# PREMIUM CHINA FUND (ARSN 116 380 771)

JUNE 2023
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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 53.7 million [2] |

## Performance since inception [1, 2]


## Performance update [1, 2]

| | Premium China Fund |
|---|---|
| One month | +1.3% |
| Three months | -9.6% |
| Six months | -6.1% |
| One year | -14.7% |
| Since inception | +212.0% |
| Annualised return | +6.7% |
| 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) | -6.1% |
| 2014 | +15.5% | | |

***Unit price:** AUD 1.7389 **Entry price:** AUD 1.7432 **Exit price:** AUD 1.7345*

## Manager's commentary

**Market review**

Although the Greater China market opened higher at the beginning of June on expectations of more policy stimulus, the optimism gradually faded as macroeconomic indicators continued to disappoint, giving up some of the earlier gains in the month.

The latest consumer price (CPI) data continued to indicate a threat of deflation, remaining at an anemic level of 0.2% YoY in May, while the decline of the producer price index (PPI) also enlarged from the previous month.[1] Exports also declined in May, reversing a surprisingly positive growth in the previous two months. Within the property sector, new home sales also weakened in June. Adding to the market's worries include the youth unemployment rate (aged 16-24) rising to a record high and the weakening renminbi relative to the US dollar.

On a positive note, the government gave signals that economic growth remains a key priority, with various easing measures to support the country's recovery. In June, the one- and five-year loan prime rates (LPRs), which are the reference rates for corporate loans and mortgages, respectively, were cut by 10bps. That said, expectations for more sizable stimulus packages, particularly targeting the property market, have not been met.

On the geopolitical front, communications between senior officials of China and the US, including the US State Secretary Blinken's visit to Beijing, indicate intentions of smoothening tensions. Meanwhile, Premier Li Qiang, who gave a keynote speech at the World Economic Forum, rejected the West's increasing rhetoric of "de-risking" from China and instead called for greater global cooperation. However, although these may help prevent tensions from further escalating, we have yet to see concrete steps to ease tensions.

**Portfolio review:**

In June, the Fund was up 1.3% (in AUD), while the MSCI China Index recorded gains of 1.1% (in AUD). Year-to-date, the Fund and the index were down -6.1% and -3.7%, respectively.

The top contributors to the Fund's performance include select internet names in the consumer discretionary and communication services sectors, as they are expected to maintain revenue growth ahead despite the short-term bumpiness of the economy. Meanwhile, a high-quality property developer yielded positively despite the ailing property market, as it delivered stronger sales growth relative to its peers and has continued to progress with the construction and delivery of its projects. A leading regional insurance company also supported the Fund, given it steady business growth outlook, especially with strong business demand associated with the resumption of mainland Chinese visitors to Hong Kong.

On the other hand, our exposure to SOEs, including those in the industrials and telecommunications sector, was a key detractor to the Fund's performance, as expectations of SOE reforms moderated during the month. Our exposure to the healthcare sector, particularly our holdings of a medical equipment manufacturer and a traditional Chinese medicine (TCM) provider, also dragged as investors took profit following the sector's positive performance in recent months.

**Key position changes:**

During the month, we deployed more cash to take advantage of attractive valuations in the market. As of the end of June, the cash level was just below 3%, versus about 6% in the previous month's end. We added to our position in a China property developer in view of its attractive risk return profile. We also added to a Chinese semiconductor company. Overall, there is little change to our sector distribution during the month.

**Outlook:**

Most market participants are looking forward to a Politburo meeting in July for any stimulus measures. However, we are more conservative about expectations of any large-scale stimulus during the meeting as top Chinese officials may still focus on institutional reforms. Nonetheless, more policies targeting structural reforms may only be unveiled during the third plenum and the National Financial Work Conference, which are usually held later in the year. In light of this, we expect volatility to remain in the near term.

Against this backdrop, we believe our long-held approach to identifying and investing in high-quality companies offers the best way to be more resilient against volatility and downside risks. We continue to focus on companies that generate sustainable returns to investors, especially those well-positioned to capture long-term secular trends, including consumption growth, internet services turnaround, technology innovation, and the growing demand for wealth management services in China.

*Sources:*

1. *National Bureau of Statistics of China, 10 June 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 30 June 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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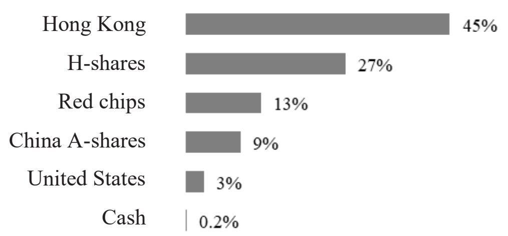
## Top 10 holdings

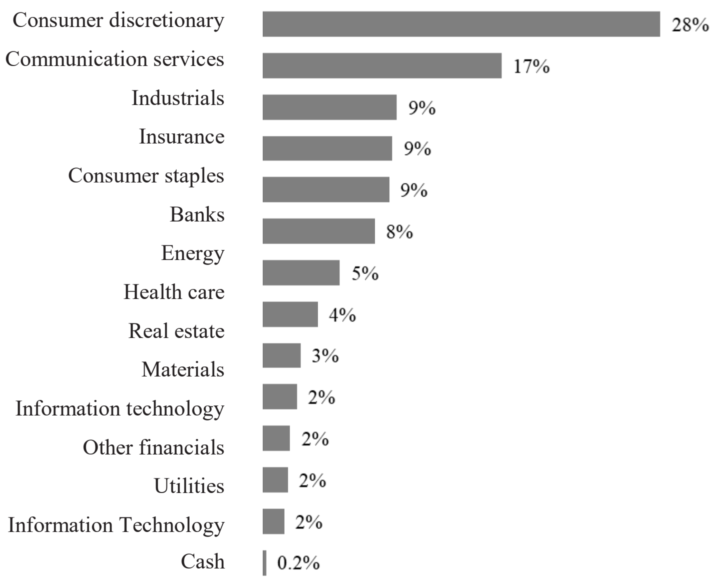
| Name | Industry | Listing | % |
|---|---|---|---|
| Tencent Holdings Ltd | Media & entertainment | Hong Kong | 11.0 |
| Alibaba Group Holding Ltd | Retailing | Hong Kong | 8.3 |
| Meituan | Consumer services | Hong Kong | 6.2 |
| CNOOC Ltd | Energy | Hong Kong | 5.4 |
| Ping An Insurance Group Co of China Ltd | Insurance | Hong Kong | 4.5 |
| Kweichow Moutai Co Ltd | Food, beverage & tobacco | China | 4.4 |
| China Construction Bank Corp | Banks | Hong Kong | 4.0 |
| China Railway Construction Corp Ltd | Capital goods | Hong Kong | 3.6 |
| PDD Holdings Inc | Retailing | US | 3.3 |
| AIA Group Ltd | Insurance | Hong Kong | 3.3 |

*These holdings made up 54% of the Fund.*
*No. of holdings : 42*
*Level of currency hedge : 50.0%*

## 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<br>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; Luo Jing, CFA; Yu Chen Jun; Michelle Yu, CFA
**Senior Fund Manager:**
Frank Tsui

## Link to TMD

Premium China Fund's Target Market Determination is available here:
**https://www.premiumasiafunds.com.au/wp-content/uploads/2022/10/Premium_China_Fund_EN_AU_1666845668.pdf**

A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

[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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