

PREMIUM CHINA FUND (ARSN 116 380 771)

JULY 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 69.1 million ²

Performance since inception ^{1,2}



Performance update ^{1,2}

Premium China Fund	
One month	-10.4%
Three months	-6.0%
Six months	-23.3%
One year	-26.9%
Since inception	+227.7%
Annualised return	+7.3%
Annualised volatility	18.4%

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)	-23.5%

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 29 July 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 1.8264 Entry price: AUD 1.8309 Exit price: AUD 1.8218

Manager's commentary

Market review

Investor sentiment remained fragile towards Greater China equities in July amid unfavorable macro data and renewed concerns over the property sector.

While we are positive about China's pro-growth policies to support its economy, macro data released in July indicates that more stimuli are needed to support growth. Preliminary GDP data showed that growth during the second quarter was down 2.6% QoQ and flat at 0.4% YoY¹. In addition, the manufacturing purchasing manager index (PMI) went down to 49 after being in expansionary territory in June². In addition, the Politburo meeting in July reiterated its dynamic zero Covid policy stance but did not offer any major new stimulus measures, suggesting there may be a more protracted path to the economic growth recovery.

Meanwhile, renewed concerns arose in the property sector, particularly on property financing, with reports citing homebuyers have collectively suspended their mortgage repayments to banks on unfinished projects and urged regulators to intervene.

On a positive note, the government has quickly responded to the mortgage boycott, with reports saying that a multi-billion real estate bailout fund may be established by utilizing the re-lending facility of the central bank. Meanwhile, although the Politburo did not mention any new stimulus measures, it continued to roll out existing policies to boost consumption sales, such as in autos and home appliances. It also indicated positive signals to platform economy projects, which we view should be favorable for leading internet companies.

Portfolio review and outlook

In July, The Fund was down 10.4% (in AUD), in line with the MSCI China's drop of 10.8% (in AUD)³.

The Fund's performance in July reflected a broad-based market correction. Amongst our holdings, consumer companies, internet names, and financial holdings were the largest draggers. The real estate sector was undoubtedly another detractor, as they have been broadly sold off amid news reports about the mortgage boycott. Although the news initially focused on the uncompleted projects of some distressed developers, it raised concerns about spillover effects. Consumer, internet, and financial holdings, therefore, took a hit as economic recovery may be protracted.

Our select quality holdings, nevertheless, stayed resilient despite the market volatility. They are led by a leading semiconductor foundry, which posted a solid set of quarterly results. Despite mounting concerns about the slowing demand for consumer electronic products and, in turn, semiconductors, this company continued to guide positively for its growth outlook in 2023. This, in our view, offers a good example that fundamentally sound, leading companies could ride through different business cycles and prosper over time.

Overall, despite the market setback in July, we remain optimistic about China's future outlook. Although we note the recent escalated geopolitical tensions have led to further market weakness, we are confident that the China market, which has already undergone steep downward earning forecast adjustment and stiff share price correction and offers good risk-reward at the current valuation levels. That said, we view that the mixed signals and trends from economic data and policy support may indicate a bumpy economic growth ahead. Our Fund will continue to invest in the fundamentally solid companies which offer sustainable growth in the long run, as we believe the diverging performance among companies and sectors presents good bottom-up stock picking opportunities.

Sources:

- National Bureau of Statistics of China, 22 July 2022
- National Bureau of Statistics of China, 8 August 2022
- MSCI, 31 July 2022

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Think Premium

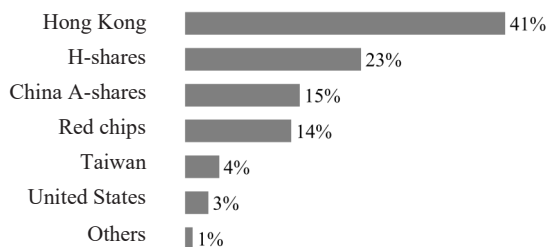
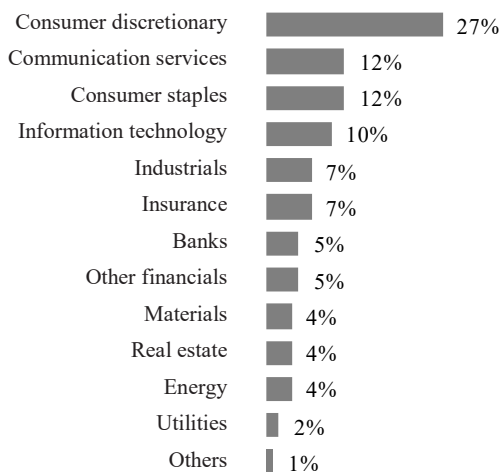
Top 10 holdings

Name	Industry	Listing	%
Tencent Holdings Ltd	Media & entertainment	Hong Kong	6.0
Meituan	Retailing	Hong Kong	5.4
Alibaba Group Holding Ltd	Retailing	Hong Kong	5.2
Kweichow Moutai Co Ltd	Food, beverage & tobacco	China	4.6
AIA Group Ltd	Insurance	Hong Kong	4.3
China Merchants Bank Co Ltd	Banks	Hong Kong	4.1
East Money Information Co Ltd	Diversified financials	China	3.6
CNOOC Ltd	Energy	Hong Kong	3.6
Taiwan Semiconductor Manufacturing Co Ltd	Semiconductors & semiconductor equipment	Taiwan	3.3
Chow Tai Fook Jewellery Group Ltd	Retailing	Hong Kong	3.2

These holdings made up 43% of the Fund.

No. of holdings : 44

Level of currency hedge : 23.8%

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:

Kelly Chung, CFA; Chung Man Wing; Yu Chen Jun; Michelle Yu, CFA

Senior Fund Managers:

Lillian Cao; Anthony Chan, CFA; Doris Ho; 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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