PREMIUM ASIA FUND (ARSN 134 226 029)

DECEMBER 2018
2 PAGES

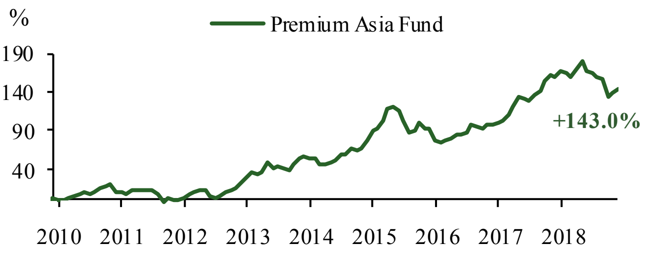
Investment objective

The Premium Asia Fund aims to generate positive returns, consisting of both capital growth and income, over a three to five year period prior to accounting for movements in currency exchange rates. It will seek to achieve this objective by constructing a portfolio of securities which provides exposure to the Asia ex-Japan region. The Fund is denominated in Australian dollars and typically will not hedge its currency exposure.

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
Inception date:	1 December 2009
Fund size:	AUD 34.3 million [2]

Performance since launch [1, 2]



Performance update [1, 2]

	Premium Asia Fund
One month	+1.6%
Three months	-4.9%
Six months	-8.8%
One year	-6.1%
Since launch	+143.0%
Annualised return	+10.3%
Annualised volatility	12.8%

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

Annual return since launch [1, 2]

2009 (Since inception)	+1.2%	2014	+12.1%
2010	+9.2%	2015	+9.2%
2011	-9.9%	2016	+2.0%
2012	+22.1%	2017	+31.8%
2013	+29.3%	2018 (YTD)	-6.1%

[1] ***Past performance is not indicative of future results.***

Unit price: *AUD 1.1348* ***Entry price:*** *AUD 1.1377* ***Exit price:*** *AUD 1.1320*
Distribution: *AUD 0.2215 (for the year ended 30 June 2018)*

Manager's commentary

Market review

Asian equities experienced a fairly volatile year in 2018, with the MSCI AC Asia ex-Japan Index losing 4.6% (in AUD) amidst rising geo-political tensions, the US-China trade dispute and concerns over China's moderating economic growth. The same index went up by 1% (in AUD) during the month.

While China's economic slowdown due to the effects of tightening financial regulations was expected, few predicted the eruption of the US-China trade dispute, which compounded China's slowing economy. From an overarching perspective, it is to the benefit of both China and the US to come to an amicable agreement. However, whether their differences can be resolved remains to be seen and any trade-related news are likely to be heavily scrutinized, adding a layer of complexity, in particular for the first half of 2019.

One silver lining is China's increasingly flexible policy approach. The Chinese authorities have shown its willingness to step up supportive policies. This includes accelerating spending on infrastructure, easing monetary policies to increase lending to small and medium-sized firms as well as income tax breaks to boost consumption. We believe China has enough ammunition in its arsenal to support the economy in 2019.

In Korea, most end-year data are pointing towards intensifying macro headwinds. Exports[1] grew 1.2% Year-on-Year in December following a 4.1% gain in the previous month, while CPI inflation slowed to 1.3% from 2% in November. The government responded by frontloading 61% of the 2019 budget into the first half of the year. The economy is forecasted to grow in the middle to upper 2% range in 2019, while the Bank of Korea has reiterated the need to maintain its accommodative monetary policies[2].

In ASEAN, a stronger greenback has prompted many central banks to hike rates in 2018 to maintain currency stability and contain capital outflows. The tighter financial conditions, however, put a cap on economic growth and earnings momentum. A possibly less aggressive Fed in 2019 would allow ASEAN to re-focus on growth and inject momentum back to the market.

Portfolio strategy and outlook

In spite of growing concerns over the possibility of a global economic slowdown, Asian equities enjoyed a relatively stable December, with the MSCI AC Asia ex-Japan Index going up by 1% (in AUD) in December, while our Fund rose 1.6% (in AUD).

