

ASIAN MASTERS FUND QUARTERLY INVESTMENT UPDATE (JUNE 2015)

HIGHLIGHTS

- Net tangible assets (NTA) backing per share returned +0.6% in the June quarter, outperforming the MSCI Asia ex Japan Index by 1.2%.
- China A-Shares continued to perform strongly, but with high volatility.
- Significant divergence in performance across Asian markets.

MARKET PERSPECTIVES

The Chinese stock market has been volatile in recent weeks, and has received considerable press. 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 30 June 2015, the domestic Chinese stock market (represented by the CSI300 Index) is still UP 158% over the last year, and UP 35% year-to-date. Despite the recent correction, the CSI300 Index has only fallen to levels it reached in March this year.

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 and reinvested the proceeds 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 nearly 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 market were not demanding. We are regularly in contact with our managers in China and they note they are still able to identify high quality companies on attractive valuations. The valuations of their portfolios certainly do not give us cause for concern.

Another pertinent question is whether this stock market correction will have an impact on the broader Chinese economy. Given the stock market only makes up 5% of total social financing in China, and only 15% of household savings, we think it is unlikely it will have any significant impact on the real economy.

There is likely to be continued volatility in the Chinese market, however this episode could have one important effect – teaching the domestic Chinese investors that the value of investments can also go down. Following this period of volatility, we would expect the Chinese market to be more driven by fundamentals than has been the case to date. And the fundamentals for a great number of Chinese companies are very bright. 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.

EQUITY MARKET REVIEW¹

Asia ex Japan equities declined marginally in the second quarter of 2015 (Q2) with the MSCI Asia ex Japan Index (the Index) losing 0.6%. Performance across the region was significantly divergent, with the Greater China markets performing exceptionally well, while the South and Southeast Asian markets underperformed. Markets remained cautious over the uncertainty surrounding the timing of an interest rate rise in the United States (US). The quarter ended with increased volatility amid tense negotiations between Greece and its creditors and a sharp sell-off in Chinese equities from mid June.

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

For a fourth consecutive quarter, China was the best performing market in the region with China A-Shares gaining 9.9% and China H-Shares rising 6.5%. Equities rallied in the first two months of the quarter before witnessing a sharp correction in June. The exact cause of the sell-off is unclear, but it was believed to be triggered by a crackdown on unregulated margin financing. The government took numerous measures to contain the decline, including a 25 basis points (bps) interest rate cut and a 50bps cut in the reserve requirement ratio for certain banks. Economic data stabilised in the second quarter, with gross domestic product (GDP) growth of 7.0% year-on-year (yoy), in-line with the first quarter.

Vietnam (+7.1%) also performed strongly during the quarter. Stocks rallied after the government lifted restrictions on foreign ownership in locally listed companies in selected sectors. The market was also supported by the central bank's decision to devalue the Vietnamese dong for the second time this year in order to boost exports.

Hong Kong stocks gained 6.0% as the Chinese equity rally spilled over to Hong Kong. Korea (-0.3%) performed broadly in line with the Index, while Singapore (-1.9%) and Taiwan (-2.0%) underperformed. India lost 3.2% amid weak corporate earnings. Perceptions of slow progress on the reform front also weighed on sentiment.

All Southeast Asian markets posted losses over the quarter, except for Vietnam. Thailand (-4.0%) and the Philippines (-6.3%) underperformed on the back of weaker-than-expected economic data released during the quarter. After a period of very strong growth, GDP growth in the Philippines slowed to a still impressive 5.2% yoy in the first quarter, albeit this growth rate was below expectations.

