Premium China Fund (ARSN 116 380 771)

May 2022
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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 75.3 million [2]

Performance since inception [1, 2]

Performance update [1, 2]

	Premium China Fund
One month	-0.7%
Three months	-11.5%
Six months	-21.5%
One year	-32.8%
Since inception	+246.2%
Annualised return	+7.8%
Annualised volatility	18.2%

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%	2014	+15.5%
2006	+48.0%	2015	+4.9%
2007	+36.1%	2016	-6.2%
2008	-33.6%	2017	+37.0%
2009	+50.2%	2018	-17.9%
2010	+2.3%	2019	+24.0%
2011	-21.2%	2020	+28.6%
2012	+13.1%	2021	-12.1%
2013	+21.9%	2022 (YTD)	-19.2%

Unit price: *AUD 1.9295* ***Entry price:*** *AUD 1.9344* ***Exit price:*** *AUD 1.9247*
Distribution: *AUD 0.6153 (for the year ended 30 June 2021)*

Manager's commentary

Market review

The risk-off sentiment toward Greater China equities continued until the middle of May. However, they rebounded strongly towards the month-end on the back of supportive policies that lifted investor confidence.

Policymakers have made moves to fine-tune regulations, especially in heavily beaten sectors, such as property and internet. Within the property sector, the People's Bank of China (PBOC) reduced the minimum mortgage rates for first-time homebuyers by 20 bps off the benchmark loan prime rate (LPR)[1]. Following the move, the PBOC also announced a 15 basis point cut in the five-year LPR to 4.45%[2]. In a combined effort to support the market, local governments have also eased home purchase restrictions and adopted supportive measures for home buyers. We view that such actions should help revive the ailing property market and, in turn, market sentiment. Within the internet space, policymakers met with the country's top tech executives, pledging support to the healthy development of the platform economy. This indicates a sign of support towards internet companies.

The government is also expected to provide additional stimulus to the economy. The State Council announced that it would adopt a package of measures to stabilize the economy. The package includes 33 measures covering various areas of the economy. For example, value-added tax refunds will be extended to more industries, and the issuance of local government special bonds will be accelerated. On investment and consumption, China will boost investment in transport infrastructure, promote the healthy development of the platform economy, and stimulate car and home appliance purchases. Overall, we view that these additional pro-growth policies should help the domestic economy be on track for its recovery.

The market was also greeted by favorable news of Shanghai's improving COVID and lockdown situation, with newly reported infections moderating. The city slowly lifted pandemic measures during the month before it formally ended its two-month lockdown at the beginning of June. Following this, we view that concerns over supply chains should ease and consumption to recover in the short- to medium-term. That said, as the country continues with its zero-COVID strategy, we remain nimble and cautious of any moves that may affect the economy and our holdings.

Portfolio review and outlook

In May, the Fund and the MSCI China Index performed -0.7% (in AUD) and 0.2% (in AUD), respectively. As the Australian dollar strengthened, currency hedging contributed to about -0.9% of the Fund's performance.

Our holdings in the real estate sector detracted as property demand remained low during the month, leading to renewed concerns about the financial strength of some privately-owned property developers and their property management affiliates. We have reduced our real estate exposure and remain selective in the space. Meanwhile, our positions in the consumer space were also impacted by concerns over macro weakness and consumer demand, which intensified during the extended lockdowns in Shanghai.

On the positive side, our exposure to energy contributed positively on the back on elevated oil prices. Meanwhile, our information technology and select internet names also yielded positively on improved sentiment. Our position in a leading semiconductor player was supported by its strong order book and ability to hike prices further; while both our positions in two leading internet companies reported better-than-expected first quarter results, which, together with the improved market sentiment, supported their share prices.

