

# PREMIUM CHINA FUND (ARSN 116 380 771)

FEBRUARY 2023  
2 PAGES

## 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 61.0 million <sup>2</sup>

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



## Performance update <sup>1,2</sup>

Premium China Fund	
One month	-7.7%
Three months	+4.7%
Six months	+1.2%
One year	-14.3%
Since inception	+235.2%
Annualised return	+7.2%
Annualised volatility	19.5%

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>

2005 (Since inception)	+7.0%	2015	+4.9%
2006	+48.0%	2016	-6.2%
2007	+36.1%	2017	+37.0%
2008	-33.6%	2018	-17.9%
2009	+50.2%	2019	+24.0%
2010	+2.3%	2020	+28.6%
2011	-21.2%	2021	-12.1%
2012	+13.1%	2022	-22.5%
2013	+21.9%	2023 (YTD)	+0.9%
2014	+15.5%		

<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 28 February 2023. 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 1.8680 Entry price: AUD 1.8727 Exit price: AUD 1.8633

## Manager's commentary

### Market review

The Greater China market corrected in February, with broad-based share price declines across different sectors.

The market correction did not come as a surprise and reaffirms our view that investor focus is shifting from the "reopening trade" to the "recovery trade". Investors are now waiting to see and assess the recovery strength of the economy and businesses' earnings. Outside of China, the higher-than-expected Consumer Price Index (CPI) and Personal Consumption Expenditure (PCE) Price Index in the US, as well as the strengthening of the US dollar, also weighed on sentiment, leading to volatility in emerging markets, including Asia and China equities.

On the positive side, macroeconomic data in China indicate that recovery is on track. The latest official manufacturing and non-manufacturing PMI readings show continued macro improvement, especially in domestic demand. In addition, sales of the top 100 property developers rebounded in February – the first year-on-year increase since June 2021.

Although the figure was partially helped by a low base (February 2022 included the Lunar Year holiday; this year, it was celebrated in January), it also suggests that the recovery in the property market may be gathering pace. New monthly loans also hit a record high in January, indicating strong credit support.

### Portfolio review and outlook

In February, the Fund and the MSCI China Index performed -7.7% (in AUD) and -6.3% (in AUD)<sup>1</sup>, respectively. Currency hedging was a detractor to the Fund's performance.

The key draggers in this month are mainly leading internet companies and financial names – many of which were outperformers in the previous three months and had a strong run. We believe their corrections were primarily sentiment-driven, as there are no signs of any significant deterioration to their fundamental outlooks.

On the other hand, some of our portfolio holdings were resilient despite the broader market correction and supported our Fund. In particular, these include our exposure to Chinese telecom operators, which were boosted by expectations of further SOE reforms to bolster their shareholders' returns and faster adoption of cloud infrastructure services. Currency hedging was also a detractor to the Fund's performance.

We believe the market correction, which occurred after a strong and lengthy market rebound, is only temporary, and the market still hasn't fully priced in the solid macroeconomic recovery and the corporate earnings rebound of China. The market could remain volatile in the near term as investors focus on the messages around the "Two Sessions" in China. On 5 March 2023, China disclosed the GDP growth target of "around 5%" for 2023, which is at the conservative end of the consensus forecast range of 5-6%. While this may upset some investors, we continue to hold an optimistic view of China's stock market outlook.

Even with "just" 5% GDP growth, China remains one of the few global economies expected to post a strong GDP growth recovery in 2023. Meanwhile, the fiscal budget of 3.0% versus the 2.8% target in 2022 and the new urban employment target of 12 million versus the 11 million target a year ago suggest more stimulus measures are likely to follow, particularly in consumption.

Looking ahead, we continue to hold the view that the market focus will increasingly turn from the pace of reopening to the quality of earnings growth, and stock selection will become more crucial. Overall, we remain nimble and diligent in our portfolio management, with a view to safeguarding the portfolio's robustness.

Sources:

1. MSCI, 28 February 2023

**Top 10 holdings**

Name	Industry	Listing	%
Tencent Holdings Ltd	Media & entertainment	Hong Kong	9.9
Alibaba Group Holding Ltd	Retailing	Hong Kong	5.7
AIA Group Ltd	Insurance	Hong Kong	5.3
Kweichow Moutai Co Ltd	Food, beverage & tobacco	China	5.0
China Merchants Bank Co Ltd	Banks	Hong Kong	4.8
CNOOC Ltd	Energy	Hong Kong	4.6
Meituan	Retailing	Hong Kong	4.2
East Money Information Co Ltd	Diversified financials	China	3.9
Ping An Insurance Group Co of China Ltd	Insurance	Hong Kong	3.9
Pinduoduo Inc	Retailing	US	3.6

These holdings made up 51% of the Fund.

No. of holdings : 43

Level of currency hedge : 57.0%

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

Hong Kong	43%
H-shares	22%
China A-shares	17%
Red chips	10%
United States	4%
Others	1%
Cash	3%

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

Consumer discretionary	24%
Communication services	15%
Consumer staples	11%
Insurance	9%
Industrials	7%
Information technology	7%
Banks	6%
Energy	5%
Other financials	5%
Health care	3%
Materials	2%
Real estate	2%
Utilities	2%
Cash	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:**

Lillian Cao; Kelly Chung, CFA; Chung Man Wing; Luo Jing, CFA;

Yu Chen Jun; Michelle Yu, CFA

**Senior Fund Manager:**

Frank Tsui

**Link to TMD**

[https://www.premiumasiafunds.com.au/wp-content/uploads/2022/10/Premium\\_China\\_Fund\\_EN\\_AU\\_1666845668.pdf](https://www.premiumasiafunds.com.au/wp-content/uploads/2022/10/Premium_China_Fund_EN_AU_1666845668.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.

**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.