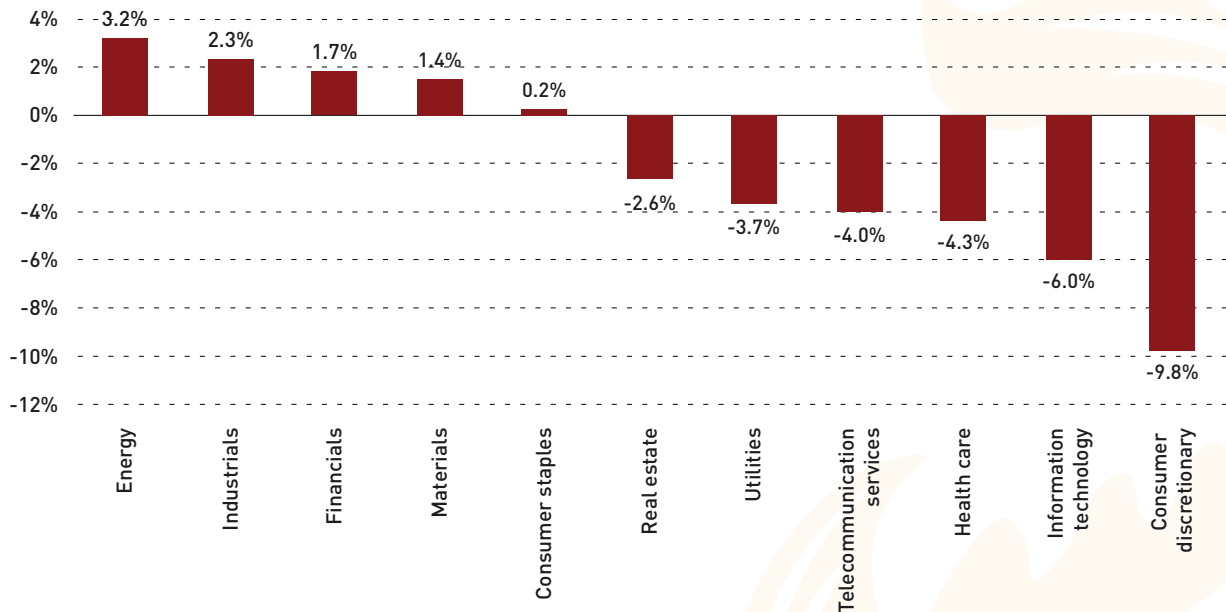
Malaysia (-8.0%) and Indonesia (-12.8%) were the region's worst performing markets during the quarter. Malaysian equities declined amid falling oil prices, a weakening currency and fiscal and political concerns. In Indonesia, equities retreated after reforms took a backseat as political infighting accelerated during the quarter.

PERFORMANCE OF ASIAN SHARE MARKETS IN THE JUNE QUARTER

Index	Local currency	Australian dollars
CSI 300 (China A-Shares)	11.1%	9.9%
Ho Chi Minh (Vietnam)	9.6%	7.1%
Hang Seng China Enterprises (China H-Shares)	7.7%	6.5%
Hang Seng (Hong Kong)	7.2%	6.0%
Kospi (Korea)	1.6%	-0.3%
MSCI Asia ex Japan	0.6%	-0.6%
Straits Times (Singapore)	-2.6%	-1.9%
Taiex (Taiwan)	-2.0%	-2.0%
Sensex (India)	0.0%	-3.2%
SET (Thailand)	0.8%	-4.0%
PSEi (Philippines)	-4.3%	-6.3%
KLCI (Malaysia)	-6.0%	-8.0%
JCI (Indonesia)	-9.9%	-12.8%

