PREMIUM CHINA FUND (ARSN 116 380 771)

MARCH 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 62.4 million [2]

Performance since inception [1, 2]

Performance update [1, 2]

	Premium China Fund
One month	+2.9%
Three months	+3.8%
Six months	+13.1%
One year	+1.7%
Since inception	+245.0%
Annualised return	+7.4%
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%	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)	+3.8%
2014	+15.5%		

***Unit price:** AUD 1.9226 **Entry price:** AUD 1.9274 **Exit price:** AUD 1.9178*

Manager's commentary

Market review

Although the Greater China equities were under pressure at the beginning of March, market conditions eventually improved on the back of supportive measures and messages by the government.

At the beginning of the month, investors were digesting the messages from the "Two Sessions", including the lower-than-expected GDP growth target of around 5%. While some market participants might be disappointed by the relatively low target, we view that it would still make China a clear stand-out among major global economies in 2023.

Investor sentiment toward risk assets, including China and Asia equities, was also hit by the Silicon Valley Bank (SVB) and Credit Suisse incidents, even though the impact of the events on the region's banking sector and the general economy is rather limited.

Macroeconomic data in China were also mixed, indicating an uneven macro recovery. For example, while PMI data remains robust, industrial profits from January-February were down 22.9% YoY.[1] The weakened monthly CPI and PPI trends also suggest lukewarm demand. Meanwhile, property sales have turned positive YoY in March, while primary home prices increased after 18 months of contraction. However, we view that assessing the extent of the sector's recovery would take longer.

On a more positive note, policymakers announced more easing measures, particularly the 25 bps RRR cut in late March.[2] Credit growth data was also robust during the first two months of 2023, reaffirming that China is in a different cycle from the US and Europe. While there seems to be limited room for further loosening in the near term, China's ample liquidity clearly supports economic growth.

Portfolio review:

In March, the Fund was up 2.9% (in AUD), while the MSCI China Index was up 5.2% (in AUD).[3] For the first quarter, the Fund was up 3.8% (in AUD), while the index performed 6.0% (in AUD).[3]

During the month, the key detractors were financial names, dragged by the weakened sentiment caused by the SVB and Credit Suisse incidents. However, we believe the impact of the recent events on the banking sector in China (as well as Asia as a whole) is rather limited. Other detractors included a major e-commerce player, which delivered a lower-than-expected set of quarterly results, and a leading solar component maker. Currency hedging was also a detractor to the Fund's performance.

On the other hand, some of our portfolio holdings continued to yield positively. These include some internet companies, which continued to benefit from the economic recovery and the regulatory tailwinds. Our positions in some SOE companies were also boosted by expectations of further SOE reforms as well as the rapid development of industrial digitalization, especially on cloud infrastructure services.

Key position changes:

We continued to adjust the portfolio's holdings during the month to enhance its robustness. Key changes include reducing the exposures to some consumption and industrial companies, mainly due to valuation considerations. On the other hand, we have increased our exposure to a leading EV battery maker and an internet behemoth in view of their steady outlooks and affordable valuations.

Outlook:

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 that a broad-based stock market rally in the near term is unlikely. Hence, 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. We continue to favor quality names that could generate visible and sustainable long-term returns.

Sources:

1. *National Bureau of Statistics, 28 March 2023*
2. *PBoC, 17 March 2023*
3. *MSCI, 31 March 2023*

[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 31 March 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.*

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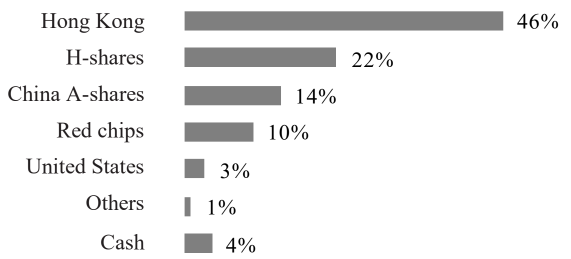
Top 10 holdings

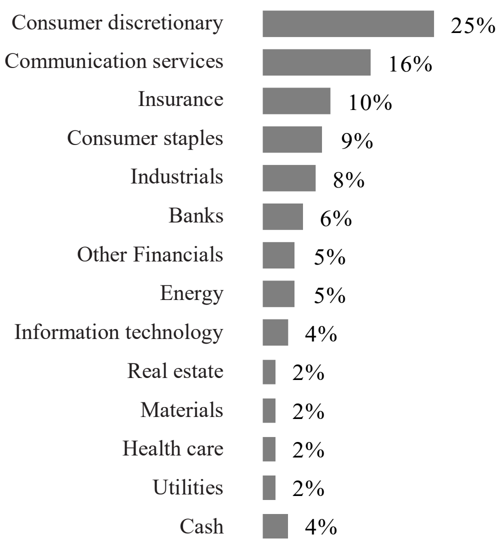
Name	Industry	Listing	%
Tencent Holdings Ltd	Media & entertainment	Hong Kong	10.9
Alibaba Group Holding Ltd	Retailing	Hong Kong	7.3
AIA Group Ltd	Insurance	Hong Kong	5.2
Kweichow Moutai Co Ltd	Food, beverage & tobacco	China	4.9
CNOOC Ltd	Energy	Hong Kong	4.8
China Merchants Bank Co Ltd	Banks	Hong Kong	4.5
Meituan	Consumer services	Hong Kong	4.4
Ping An Insurance Group Co of China Ltd	Insurance	Hong Kong	3.7
East Money Information Co Ltd	Diversified financials	China	3.7
PDD Holdings Inc	Retailing	US	3.1

These holdings made up 53% of the Fund.
No. of holdings : 41
Level of currency hedge : 49.8%

Geographical exposure by listing [3]



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:
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

[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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