Premium China Funds Management

PREMIUM ASIA PROPERTY FUND (ARSN 129 428 682)

DECEMBER 2020
2 PAGES

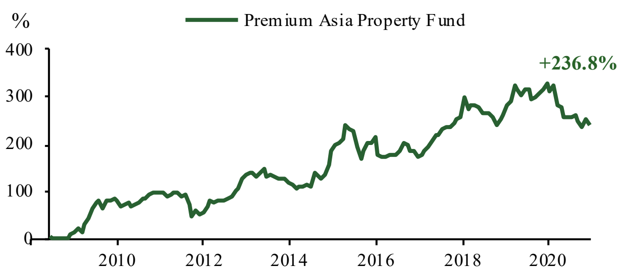
Investment objective

The Premium Asia Property Fund is a managed investment scheme which invests primarily in securities of property or property-related companies with exposure to any, some, or all, of the following countries: Hong Kong, Mainland China, Taiwan, Macau, Malaysia, Philippines, Singapore, Republic of Korea, Thailand and Indonesia. The Fund aims to provide investors with positive returns over 10.0% p.a. over a three to five year period.

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:	MAQ0574AU
Inception date:	4 June 2008
Fund size:	AUD 4.4 million[2]

Performance since inception [1, 2]



Performance update [1, 2]

	Premium Asia Property Fund
One month	-4.5%
Three months	-3.1%
Six months	-5.4%
One year	-21.5%
Since inception	+236.8%
Annualised return	+10.1%
Annualised volatility	17.3%

Volatility is a measure of theoretical risk. In general, the lower the number, the less risky the investment.

Annual return since inception [1, 2]

2008 (Since inception)	+12.5%	2015	+9.3%
2009	+58.1%	2016	-12.7%
2010	+8.8%	2017	+30.2%
2011	-20.8%	2018	+1.4%
2012	+50.7%	2019	+19.3%
2013	-6.2%	2020 (YTD)	-21.5%
2014	+31.9%		

Unit price: *AUD 0.9379* ***Entry price:*** *AUD 0.9402* ***Exit price:*** *AUD 0.9355*
Distribution: *AUD 0.0991 (for the year ended 30 June 2020)*

Manager's commentary

Market review

Despite growing optimism towards vaccine, the performance of China's property sector was affected by the news of tighter credit control. An increasing number of confirmed COVID-19 cases in Hong Kong also hurt the performance of Hong Kong property stocks. The Fund was negatively impacted by the Australian dollar appreciation (The AUD appreciated about 4.8% against the USD in December).

In the latest politburo meeting on 11 December, the Central Government has reiterated its stance on property to ensure the industry's stable and healthy development. The idea of "demand-side-reform" has also been mentioned for the first time in a politburo meeting. We believe this includes a stimulus of domestic consumption, which requires real estate prices to remain stable. We think the overall tone, which focuses on stability in almost every aspect of the industry, is a positive to the sector, decreasing the risk of developers making overly-aggressive expansion by increasing leverage. Big developers with balance sheet strength and lower financing costs should generate a sustainably higher margin than peers.

In December, the contacted sales for the 24 major developers saw a strong momentum posting a 30% year-on-year growth[1]. China was the first to lock down, but the earlier re-opening of the necessary physical activities for the real-estate companies proved beneficial. In 2020, most of the 24 major developers surpassed their full-year targets, achieving 105% of their annual goals on average. Following a quick recovery, the government's priority has been set to manage the rapid debt growth in the property sector by setting "three red lines", limiting the loan growth from 0 to 15% depending on the gearing level. Such a move is favorable for the long term to developers' profitability as less competition is like to bring down the land cost.

Despite the climb of COVID infection cases in the territory, Hong Kong's home market saw a turnaround into the year-end. Supported by the long-lasting demand-supply imbalance unfolding in the last part of 2020, the total home sales figures were flipped to a manageable decline[2]. In the commercial property space, the unexciting outlook on the economy may cap the uptake of commercial rental growth in 2021. Although the valuations of the listed property developers and managers stay in the attractive range, we retain our cautionary view on this segment.

