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Premium China Funds Management

PREMIUM CHINA FUND (ARSN 116 380 771)

FEBRUARY 2015
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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
Manager:	Value Partners Hong Kong Limited
Responsible entity:	Macquarie Investment Management Limited
Custodian:	Citibank N.A.
Auditor:	Ernst & Young
Launch date:	28 October 2005
Fund size:	AUD 263.6 million

Performance since launch [1]

Performance update [1]

	Premium China Fund
One month	+1.5%
Three months	+14.2%
Six months	+22.6%
One year	+27.2%
Since launch	+196.7%
Annualized return	+12.4%
Annualized volatility	17.9%

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

Annual return since launch [1]

2005 (Since inception)	+7.0%	2011	-21.2%
2006	+48.0%	2012	+13.1%
2007	+36.1%	2013	+21.9%
2008	-35.0%	2014	+15.5%
2009	+53.8%	2015 (Year-to-date)	+7.5%
2010	+2.3%		

Unit price: *AUD 2.2497*
Distribution: *AUD 0 (for the year ended 30 June 2014)*

Manager's commentary

Review and outlook

A number of policy announcements were made by China's government in February to support growth momentum, which has remained soft due to seasonal factors and sluggish domestic demand. This positively impacted the country's equity and property markets.

Trade data for January came in weaker than expected, with exports and imports declining 3.3% and 19.9% year-on-year respectively. Retail sales for the Chinese New Year (CNY) golden week grew 11% from the comparable period last year, according to data from the Ministry of Commerce. While sales of traditional festival-related goods saw rapid growth, returns from high-end gifts were subdued due to the government's continuing anti-corruption campaign.

Broad M2 money supply growth slowed to 10.8% year-on-year in January from 12.2% in December. Meanwhile, growth in outstanding total social financing (TSF) was estimated to slow 13.8% year-on-year in January from 14.7% in December. Weakening M2 and TSF growth indicates tightening financial conditions. With ongoing producer price deflation, and consumer price inflation coming in at 0.8% year-on-year in February, real interest rates and thus funding costs in the economy have also been increasing.

Given the tightening conditions, the People's Bank of China (PBoC) delivered a reserve requirement ratio (RRR) cut of 50 basis points on February 5, bringing it to 19.5% for larger banks and 17.5% for smaller banks. Additional RRR cuts were also made for qualified banks, in order to support small and medium enterprises, agricultural and infrastructure projects. At the end of the month, further easing was announced in the form of a symmetric rate cut on February 28. We believe there will be more accommodative measures going forward, which in turn will provide further support to equity and property markets.

The emphasis remains on structural reforms, such as establishing a deposit insurance scheme, the Shenzhen-Hong Kong Stock Connect, interest rate liberalisation and IPO reforms, among many others.

Strategy

In anticipation of further accommodative monetary policies, we continued to increase our position in financials during the month. Within financials, we increased our exposure to one of the largest homebuilders in China. The company has been trading at a 40% discount to net asset value, compared to peer average of 30% discount, but has been delivering faster sales growth over its peers. We also added to industrials through two infrastructure construction names which stand to benefit from China's railway investment plans as well as potential overseas expansion opportunities. To make room for the additions, profit was taken on select consumer discretionary companies which we have held for a number of years and have rallied recently.

[1] *Source: Macquarie Investment Management Limited and Bloomberg, in AUD, NAV to NAV. Performance data is net of all fees.*
Unless specified, all information contained on this report is quoted as at 28 February 2015.
Investment involves risks. The price of units may go down as well as up and past performance is not indicative of future results. 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

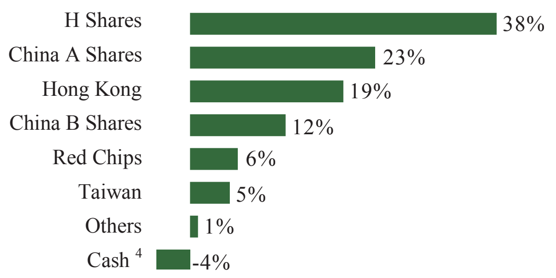
Name	Industry [2]	Country	%
Chongqing Changan Automobile	Automobiles & components	China	7.0
China Vanke (Stock code: 000002 CH - A shares)	Real estate	China	5.5
Taiwan Semiconductor Manufacturing	Semiconductors & semiconductor equipment	Taiwan	4.5
New China Life Insurance	Insurance	Hong Kong	3.5
Inner Mongolia Yili Industrial	Food, beverage & tobacco	China	3.2
Sunac China	Real estate	Hong Kong	3.1
CGN Power	Utilities	Hong Kong	3.0
Luye Pharma Group	Pharmaceuticals, biotechnology & life sciences	Hong Kong	3.0
China Vanke (Stock code: 2202HK - H shares)	Real estate	Hong Kong	2.9
ZTE Corp.	Technology, hardware & equipment	Hong Kong	2.7

These holdings made up 38% of the Fund. The top ten securities holdings only include companies and/or REITs the fund invested, excluding any index tracking fund or ETF.

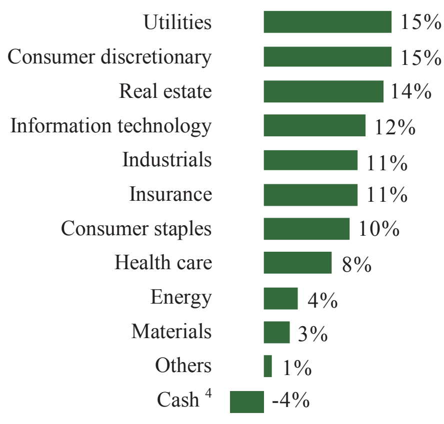
No. of holdings : 76

Level of currency hedge : 15.2%

Geographical exposure by listing [3]



Sector exposure [2 3]



Fee structure

Management fee	2.00% 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 / AUD25k direct
Dealing frequency	Daily

A selection of awards & ratings

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 : Eric Chow; Alan Wang, CFA; Michelle Yu, CFA

[2] *Classification is based on Global Industry Classification Standard (GICS).*
[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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