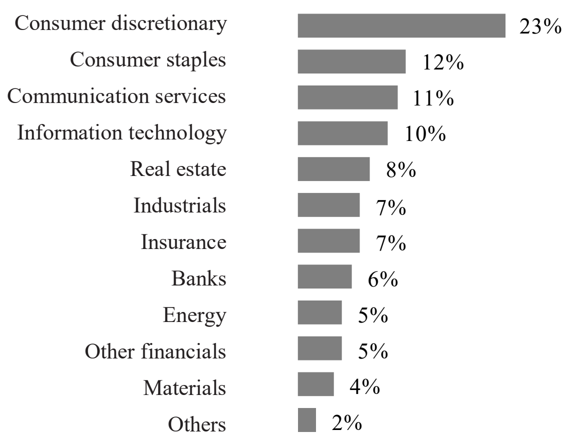
Name	Industry	Listing	%
Tencent Holdings Ltd	Media & entertainment	Hong Kong	5.5
Meituan	Retailing	Hong Kong	5.3
Alibaba Group Holding Ltd	Retailing	Hong Kong	5.1
CNOOC Ltd	Energy	Hong Kong	5.0
Kweichow Moutai Co Ltd	Food, beverage & tobacco	China	4.4
AIA Group Ltd	Insurance	Hong Kong	4.2
China Merchants Bank Co Ltd	Banks	Hong Kong	3.7
East Money Information Co Ltd	Diversified financials	China	3.7
China Resources Land Ltd	Real estate	Hong Kong	3.5
Li Ning Co Ltd	Consumer durables & apparel	Hong Kong	3.0

These holdings made up 43% of the Fund.
No. of holdings : 47
Level of currency hedge : 32.8%

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:
Kelly Chung, CFA; Chung Man Wing; Yu Chen Jun; Michelle Yu, CFA
Senior Fund Managers:
Lillian Cao; Anthony Chan, CFA; Doris Ho; Glenda Hsia; 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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