Source: Bloomberg, Walsh & Company Asset Management Pty Limited

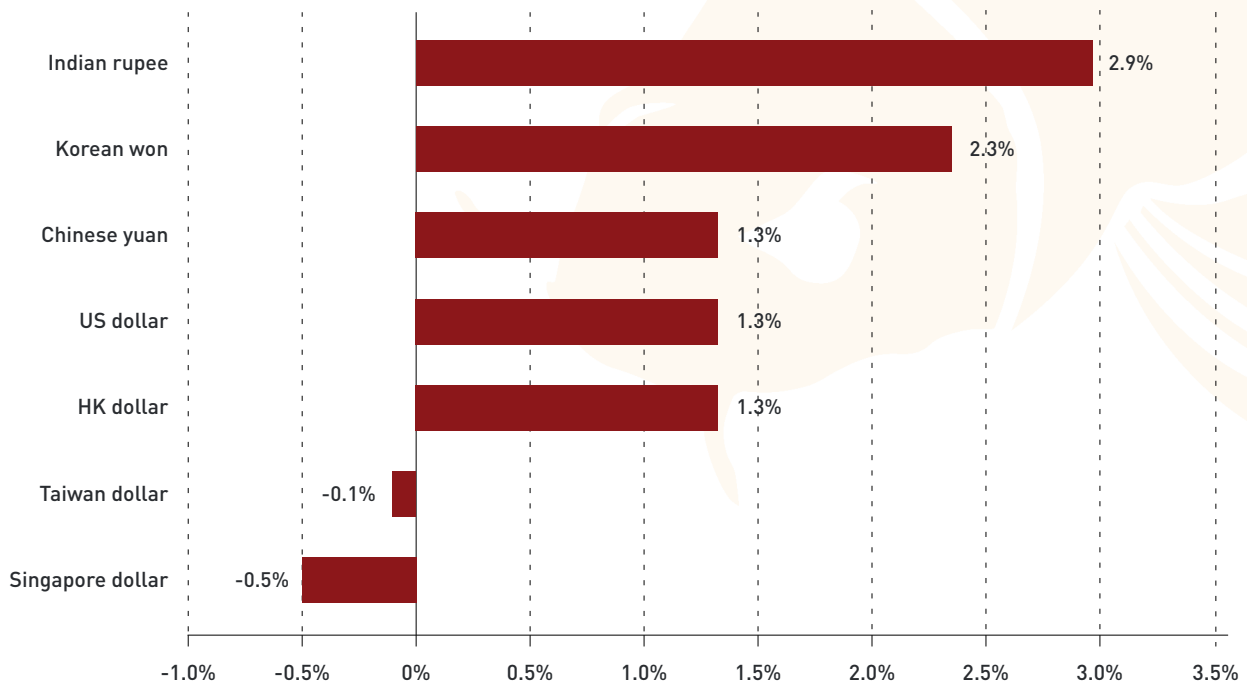
PERFORMANCE OF THE SECTORS WITHIN THE MSCI ASIA EX JAPAN INDEX OVER THE JUNE QUARTER (IN AUD)



Source: Bloomberg, Walsh & Company Asset Management Pty Limited

CURRENCY MARKET REVIEW

PERFORMANCE OF THE AUSTRALIAN DOLLAR AGAINST VARIOUS CURRENCIES OVER THE JUNE QUARTER



Source: Bloomberg, Walsh & Company Asset Management Pty Limited

During the June quarter, the Australian dollar appreciated against all Asia ex Japan currencies, except the Taiwan dollar and Singapore dollar. The stronger than forecast Q1 GDP growth in Australia and the Reserve Bank of Australia's neutral tone regarding further interest rate cuts helped strengthen the AUD.

ASIAN MASTERS FUND (ASX: AUF) OVERVIEW

AUF listing date	December 2007
Total assets (\$m)	\$178.9
NTA per share (June 2015)	\$1.41
Number of securities held by underlying funds	596

Source: Walsh & Company Asset Management Pty Limited

AUF PERFORMANCE

From 31 March 2015 to 30 June 2015, AUF's net tangible asset (NTA) backing per share returned +0.6%, outperforming the MSCI Asia ex Japan Index by 1.2%. AUF has performed very strongly since inception, outperforming the index by 39.3%.

	Since AUF listing	June quarter
AUF	65.7%	0.6%
MSCI Asia ex Japan Index	26.4%	-0.6%
Outperformance*	39.3%	1.2%

*Figures may not reconcile due to rounding. Source: Bloomberg, Walsh & Company Asset Management Pty Limited

UNDERLYING MANAGERS

AUF currently has investments in 14 leading funds that provide exposure across a number of Asian markets.

