

# PREMIUM CHINA FUND (ARSN 116 380 771)

AUGUST 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 51.8 million <sup>2</sup>

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



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

Premium China Fund	
One month	-5.4%
Three months	+4.0%
Six months	-4.4%
One year	-3.2%
Since inception	+220.6%
Annualised return	6.8%
Annualised volatility	19.6%

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)	-3.5%
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 31 August 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 1.7866 Entry price: AUD 1.7911 Exit price: AUD 1.7822

## Manager's commentary

### Market review:

The Greater China equities market was unable to sustain its positive momentum in August as the market awaits more concrete policy measures that should boost the Chinese economy.

Macroeconomic data continued to show an uneven economic recovery. Retail sales in July slowed down from the previous month, while exports continued to decline amid the softening global demand. The declining trend of China's consumer price index (CPI) also continued, heightening the risks of deflation.

Investor sentiment was further hurt when the People's Bank of China in mid-August cut its one-year loan prime rate (LPR) – a reference for corporate loans, but left its five-year LPR – a peg for mortgages – unchanged. The market found the move underwhelming, especially given the ongoing liquidity concerns in China's property sector.

That said, towards the month-end, the government rolled out more policy support measures to boost the economy. For example, the Ministry of Finance extended the income tax refund to the end of 2025 for taxpayers who buy new homes within a year after selling old homes. Financial regulators also announced arrangements to lower the mortgage rate of existing mortgages and reduce the down payment requirements for first and second home purchases.

Policymakers also rolled out efforts to reinvigorate the country's capital markets. The financial ministry cut the stamp duty it charges on stock trades by 50%, while the China Securities Regulatory Commission released several supportive measures, such as lowering the margin finance deposit requirements.

Nonetheless, the slew of supportive measures has not led to a significant and sustained market rally and failed to reverse the market decline during the month, suggesting that investor's confidence remains fragile.

### Portfolio review:

In August, the Fund was down 5.4% (in AUD), while the MSCI China Index recorded losses of 5.3% (in AUD).<sup>1</sup> Year-to-date, the Fund and the Index were down 3.5% and 0.2%,<sup>1</sup> respectively.

During the month, currency hedging was among the main detractors to the Fund's performance, also leading to the portfolio's slight relative underperformance to the index. Meanwhile, our holdings of industrial and insurance companies also dragged, partly due to the subdued expectations on "SOE reforms". Other detractors included consumer-related names, which were impacted by the general weakness in the market. That said, our holdings are of high quality, and their business fundamentals are expected to remain resilient amid potential market volatility, especially given the slew of supportive measures the government released at the end of the month.

On the other hand, our holding of a leading e-commerce player was the top contributor to the Fund's performance on the back of its stellar second-quarter results. Meanwhile, our stock picks in the energy and materials sectors also supported the Fund's performance. These include one of the largest oil companies in China, which benefits from the higher oil prices and is supported further by its efficient operating cost control measures, and a fertilizer producer, which benefits from the steady demand outlook of its products. Other contributors include a telecom operator and a traditional Chinese medicine (TCM) provider.

### Key position changes:

We continued to adjust our portfolio amid the market movement. Among the noticeable activities during the month include slightly increasing our exposure to information technology in view of the improving outlook toward the sector, driven by the growing demand for high-performance computing and artificial intelligence. Meanwhile, we slightly decreased our positions in some consumer-related and real estate names. Overall, there is little change to our portfolio composition during the month.

### Outlook:

We expect that markets will remain volatile as investors will likely wait for more concrete and coordinated policy support measures. For the measures that were just announced, their impacts will take some time to be played out and felt. We continue to watch for more major policy directions and actions that may be announced during the third plenum held later this year, which is usually a key event for economic changes and reforms.

We believe our long-held approach to investing in high-quality companies offers more resilience against elevated market volatility. We continue to focus on leading companies with strong competitive moats and sound future growth prospects, especially those that are well-positioned to tap long-term structural trends, including consumption growth, internet business development, technology advancement, and the growing demand for wealth management businesses.

Source:

1. Morningstar, 31 August 2023.

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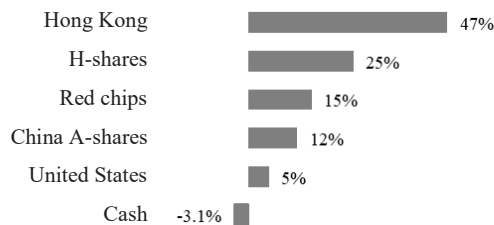
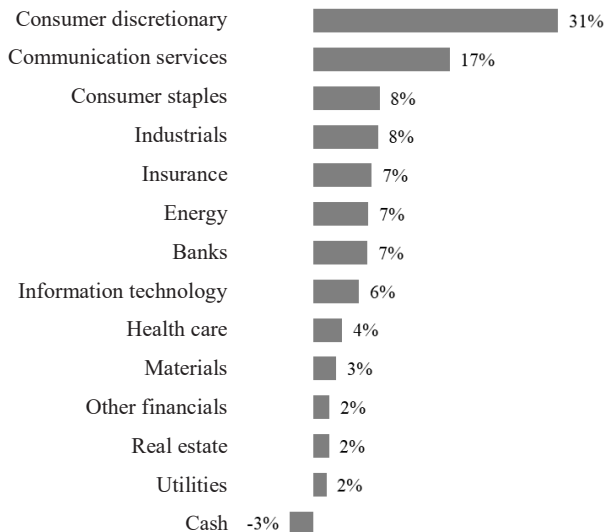
**Top 10 holdings**

Name	Industry	Listing	%
Tencent Holdings Ltd	Media & entertainment	Hong Kong	9.6
Alibaba Group Holding Ltd	Retailing	Hong Kong	9.3
CNOOC Ltd	Energy	Hong Kong	6.9
Meituan	Consumer services	Hong Kong	6.9
PDD Holdings Inc	Retailing	US	5.0
Kweichow Moutai Co Ltd	Food, beverage & tobacco	China	3.9
China Construction Bank Corp	Banks	Hong Kong	3.5
Ping An Insurance Group Co of China Ltd	Insurance	Hong Kong	3.4
China Telecom Corp Ltd	Telecommunication services	Hong Kong	3.4
China Railway Group Ltd	Capital goods	Hong Kong	3.1

These holdings made up 55% of the Fund.

No. of holdings : 44

Level of currency hedge : 32.0%

**Geographical exposure by listing<sup>3</sup>****Sector exposure<sup>3</sup>****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; 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](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.

<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.

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