

PREMIUM CHINA FUND (ARSN 116 380 771)

JULY 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 57.5 million ²

Performance since inception ^{1,2}



Performance update ^{1,2}

	Premium China Fund
One month	+8.6%
Three months	+0.2%
Six months	-6.7%
One year	+3.4%
Since inception	+238.9%
Annualised return	+7.1%
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 ^{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)	+2.0%
2014	+15.5%		

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 31 July 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 1.8885 Entry price: AUD 1.8932 Exit price: AUD 1.8838

Manager's commentary

Market review:

The Greater China equities market continued its positive momentum in July despite the country's uneven economic recovery, supported by the government's encouraging signals to support the economy.

In July, a Politburo meeting was held to discuss China's economic situation, with officials acknowledging the need for making more policy options available, including hints to support the ailing property market. More notably, the "house is for living and not for speculation" mantra, which was a core message behind the crackdown on the property sector in recent years, was not mentioned in the meeting.

Other key messages include stabilizing employment and supporting private enterprises, promoting the development of platform companies, and spurring domestic consumption of goods and services.

While the Politburo meeting did not offer any massive stimulus, the market welcomed its positive policy stance. In addition, some ministries have quickly followed up. For example, the Ministry of Housing and Urban-Rural Development (MOHURD) met with some developers and pledged to ease conditions to support property demand, while the National Development and Reform Commission (NDRC) released a package in end-July to encourage the consumption of new energy vehicles, real estate, and electronic products.

Macroeconomic data continue to indicate an uneven economic recovery. While China's GDP grew 6.3% YoY during the second quarter, it was due to a low base and still falls short of market expectations¹. CPI and PPI figures in the previous month pointed to an imminent risk of deflation, while export data continued to decline. Meanwhile, the official manufacturing PMI remained in contraction for the fourth consecutive month, reflecting the muted domestic and global demand.

Portfolio review:

In July, the Fund was up 8.6% (in AUD), while the MSCI China Index recorded gains of 9.4% (in AUD). Year-to-date, the Fund and the index were up 2.0% and 5.4%, respectively.

The Fund's gains were broad-based across sectors. Our stock picks in leading internet players within the consumer discretionary and communication services sectors were among the top contributors to the Fund's performance, as they were boosted by the central government's supportive policy stance toward private enterprises and platform companies. Our exposure to the financial sector also supported the Fund's performance, as investors added to the more traditional areas of the market to position for the potential stimulus. In particular, our holding of an insurance company continued to benefit from its new business value growth. Currency hedging was also a contributor.

On the other hand, our exposure to the healthcare sector slightly dragged the Fund's performance, particularly our holdings of a leading traditional Chinese medicine (TCM) provider and a medical equipment manufacturer, due to profit-taking activities from investors following the sector's positive performance in recent months. We remain constructive about our holdings as they should ride on the normalizing demand for consumer and medical products and services.

In addition, we did not own some of the benchmark companies that also performed strongly alongside the market during the period, including internet- and electric vehicle-related names, leading to a drag on the Fund's relative performance. That said, we remain selective in these areas and have more conviction in our current holdings, as we view them to have better long-term earnings visibility and risk-reward profiles.

Key position changes:

We continued to adjust our portfolio amid the market movement. Some noticeable activities include deploying more cash to position the portfolio for the expected economy's recovery outlook and attractive risk-reward opportunities. That includes slightly increasing our exposure to the information technology sector, given the increasing investments in artificial intelligence. 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, 18 July 2023

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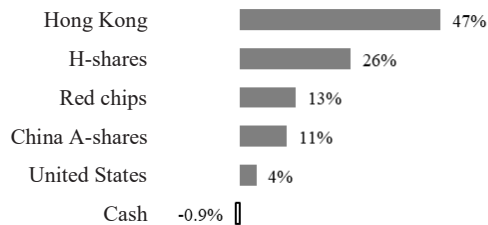
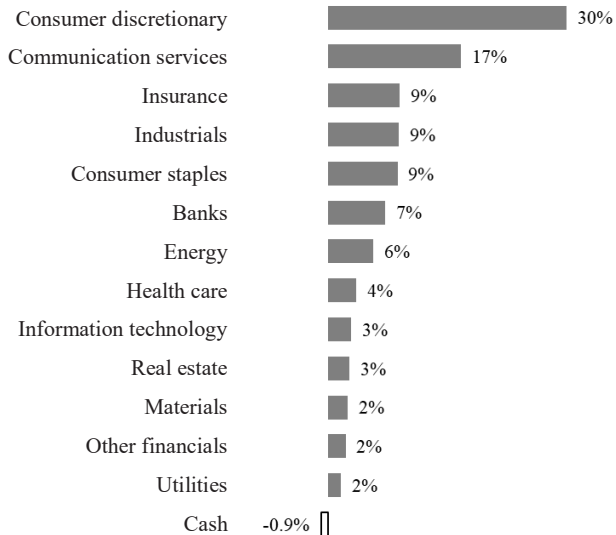
Top 10 holdings

Name	Industry	Listing	%
Tencent Holdings Ltd	Media & entertainment	Hong Kong	10.9
Alibaba Group Holding Ltd	Retailing	Hong Kong	9.2
Meituan	Consumer services	Hong Kong	6.8
CNOOC Ltd	Energy	Hong Kong	5.7
Ping An Insurance Group Co of China Ltd	Insurance	Hong Kong	4.7
Kweichow Moutai Co Ltd	Food, beverage & tobacco	China	4.6
PDD Holdings Inc	Retailing	US	4.0
China Construction Bank Corp	Banks	Hong Kong	3.3
China Railway Construction Corp Ltd	Capital goods	Hong Kong	3.3
AIA Group Ltd	Insurance	Hong Kong	3.0

These holdings made up 55% of the Fund.

No. of holdings : 43

Level of currency hedge : 50.0%

Geographical exposure by listing³**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; 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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