

**ASX Announcement
(ASX: AUF)
Investment and NTA update at 30 June 2015**

Overview

The unaudited, pre-tax net tangible asset (NTA) backing of the Asian Masters Fund (AUF) at 30 June was \$1.41 per share (compared with \$1.50 at 31 May 2015).

The Asian Masters Fund is a long-term equity investor and does not intend to dispose of its total portfolio. If estimated tax at 30% on unrealised portfolio gains were to be recognised, the net asset backing after tax would be \$1.28 per share.

AUF's unaudited, pre-tax NTA per share returned -6.2% over the month of June. This compares with the MSCI Asia ex Japan Index (total return in Australian dollars), which declined 4.4% over the same period. Since its initial public offering, AUF has outperformed its benchmark by 39.3%. At 30 June 2015, AUF was 97% invested and had investments in 14 funds with a total portfolio value of \$178,827,231.

Market Commentary¹

The MSCI Asia ex Japan Index (the Index) fell 4.4% in June as Chinese stocks declined sharply. Sentiment took a further hit after negotiations between the Greek government and its creditors collapsed.

Vietnam (+4.8%) was the best performing market in the region. Stocks rallied after the government lifted restrictions on foreign ownership in locally listed companies. India (-0.3%) and Thailand (-0.4%) posted positive returns in local currency terms but declined in AUD terms.

The Philippines (-2.0%), Singapore (-2.8%), Korea (-3.0%), Hong Kong (-3.7%) and Taiwan (-4.1%) outperformed the Index. Malaysia (-5.2%) and Indonesia (-7.3%) underperformed the benchmark.

China was the worst performing market in the region, with China A-Shares and China H-Shares declining 8.0% and 6.5%, respectively. Heightened concerns over valuations and a regulatory crackdown on margin trading triggered a sharp selloff in Chinese equities. To lift market confidence, China's central bank lowered interest rates by 25 basis points (bps) and the reserve requirement ratio for certain lenders by 50bps.

The Australian dollar closed out June at 77.07 US cents, increasing 0.8% on May's close of 76.45 US cents.



China Update

Given the recent volatility in Chinese equity markets, and significant press interest, we would like to provide a brief update on China.

Certain elements of the domestic Chinese market had certainly become overvalued (small cap and technology stocks particularly), driven by momentum-driven retail investors. The growth of margin debt was also of concern, something that drove Chinese regulators to impose tighter restrictions on margin lending.

While the recent correction will be painful for some Chinese investors, particularly those who had used margin debt, it is important to note that as at 13 July 2015, the Shanghai stock market is still **UP 153%** since 1 July 2014, and **UP 37%** year to date.

Asian Masters Fund was invested in China A-Shares since before the major rally commenced in 2014, when A-Shares were considerably undervalued, and this has benefitted the fund handsomely over the last year. While the fund retains a significant exposure to China, it has been taking profits on its Chinese investments over the last year, with proceeds reinvested in other parts of the portfolio.

Although the official Chinese response to the falling market has not been well handled, with new measures announced almost daily, and at one time around half the market suspended from trading, we believe the worst of the correction may now be behind us. Even before the recent correction, valuations of the broader Shanghai index were not demanding. We are regularly in contact with our managers in China, and they note that they are still able to identify high quality companies on attractive valuations. The valuations of their portfolios certainly don't give us cause for concern.

While there is likely to be continued volatility in the Chinese market, we see the recent correction as a natural part of a multi-year re-rating in domestic Chinese equities. We remain excited by the long-term prospects for China, and expect to maintain exposure to China as part of a diversified portfolio of Asian equity investments.

¹ All figures in Australian dollars (AUD) unless specified otherwise

Source: Walsh & Company Asset Management Pty Limited. Note some figures may not reconcile due to rounding. The historical performance of the Manager is not a guarantee of the future performance of the Portfolio or the Company.