Looking ahead, concerns about the stagflation, recession, and quantitative tightening in the US, as well as ongoing geopolitical risks, may continue to cause sharp swings in the market. However, we view that China's pro-growth policy stance may provide some support to its economic recovery, and the gradual exit of the COVID-related lockdowns would also help. Therefore, we are not pessimistic about the market outlook and believe that the current domestic backdrop has become more favorable for the market, creating bottom-up opportunities. We believe that our portfolio, which continues to hold a group of high-quality, leading companies, should ride through market volatility and is well positioned for a potential recovery. We continue to prefer names with earnings visibility and those that should benefit from policy and secular tailwinds, including technology companies and financials that provide wealth management services.

Source:
1. *PBOC, 15 May 2022*
2. *PBOC, 20 May 2022*

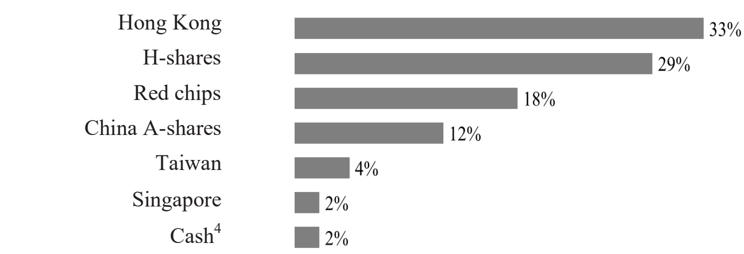
[1] *Past performance is not indicative of future results.*
[2] *Source: Link Fund Solutions Pty Ltd, Macquarie Investment Management Limited and Bloomberg, in AUD, NAV to NAV, with dividends reinvested. Performance data is net of all fees. Unless specified, all information contained on this report is quoted as at 31 May 2022. Investment involves risks. Investors should read the Product Disclosure Statement for details and risk factors in particular those associated with investment in emerging markets.*

Top 10 holdings

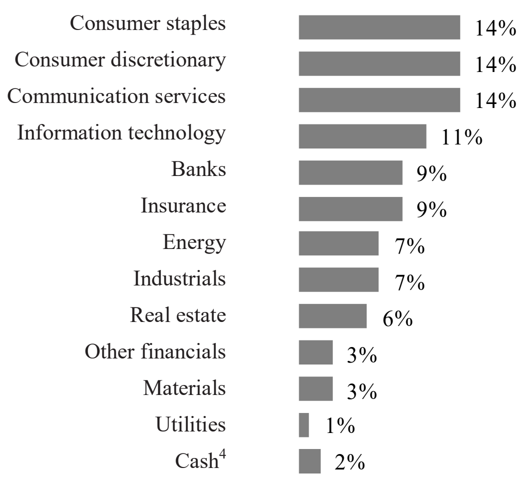
Name	Industry	Listing	%
CNOOC Ltd	Energy	Hong Kong	6.0
AIA Group Ltd	Insurance	Hong Kong	5.1
Tencent Holdings Ltd	Media & entertainment	Hong Kong	4.8
China Telecom Corp Ltd	Telecom services	Hong Kong	4.3
China Construction Bank Corp	Banks	Hong Kong	4.2
Meituan	Retailing	Hong Kong	4.0
Kweichow Moutai Co Ltd	Food, beverage & tobacco	China	3.9
China Mobile Ltd	Telecom services	Hong Kong	3.4
China Resources Land Ltd	Real estate	Hong Kong	3.4
Taiwan Semiconductor Manufacturing Co Ltd	Semiconductors & semiconductor equipment	Taiwan	3.4

These holdings made up 43% of the Fund.
No. of holdings : 47
Level of currency hedge : 32.2%

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:
Kelly Chung, CFA; Chung Man Wing; Yu Chen Jun; Michelle Yu, CFA
Senior Fund Managers:
Lillian Cao; Anthony Chan, CFA; Doris Ho; Glenda Hsia; Amy Lee, CFA, CAIA; Luo Jing, CFA; Frank Tsui

Link to TMD

https://www.premiumasiafunds.com.au/wp-content/uploads/2021/10/Premium_China_Fund_EN_AU_1630674978.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.*
[4] *Cash includes receivables and payables (except cash for collaterals and margins).*

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