Manager	Mandate	Weight at 31/03/2015	Weight at 30/06/2015
Arisaig Asia Consumer Fund	Asian consumer specialist	14.1%	13.9%
APS China A-Share Fund	Country specialist – China	10.8%	9.0%
CK Absolute Return Fund	Country specialist – Korea	8.7%	9.0%
Aberdeen Asian Opportunities Fund	Asian region	8.8%	8.4%
JPMorgan Taiwan Fund	Country specialist – Taiwan	7.5%	7.8%
Steadview Capital Fund	Country specialist – India	7.8%	7.5%
NCC China A-Share Fund	Country specialist – China	3.6%	6.6%
Cephei QFII China Absolute Return Fund	Country specialist – China	3.4%	6.4%
Macquarie Asia New Stars No.1 Fund	Asian small cap specialist	3.1%	6.3%
Prusik Asia Fund	Asian region	5.9%	5.8%
Asian Opportunities Absolute Return Fund	Asian region	3.0%	5.7%
Prusik Asia Smaller Companies Fund	Asian small cap specialist	5.1%	5.1%
JPMorgan China Pioneer A-Share Fund	Country specialist – China	9.7%	3.5%
Aberdeen India Opportunities Fund	Country specialist – India	1.4%	1.3%
Cash*		6.9%	3.8%
Total**		100.0%	100.0%

* Excludes any cash held by underlying investment managers, and includes 2.5% of prefunded investments and cash receivable as at 30 June 2015

**Figures may not reconcile due to rounding

Source: Walsh & Company Asset Management Pty Limited

COUNTRY ALLOCATION

Indicative look-through country allocation mix at 30 June 2015:

Country	AUF weight	MSCI Asia ex Japan Index weight	Active weight**
China	33.1%	29.6%	3.5%
India	18.5%	9.1%	9.4%
Korea	13.4%	17.1%	-3.7%
Taiwan	12.0%	15.1%	-3.0%
Hong Kong	6.7%	12.7%	-5.9%
Singapore	3.3%	5.6%	-2.3%
Philippines	3.0%	1.6%	1.4%
Vietnam	1.8%	-	1.8%
Thailand	1.5%	2.7%	-1.2%
Indonesia	1.1%	2.8%	-1.7%
Pakistan	0.7%	-	0.7%
Malaysia	0.6%	3.8%	-3.2%
Sri Lanka	0.2%	-	0.2%
Other	0.2%	-	0.2%
Cash*	3.8%	-	3.8%
Total**	100.0%	100.0%	-

* Excludes any cash held by underlying investment managers, and includes 2.5% of prefunded investments and cash receivable

**Figures may not reconcile due to rounding

Source: MSCI, Walsh & Company Asset Management Pty Limited

SECTOR ALLOCATION

Sector	AUF weight	MSCI Asia ex Japan Index weight	Active weight**
Consumer staples	18.5%	5.3%	13.2%
Consumer discretionary	18.2%	7.7%	10.6%
Information technology	18.2%	21.0%	-2.9%
Financials	15.0%	34.7%	-19.7%
Industrials	11.7%	8.9%	2.8%
Health care	5.3%	2.2%	3.1%
Materials	4.3%	4.8%	-0.5%
Telecommunication services	2.3%	6.6%	-4.3%
Utilities	1.7%	4.0%	-2.2%
Energy	1.0%	4.9%	-3.9%
Cash*	3.8%	-	3.8%
Total**	100.0%	100.0%	-

* Excludes any cash held by underlying investment managers, and includes 2.5% of prefunded investments and cash receivable

**Figures may not reconcile due to rounding

Source: MSCI, Walsh & Company Asset Management Pty Limited

TOP 50 HOLDINGS

An indicative look-through stock exposure derived from portfolio of underlying funds:

	Company	Country	Weights (%)
1	SAMSUNG ELECTRONICS CO LTD	Korea	1.9%
2	PAGE INDUSTRIES LTD	India	1.2%
3	TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD	Taiwan	1.2%
4	BRITANNIA INDUSTRIES LTD	India	1.2%
5	FOSHAN HAITIAN FLAVOURING AND FOOD CO LTD	China	1.1%
6	MARICO LTD	India	1.1%
7	FLIPKART PVT LTD	India	1.1%
8	INNER MONGOLIA YI LI INDUSTRY CO LTD	China	1.0%
9	GRG BANKING EQUIPMENT CO LTD	China	1.0%
10	GODREJ CONSUMER PRODUCTS LTD	India	1.0%
11	NESTLE INDIA LTD	India	1.0%
12	CHINA VANKE CO LTD	China	0.9%
13	YONGHUI SUPERSTORES CO LTD	China	0.9%
14	JIANGSU KANGDE XIN COMPOSITE MATERIAL CO LTD	China	0.9%
15	ANI TECHNOLOGIES PVT LTD	India	0.9%
16	EICHER MOTORS LTD	India	0.8%
17	PING AN INSURANCE (GROUP) CO OF CHINA LTD	China	0.8%
18	PHILIPPINE SEVEN CORP	Philippines	0.8%
19	UNIVERSAL ROBINA CORP	Philippines	0.8%
20	KANGMEI PHARMACEUTICAL CO LTD	China	0.8%
21	COLGATE-PALMOLIVE (INDIA) LTD	India	0.7%
22	MIDEA GROUP CO LTD	China	0.7%
23	JIANGSU HENGRUI MEDICINE CO LTD	China	0.7%
24	JOLLIBEE FOODS CORP	Philippines	0.7%
25	CAFE DE CORAL HOLDINGS LTD	Hong Kong	0.6%
26	MOTHERSON SUMI SYSTEMS LTD	India	0.6%
27	ORION CORP	Korea	0.6%
28	AIA GROUP LTD	Hong Kong	0.6%
29	CHONGQING CHANGAN AUTOMOBILE CO LTD	China	0.6%
30	SHRIRAM CITY UNION FINANCE LTD	India	0.6%
31	HANA FINANCIAL GROUP	Korea	0.6%

TOP 50 HOLDINGS CONT

	Company	Country	Weights (%)
32	GLAXOSMITHKLINE CONSUMER HEALTHCARE LTD	India	0.6%
33	UNITED BREWERIES (HOLDINGS) LTD	India	0.6%
34	TASLY PHARMACEUTICAL GROUP CO LTD	China	0.6%
35	GREE ELECTRIC APPLIANCES INC OF ZHUHAI	China	0.6%
36	KWEICHOW MOUTAI CO LTD	China	0.6%
37	VENUSTECH GROUP INC	China	0.6%
38	HUAYU AUTOMOTIVE SYSTEMS CO LTD	China	0.6%
39	FUYAO GLASS INDUSTRY GROUP CO LTD	China	0.5%
40	SHANGHAI JAHWA UNITED CO LTD	China	0.5%
41	HYUNDAI MOBIS	Korea	0.5%
42	ZHENGZHOU YUTONG BUS CO LTD	China	0.5%
43	UNI-PRESIDENT CHINA HOLDINGS LTD	China	0.5%
44	NESTLE PAKISTAN LTD	Pakistan	0.5%
45	VITASOY INTERNATIONAL HOLDINGS LTD	Hong Kong	0.5%
46	HON HAI PRECISION INDUSTRY CO LTD	Taiwan	0.5%
47	POLY REAL ESTATE GROUP CO LTD	China	0.5%
48	UNILEVER INDONESIA TBK PT	Indonesia	0.5%
49	ZHEJIANG NHU CO LTD	China	0.4%
50	VIETNAM DAIRY PRODUCTS JSC	Vietnam	0.4%
	Total		37.4%

Source: Style Research, Walsh & Company Asset Management Pty Limited

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Sources: 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.

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