

PREMIUM CHINA FUND (ARSN 116 380 771)

NOVEMBER 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 60.8 million ²

Performance since inception ^{1,2}



Performance update ^{1,2}

	Premium China Fund
One month	+22.3%
Three months	-3.4%
Six months	-7.6%
One year	-27.4%
Since inception	+220.3%
Annualised return	+7.1%
Annualised volatility	19.4%

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)	-25.3%

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 November 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 1.7835 Entry price: AUD 1.7879 Exit price: AUD 1.7790

Manager's commentary

Market review

The Greater China equities market registered a strong and significant rebound in November 2022, driven by policy announcements to ease excessive anti-Covid measures and support the ailing property market.

In mid-November, the National Health Council (NHS) released 20 calibrating measures to address issues arising from anti-Covid controls.¹ We view that the fine-tuned measures offer some early signs of loosening the country's zero-Covid policy. While we notice some back-and-forth in the implementation, the NHS and other health administrators held a press briefing at the end of the month to reiterate its new stance, pledging to ramp up vaccination for the elderly and emphasizing the prohibition of excessive control measures, including lockdowns. Subsequently, we now see different levels of easing across different regions, notably in Guangzhou and Shenzhen.

On the property front, China's financial authorities announced various measures to support the market. Dubbed the "three arrows", the policy mix include PBoC and CBIRC's 16 measures focusing on bond financing and bank lending and CSRC's five-point measure on equity financing.² Although end demand will likely remain subdued in the near term, we believe these policies should help safeguard the financial and liquidity risks facing property developers. We also view that the announcements are an important step in the right direction as this gives a strong signal to the market that the authorities are aligned to streamline policies to support the property sector. Separately, the central bank also cut the RRR by 25 bps to alleviate liquidity pressures.³

That said, we remain mindful that market volatility could persist in the near term as macro fundamentals remain fragile. For example, official PMI figures showed weaker business activities across the board, while exports will likely come under further pressure amid the weakening global demand. At the same time, daily Covid infections continue to rise, which may lead to more back-and-forth easing. Overall, given the short-term volatility arising from the normalization process, we suggest investors should focus on the long-term quality growth agenda set by top government officials.

Portfolio review and outlook

In November, the fund and the MSCI China Index were up 22.3% (in AUD) and 23.9% (in AUD),⁴ respectively.

The significant market rebound during the month was rather broad-based. All major sectors have registered positive returns, mainly led by the real estate and internet companies, as well as some consumption names that are perceived to benefit from China's phasing out of its anti-Covid policies (i.e., reopening). These primarily reflected the renewed investor enthusiasm amid the strong funding support for property developers and the fine-tuning of anti-Covid policies in China.

For the fund's performance, the biggest contributors include leading e-commerce players, consumer names, and financial companies. Despite macro headwinds, these companies have all reported solid results for the third quarter of this year, which showcase that our portfolio's high-quality holdings are well-positioned toward the market turnaround.

Although market sentiment has remained buoyant in recent weeks, we anticipate share prices to remain choppy as different macro data and business activities reports are released. For one thing, property sales in China will likely remain weak in the near term, and without a meaningful pickup, it is hard to see how long the strong rally in distressed property companies could sustain. The same thought applies to some "reopening plays", as we still foresee some back-and-forth in the loosening of anti-Covid measures, which were held for a long period, and it would take time for people to accommodate the new normal.

Looking ahead, one key event to watch is the central economic working conference that will be held in the coming few weeks, which could outline more top policy directions in China. Regarding our portfolio holdings, we continue to invest in high-quality companies that will ride through the volatility and thrive over time. We remain optimistic about China's long-term market outlook and have strong faith that our long-held practices in diligent, thorough, deep-dive, and bottom-up research will bear fruits over the long term.

Sources:

- National Health Commission, 10 November 2022
- PBoC, CBIRC, 13 November 2022
- PBoC, 25 November 2022
- MSCI, 30 November 2022

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Top 10 holdings

Name	Industry	Listing	%
Tencent Holdings Ltd	Media & entertainment	Hong Kong	6.7
Meituan	Retailing	Hong Kong	5.9
Alibaba Group Holding Ltd	Retailing	Hong Kong	5.3
AIA Group Ltd	Insurance	Hong Kong	5.1
China Merchants Bank Co Ltd	Banks	Hong Kong	4.5
CNOOC Ltd	Energy	Hong Kong	4.4
Kweichow Moutai Co Ltd	Food, beverage & tobacco	China	4.3
Yum China Holdings Inc	Consumer services	Hong Kong	4.0
China Mobile Ltd	Telecommunication services	Hong Kong	4.0
Ping An Insurance Group Co of China Ltd	Insurance	Hong Kong	3.6

These holdings made up 48% of the Fund.

No. of holdings : 41

Level of currency hedge : 39.4%

Geographical exposure by listing³

Hong Kong	44%
H-shares	23%
China A-shares	15%
Red chips	12%
United States	3%
Taiwan	2%
Others	1%

Sector exposure³

Consumer discretionary	28%
Communication services	15%
Consumer staples	11%
Insurance	9%
Industrials	7%
Information technology	7%
Banks	6%
Other financials	5%
Energy	4%
Real estate	3%
Materials	2%
Health care	2%
Utilities	2%

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

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.

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