Singapore's upbeat new home sales concluded to be par with 2019 figures in a year which recorded the country's deepest yet short-lived recession[3]. In December alone, sales more than doubled from the total units sold in December 2019, as the COVID situation stabilized. Nonetheless, the anticipated vaccine brightens the outlook on the hospitality and retail sectors and the relevant REITs received some tractions.

Portfolio strategy and outlook

During the month, we added the weighting of property management services companies as the valuation of the sector becomes more attractive after a correction. We continue to trim the weighting of China's property developers. Share price performance was affected by tighter credit control on the sector. We believe leading companies will be able to deliver good growth as they are expected to take more market share from the smaller peers in the coming year. We continue to prefer leading developers with better business diversification between investment and development properties. We prefer developers with a strong balance sheet and low gearing. A healthy and resilient balance sheet would help sustain earnings growth in the future. Meanwhile, China's property sector is one of the key beneficiaries of strong RMB.

Source:

1. *China Real Estate Information Corporate and Morgan Stanley Research, 3 January 2021*
2. *Land Registry of the Hong Kong Special Administrative Region, 31 December 2020*
3. *The Business Times, 14 January 2021*

[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 December 2020. Investment involves risks. Investors should read the Product Disclosure Statement for details and risk factors in particular those associated with investment in emerging markets.*

www.premiumchinafunds.com.au
Tel: (02) 9211 3888 Email: info@premiumchinafunds.com.au

Think Asia
Think Premium

Top 10 holdings

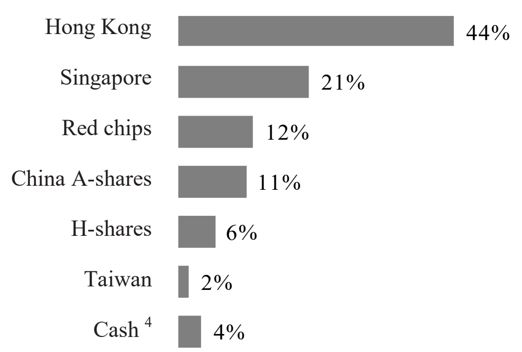
Name	Industry [3]	Listing	%
CapitaLand Retail China Trust	REITS	Singapore	10.7
China Resources Land Ltd	Real estate	Red Chips	9.2
Yuexiu Real Estate Investment Trust	REITS	Hong Kong	8.9
Fortune Real Estate Investment Trust	REITS	Hong Kong	8.0
China Merchants Shekou Industrial Zone Holdings Co Ltd	Real estate	China A-shares	6.3
New World Development Co Ltd	Real estate	Hong Kong	6.2
China Vanke Co Ltd	Real estate	H-shares	6.0
Manulife US Real Estate Investment Trust	REITS	Singapore	5.2
Sun Hung Kai Properties Ltd	Real estate	Hong Kong	4.8
Poly Developments and Holdings Group Co Ltd	Real estate	China A-shares	4.7

These holdings made up 70% of the fund.

No. of holdings : 26

Level of currency hedge : 58.3%

Geographical exposure by listing [3]



Sector exposure [3]

Fee structure

Management fee	2.10% p.a. of Net Asset Value
Performance fee	20% of outperformance over a hurdle of 10% p.a. (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

Value Partners - Senior investment staff

Co-Chairmen & Co-Chief Investment Officers:
Cheah Cheng Hye; Louis So
Senior Investment Directors:
Norman Ho, CFA; Renee Hung
Investment Directors:
Chung Man Wing; Michelle Yu, CFA; Yu Xiao Bo
Senior Fund Managers:
Lillian Cao; Anthony Chan, CFA; Kelly Chung, CFA; Doris Ho; Glenda Hsia; Amy Lee, CFA, CAIA; Luo Jing, CFA; Frank Tsui; Yu Chen Jun

[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.
[4] Cash includes receivables and payables (except cash for collaterals and margins).

Think Asia
Think Premium