

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 62.0 million ²

Performance since inception^{1,2}



Performance update^{1,2}

	Premium China Fund
One month	+3.8%
Three months	+8.9%
Six months	-9.1%
One year	-22.5%
Since inception	+232.3%
Annualised return	+7.3%
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)	-22.5%

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 30 December 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 1.8518 Entry price: AUD 1.8565 Exit price: AUD 1.8472

Manager's commentary

Market review

Investor sentiment toward Greater China equities continued to improve in December as China accelerated its reopening.

More recently, the speed of the country's reopening accelerated after the Central Economic Working Conference (CEWC) in December, with China announcing to scrap quarantine requirements for inbound travelers from 8 January 2023. The move, which exceeded expectations, essentially relaxes pandemic control measures held for the last three years. Meanwhile, the CEWC also stressed vigorously boosting market confidence and promoting the overall improvement of economic performance, reaffirming that growth remains a key priority for policymakers in 2023, further boosting market confidence.

However, with the relaxation of Covid measures, pandemic cases rose sharply, negatively affecting near-term economic activities. With mobility sharply declining in many cities, official PMI readings in December fell to the lowest since the first quarter of 2020, while exports have softened rapidly. That said, these exaggerate the downward pressure on the economy in the short term. We believe that the outlook is positive for China longer-term, supported by pent-up consumer demand and further policy stimulus from the government. More measures to bolster consumption will likely come following the release of the strategic outline for 2022-2035 last month to stimulate domestic consumption.

Separately, we are seeing signs showing supportive policy measures in other sectors. For example, at the end of December, a new batch of online video gaming licenses were released, including about 40 imported games – which have been suspended since June 2021. More recently, the CBIRC Chairman, Guo Shuqing, also said the rectification of the platform companies' financial businesses is "basically finished".

Portfolio review and outlook

In December, the Fund and the MSCI China Index were up 3.8% (in AUD) and 3.9% (in AUD)¹, respectively.

Returns were broad-based and widespread among different individual names, particularly led by companies in the consumption, financial, and internet sectors, as they were supported by expectations of reopening between Hong Kong and mainland China. The top contributors include a leading internet player, which benefited from the release of online video gaming licenses, a regional insurance company, and a leading retail bank in China.

However, their positive contributions were partly offset by the share price corrections in some other names. For example, a leading semiconductor foundry was hit by concerns of a harsher global consumer electronic downturn. Despite some near-term pressures, we continue to believe the company offers compelling long-term value, given its unique strategic positioning and unrivalled leading position in advanced node manufacturing, which could help to preserve its business competitiveness and profitability over the long term.

We are confident that 2023 will be a year of recovery for China, and there is still large potential upside on the back of the low valuations and prospective corporate earnings upgrades. That said, we expect the road ahead to remain bumpy, especially on swift movements in some macro data points and economic events. In particular, the accelerated reopening and exit of anti-Covid controls have adversely affected near-term mobility and business activities in China and may lead to softer near-term macro readings. However, these are also expected to be followed by a robust rebound later. Overall, we remain nimble and diligent in our portfolio management, with a view to safeguarding the portfolio's robustness. We continue to invest in high-quality companies – particularly in the consumption, financial, and technology sectors, that will ride through the volatility and thrive over time.

Sources:

1. MSCI, 31 December 2022

Top 10 holdings

Name	Industry	Listing	%
Tencent Holdings Ltd	Media & entertainment	Hong Kong	7.5
Alibaba Group Holding Ltd	Retailing	Hong Kong	5.6
AIA Group Ltd	Insurance	Hong Kong	5.5
Meituan	Retailing	Hong Kong	4.9
China Merchants Bank Co Ltd	Banks	Hong Kong	4.9
Kweichow Moutai Co Ltd	Food, beverage & tobacco	China	4.6
CNOOC Ltd	Energy	Hong Kong	4.1
Ping An Insurance Group Co of China Ltd	Insurance	Hong Kong	3.7
Li Ning Co Ltd	Consumer durables & apparel	Hong Kong	3.6
East Money Information Co Ltd	Diversified financials	China	3.5

These holdings made up 48% of the Fund.

No. of holdings : 43

Level of currency hedge : 44.7%

Geographical exposure by listing³

Hong Kong	44%
H-shares	23%
China A-shares	16%
Red chips	11%
United States	3%
Cash	2%
Others	1%

Sector exposure³

Consumer discretionary	27%
Communication services	14%
Consumer staples	11%
Insurance	9%
Industrials	7%
Information technology	7%
Banks	6%
Other financials	5%
Energy	4%
Real estate	3%
Health care	2%
Materials	2%
Utilities	2%
Cash	1%

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.

Disclaimer: This report is issued by Premium China Funds Management ("Premium") for general information purposes only and does not take into account the investment objectives, financial situation or needs of any particular investor. Equity Trustees Limited ("Equity Trustees") ABN 46 004 031 298 AFSL No. 240975, is a subsidiary of EQT Holdings Limited, a publicly listed company on the Australian Securities Exchange (ASX:EQT), is the Responsible Entity of the Premium China Fund ("Fund"). The comments contained herein are expressions of belief only and should not be relied upon as authoritative or without the recipient's own independent verification or in substitution for the exercise of judgment by any recipient, and are subject to change without notice. Financial data herein are obtained from sources believed to be reliable. The performance of individual shares may not be representative of the performance of the fund as a whole.

The views expressed are the views of Value Partners Hong Kong Limited and are subject to change based on market and other conditions. The information provided does not constitute investment advice and it should not be relied on as such. All materials have been obtained from sources believed to be reliable, but their accuracy is not guaranteed. This material contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.

Neither Premium, Value Partners, Equity Trustees, nor any of its related parties, its directors or employees, provide warranty of accuracy or reliability in relation to information on this report or accepts liability to any person who relies on it.