The portfolio's outperformance was driven by our Korean consumer discretionary exposure. This includes a gaming operator and Fila Korea Ltd, which continues to excel by focusing on younger consumers in US and China. The key detraction to our portfolio came from the oil and gas sector, which was hampered by the recent correction in oil prices. Geographically, our stock picks in Korea, Hong Kong and Taiwan were the main contributors to the portfolio's positive performance.

In terms of valuations, the MSCI Asia ex-Japan Index's 12-month forward P/E of 10.5x suggests a respectful margin of safety, as the last time it fell below 10x was during the 2008-2009 global financial crisis[3]. Additionally, earnings growth continues to be in positive territory, which helps to paint a more constructive regional equity outlook for the entire 2019.

1. Source: Korean Ministry of Trade, Industry and Energy, 1 January 2019
2. Source: The Bank of Korea, 2 January 2019
3. Source: MSCI

[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 2018. Investment involves risks. Investors should read the Product Disclosure Statement for details and risk factors in particular those associated with investment in emerging markets.*

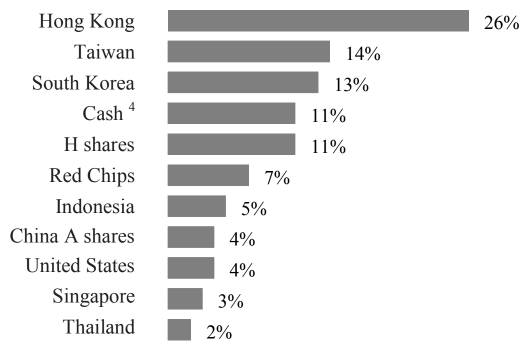
Top 10 securities holdings

Name	Industry	Country	%
Taiwan Semiconductor Manufacturing	Semiconductors & Semiconductor Equipment	Taiwan	7.2
China Construction Bank	Banks	Hong Kong	4.9
BGF Retail	Food & Staples Retailing	South Korea	3.7
Alibaba Group	Retailing	United States	3.4
Fila Korea	Consumer Durables & Apparel	South Korea	3.0
China Mobile	Telecommunication service	Hong Kong	2.9
Intron Technology	Automobiles & Components	Hong Kong	2.5
Tencent	Media & Entertainment	Hong Kong	2.1
DBS Group	Banks	Hong Kong	2.1
CNOOC	Energy	Hong Kong	2.0

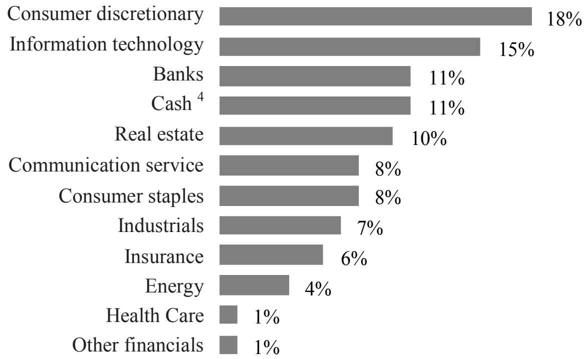
These holdings made up 34% of the Fund.

No. of holdings : 79

Geographical exposure by listing [3]



Sector exposure [3]



Fee structure

Management fee	1.78% p.a. of Net Asset Value
Performance fee	20% of outperformance over a hurdle of 12% 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

Senior investment staff

Chairman & Co-Chief Investment Officer: Cheah Cheng Hye
Deputy Chairman & Co-Chief Investment Officer: Louis So
Deputy Chief Investment Officer: Renee Hung
Senior Investment Director : Norman Ho, CFA
Investment Directors : Chung Man Wing; Kenny Tjan, CFA; Michelle Yu, CFA; Yu Xiao Bo
Senior Fund Managers : Anthony Chan, CFA; Kelly Chung, CFA; Doris Ho; Glenda Hsia; Philip Li, CFA; Luo Jing, CFA; Kai Mak; Yu Chen Jun

[3] *Exposure refers to net exposure (long exposure minus short exposure). Due to rounding, percentages shown may not add up to 100%.*
[4] *Cash refers to net cash on hand excluding cash for collaterals and margins.*

Think Asia
Think Premium