PREMIUM CHINA FUND (ARSN 116 380 771)

JANUARY 2019
2 PAGES

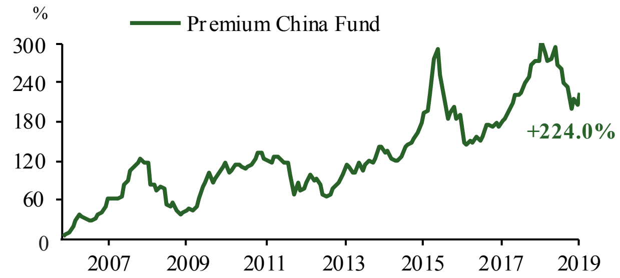
Investment objective

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
Inception date:	28 October 2005
Fund size:	AUD 172.5 million [2]

Performance since launch [1, 2]



Performance update [1, 2]

	Premium China Fund
One month	+6.0%
Three months	+8.3%
Six months	-10.1%
One year	-19.5%
Since launch	+224.0%
Annualised return	+9.3%
Annualised volatility	18.4%

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

Annual return since launch [1, 2]

2005 (Since inception)	+7.0%	2013	+21.9%
2006	+48.0%	2014	+15.5%
2007	+36.1%	2015	+4.9%
2008	-33.6%	2016	-6.2%
2009	+50.2%	2017	+37.0%
2010	+2.3%	2018	-17.9%
2011	-21.2%	2019 (YTD)	+6.0%
2012	+13.1%		

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

Unit price: *AUD 2.1944* ***Entry price:*** *AUD 2.1999* ***Exit price:*** *AUD 2.1889*
Distribution: *AUD 0.2984 (for the year ended 30 June 2018)*

Manager's commentary

Market review

Greater China equities rebounded following a difficult end to 2018. The positive market backdrop was driven by growing optimism that the US-China trade dispute would be resolved, complemented by a dovish tilt in terms of US rate hike expectations, which would relieve some pressure off Emerging Market currencies and equity markets within the region.

China's focus on boosting domestic growth through the use of both fiscal and monetary policies was also a key performance catalyst. To combat growing macro headwinds, the People's Bank of China moved to cut the reserve requirement ratio (RRR) by another 100bps in January[1] – its fifth cut since September 2017.

Premier Li Keqiang has also publicly vowed to increase the intensity of counter-cyclical policy adjustments and to further reduce taxes with aims to prioritise growth stability. This reaffirms our view that more loosening policies could be on the cards and the country has plenty of room to maneuver in terms of the strength and scope of potential supporting measures.

Portfolio strategy and outlook

In January, our portfolio was supported by a broad-based market rebound given valuations were depressed in the previous month. Our holdings in social media and e-commerce were among the key contributors, having undergone major corrections in the second half of 2018. In addition, our stock pick in the healthcare sector was also a key contributor, coming back strongly after policy headwinds led the broader sector to be oversold last month.

On the flip side, our underweight positions in several technology-related stocks detracted from performance. Our portfolio's lower, yet still significant technology weighting, was due to expensive valuations. Our industrial exposures also detracted performance, as the sector had a fairly muted January following a strong 4Q2018. We continue to maintain a constructive view of the industrial sector, however, as China is expected to continue its policy easing and accelerate infrastructure spending to support economy growth.

Looking forward, all eyes will be on the ongoing US-China trade negotiations especially as we edge closer towards the March deadline. Earnings growth continues to be positive and valuations are attractive, with the MSCI China's 12-month forward PE of 11.1x[2] currently below its 10-year average of 11.3x. In addition, we have been slowly building up our positions in A-shares as prices are low and foreign capital flows are expected to increase alongside the MSCI inclusion factor of large cap securities. However, we are mindful of weaknesses in regional and global macro data as well as US-China trade policy risks.

1. *Source: People's Bank of China, 2 February 2019*
2. *Source: Bloomberg, February 2019*

[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 January 2019. Investment involves risks. Investors should read the Product Disclosure Statement for details and risk factors in particular those associated with investment in emerging markets.*

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Top 10 securities holdings

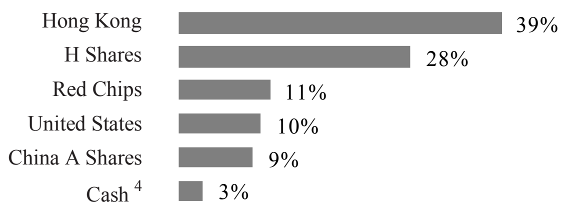
Name	Industry	Listing	%
Alibaba Group	Retailing	United States	8.3
Tencent	Media and Entertainment	Hong Kong	7.9
China Construction Bank	Banks	H Shares	6.3
Industrial and Commercial Bank of China	Banks	H Shares	6.0
China National Offshore Oil Corporation	Energy	Red Chips	4.0
CRRC Corporation	Capital Goods	H Shares	3.4
CSPC Pharmaceutical Group	Pharmaceuticals, Biotechnology & Life Sciences	Red Chips	3.4
PetroChina	Energy	H Shares	3.2
Ping An Insurance Group	Insurance	H Shares	3.0
Sands China	Consumer Services	Hong Kong	3.0

These holdings made up 49% of the Fund.

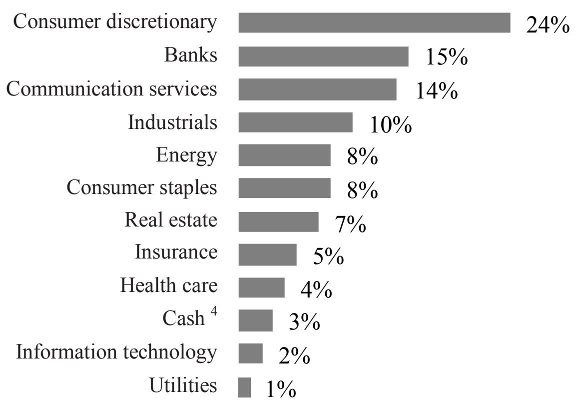
No. of holdings : 49

Level of currency hedge : 31.0%

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 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; 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; 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.*

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