

# PREMIUM CHINA FUND (ARSN 116 380 771)

SEPTEMBER 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 61.3 million <sup>2</sup>

## Performance since inception<sup>1,2</sup>



## Performance update

	Premium China Fund
One month	-7.9%
Three months	-16.5%
Six months	-10.0%
One year	-33.6%
Since inception	+205.2%
Annualised return	+6.8%
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<sup>1,2</sup>

Year	Return (%)	Year	Return (%)
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)	-28.8%

<sup>1</sup> Past performance is not indicative of future results.

<sup>2</sup> 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 September 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 1.7006 Entry price: AUD 1.7049 Exit price: AUD 1.6964

## Manager's commentary

### Market review

Jitters remained in the Greater China equities market as macroeconomic conditions continued to be soft in September.

Although the official manufacturing purchasing managers' index (PMI) bounced back to expansionary levels at 50.1%, the services PMI shrank to contraction territory at 48.9% in September.<sup>1</sup> In addition, the Caixin manufacturing PMI continued to fall during the month, reflecting the muted consumer sentiment faced by private enterprises.<sup>2</sup> Meanwhile, property sales also remained weak, with sales of the top 100 developers down 26.5% YoY.<sup>3</sup> The soft economic data indicate that more stimulus and supportive measures are needed to restore confidence in the market.

Other worries also affected investor sentiment toward specific sectors. For example, the ongoing market concerns about the US-China technological decoupling further escalated. The US enacted the Inflation Reduction Act and the Executive Order on Advancing Biotechnology and Biomufacturing Innovation, which hampered sentiment on new energy- and biotech-related companies in China. Meanwhile, the State Council in China issued a circular to financial institutions to reduce fees to bolster business activities. While the potential fee impact remains unclear, we believe the long-term, structural trend of China's growing wealth management industry remains intact.

Lastly, the US Fed's 75 bps interest rate hike for the third time and its continued hawkish stance to curb inflation has further strengthened the US dollar, weighing down the sentiment toward other risky assets, including Asian equities. In the month, the MSCI AC Asia ex-Japan Index was down nearly 13% (in USD).<sup>4</sup> In terms of currencies, the renminbi also depreciated against the dollar, though it held up well against other currencies.

On the positive side, although policies in China were muted ahead of the 20<sup>th</sup> Party Congress, the government still announced some supportive measures on the property market. For example, the People's Bank of China and the CBIRC have allowed authorities in selected cities to lower or even remove the floor for mortgage rates for first-time homebuyers. In addition, tax authorities have also offered tax incentives for residential property upgraders.

### Portfolio review and outlook

In September, the Fund and the MSCI China Index were down 7.9% (in AUD) and 8.9% (in AUD),<sup>4</sup> respectively.

Poor market conditions during the month affected our fund's performance. Our exposure to consumer discretionary names, which include e-commerce companies, were among the key detractors to the fund's performance amid the weak macro backdrop and intermittent Covid outbreaks. Our exposure to financial companies also dragged, as investor sentiment was partly impacted by the government's circular encouraging fee reductions in the finance sector to support business activities. Our holding of a leading semiconductor foundry was also dragged by ongoing concerns over weakened demand and news about potential order cuts. While we reckon their share prices could come under pressure amidst the unusual and unfavorable market conditions, we are confident that these quality companies remain well-positioned to ride through different business cycles and grow over time.

On the flip side, some of the fund's portfolio holdings have delivered resilient share price performance. These include two major telecom operators, offering some sound defense to the portfolio as they saw continued business growth. Our holding of a state-owned developer also gained on the back of improved sentiment within the property sector following the announcement of favorable policies.

We expect market volatility to remain elevated on the back of the continuous movements in macro data points and economic events. In China, the market could remain relatively muted as investors await the important party congress meetings in the middle of October. Despite the heightened uncertainties in the near term, we remain optimistic about China's long-term market outlook and believe it offers good long-term risk-reward opportunities at current valuation levels. We also believe our fund, which is comprised of high-quality and fundamentally solid companies that generate sustained, long-term value for investors, is well positioned.

Sources:

- National Bureau of Statistics of China, 1 October 2022
- Caixin Global, 30 September 2022
- CRIC, 30 September 2022
- MSCI, 30 September 2022

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**Top 10 holdings**

Name	Industry	Listing	%
Meituan	Retailing	Hong Kong	6.8
Tencent Holdings Ltd	Media & entertainment	Hong Kong	6.3
Alibaba Group Holding Ltd	Retailing	Hong Kong	5.3
Kweichow Moutai Co Ltd	Food, beverage & tobacco	China	5.2
AIA Group Ltd	Insurance	Hong Kong	4.4
China Merchants Bank Co Ltd	Banks	Hong Kong	4.3
CNOOC Ltd	Energy	Hong Kong	4.1
China Mobile Ltd	Telecom services	Hong Kong	3.9
Chow Tai Fook Jewellery Group Ltd	Retailing	Hong Kong	3.8
Yum China Holdings Inc	Consumer Services	Hong Kong	3.6

These holdings made up 48% of the Fund.

No. of holdings : 42

Level of currency hedge : 42.4%

**Geographical exposure by listing**<sup>3</sup>

Hong Kong	42%
H-shares	22%
China A-shares	16%
Red chips	13%
Singapore	2%
Taiwan	2%
United States	1%
Cash <sup>4</sup>	0.02%

**Sector exposure**<sup>3</sup>

Consumer discretionary	29%
Communication services	14%
Consumer staples	13%
Insurance	7%
Industrials	7%
Information technology	6%
Banks	6%
Other financials	4%
Materials	4%
Utilities	4%
Energy	2%
Health care	2%
Real estate	2%
Cash <sup>4</sup>	0.02%

**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; 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](https://www.premiumasiafunds.com.au/wp-content/uploads/2021/10/Premium_China_Fund_EN_AU_1630674978.pdf)

<sup>3</sup> 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.

<sup>4</sup> Cash includes receivables and payables (except cash for collaterals and margins).

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