

ASIAN MASTERS FUND QUARTERLY INVESTMENT UPDATE (DEC 2015)

HIGHLIGHTS

- Net tangible assets (NTA) backing per share returned +1.0% in the December quarter, outperforming the MSCI Asia ex Japan Index by 1.1%.
- AUF's NTA provided a total return of +9.8% in the 2015 calendar year, outperforming the MSCI Asia ex Japan Index by 8.0%. AUF was the best performing Asia ex Japan fund available to Australian retail investors for 2015.¹
- The United States Federal Reserve (the Fed) raised interest rates for the first time since 2006 in their December meeting. Market reaction was somewhat muted as the rate rise was already priced in.

MARKET PERSPECTIVES

January 2016 has seen considerable volatility in global equity markets, with much of the instability being blamed on China.

At the time of writing (19 January), China's domestic stock market (CSI300 Index) has fallen 13.6% since 31 December (-10.4% in AUD terms). It appears global markets have taken a lead from China with the view that Chinese equity weakness is indicative of Chinese economic weakness, and hence warrants a sell-off in global equities. We believe this link is tenuous at best.

The reality is that at an underlying level, little has changed since late 2015. The Chinese stock market is driven by small retail shareholders who typically do not trade based on fundamentals. The correction has been driven by sentiment among those retail traders, exacerbated by a poorly designed circuit breaker system. The circuit breaker mechanism was implemented in January with the objective of reducing volatility in the Chinese market, but was suspended after just four days as regulators realised it in fact had the opposite effect. The Chinese economy has been slowing for a considerable period but interestingly has actually stabilised over the last six months, so the equity market correction is not driven by recent economic weakness.

A fall in the Chinese yuan has also been blamed for the recent volatility. While the yuan has fallen against the US dollar (USD) so have most other currencies (the Chinese yuan has actually been considerably stronger than the Australian dollar!). We believe this is more a case of the Chinese central bank rebasing its currency peg to a basket of currencies with which China trades, rather than singularly against the USD, which has been particularly strong over the last year, and is likely to remain strong in the immediate future. The Chinese economy has been slowing for some time and its central bank is on an easing path. As such it is natural its currency should weaken. We do not see these moves as an aggressive devaluation nor do we believe the recent move is a major cause for concern.

In our view, developed markets finished 2015 trading at valuation levels that are not cheap, with investors looking for any reason to take profits. Given the recent developments in China and a lack of news out of Europe and the United States, investors saw the correction in Chinese equities as a justification for a generalised sell-off. Risk assets (such as equities) rose after the Fed raised interest rates in December. Not much has changed in the world since then to justify the correction we have seen in January. China is in the process of opening up its financial markets, and regulators are still learning how to manage this process and better communicate with markets. While this internationalisation process will be positive for China and the rest of the world, we can expect volatility to be heightened by policy mismanagement and poor communication.

Despite all this recent volatility, Asian markets continue to exhibit superior growth rates to developed economies, and consumers' wealth and consumption continues to grow. The demographic profiles and consumption patterns remain very attractive. Although volatility is likely to remain high for the foreseeable future, we remain optimistic about the medium term outlook for investing in Asia, and particularly for the group of managers with which we have invested.

1. All-cap Asia ex Japan funds with assets over AUD20 million – Source: Morningstar Direct

EQUITY MARKET REVIEW¹

Asia ex Japan shares declined marginally in the fourth quarter (Q4) of 2015, with the MSCI Asia ex Japan Index (the Index) losing 0.1%. The Index gained 1.7% in the 2015 calendar year. Market sentiment in Q4 was mostly influenced by the Fed's monetary policy decisions. In December, the Fed finally raised interest rates by 25 basis points (bps), the first rate hike in nearly a decade. The Fed's emphasis on gradual future rate hikes had a positive impact on equity markets.

Indonesia (+10.7%) was the best performing Asia ex Japan market in Q4, as equities surged following the announcements of a series of mini-stimulus packages by the government. However, Indonesia was the worst performing market in the 2015 calendar year, declining 10.0%.

China A-Shares (Chinese equities listed in mainland China) rebounded in Q4, rising 9.9% amid signs of economic stabilisation and steps taken by the government to stimulate economic growth and restore confidence in the stock market. China's central bank lowered interest rates by 25bps and the Reserve Requirement Ratio by 50bps during the quarter. China H-Shares (Chinese equities listed in Hong Kong) declined 1.2% in Q4. China A-Shares were the second best performing market in the calendar year, rising 14.9%, while H-Shares declined 6.9%. In addition to the government's measures to support stocks listed onshore, one of the reasons for the big divergence in returns was the ban on short selling in the A-Share market, forcing hedging into the Hong Kong market.

Malaysia gained 3.2% in Q4 but performed poorly in 2015, declining 9.8% amid lower oil prices, a weakening currency and corruption scandals.

Hong Kong and Singapore gained 1.4% and 0.3% in Q4 respectively, outperforming the Index. Hong Kong finished the year up 7.7%, while Singapore declined 7.2%. Singapore's growth outlook continues to deteriorate as its open economy mirrors China's slowdown. Domestic growth was affected by declining exports and a slowing property market.

Vietnam (-0.5%) and Taiwan (-1.7%) underperformed the Index in the December quarter. Equities in Vietnam declined marginally due to currency depreciation, as the stock market rose 3.5% in local currency terms. Vietnam's economy is set to grow at its fastest pace in five years on the back of strong exports and domestic consumption and record high foreign direct investment. Vietnam was the best performing Asia ex Japan market in 2015, rising 17.3%, while Taiwan gained 0.2%. In Taiwan, sluggish domestic and external demand and a worsening global growth outlook led the central bank to cut interest rates by 12.5bps to 1.625% in December.

Korea and the Philippines declined 3.2% and 3.3% in Q4, and rose 7.1% and 4.3% respectively, in the 2015 calendar year. India declined 4.8% during the quarter and rose 3.0% in the calendar year. The Indian government was able to implement significant reforms in 2015, but failed to pass two key policy reforms, the land acquisition bill and the Goods and Services Tax, disappointing markets. Weak corporate earnings releases for the September quarter and a significant loss by the ruling political party in the Bihar state elections also weighed on investor sentiment in Q4.

Thailand (-7.1%) was the worst performing market in Q4, and the third worst performer in 2015, declining 9.1%. The economy has been adversely affected by political instability and declining global trade resulting in lower public expenditure and falling exports.

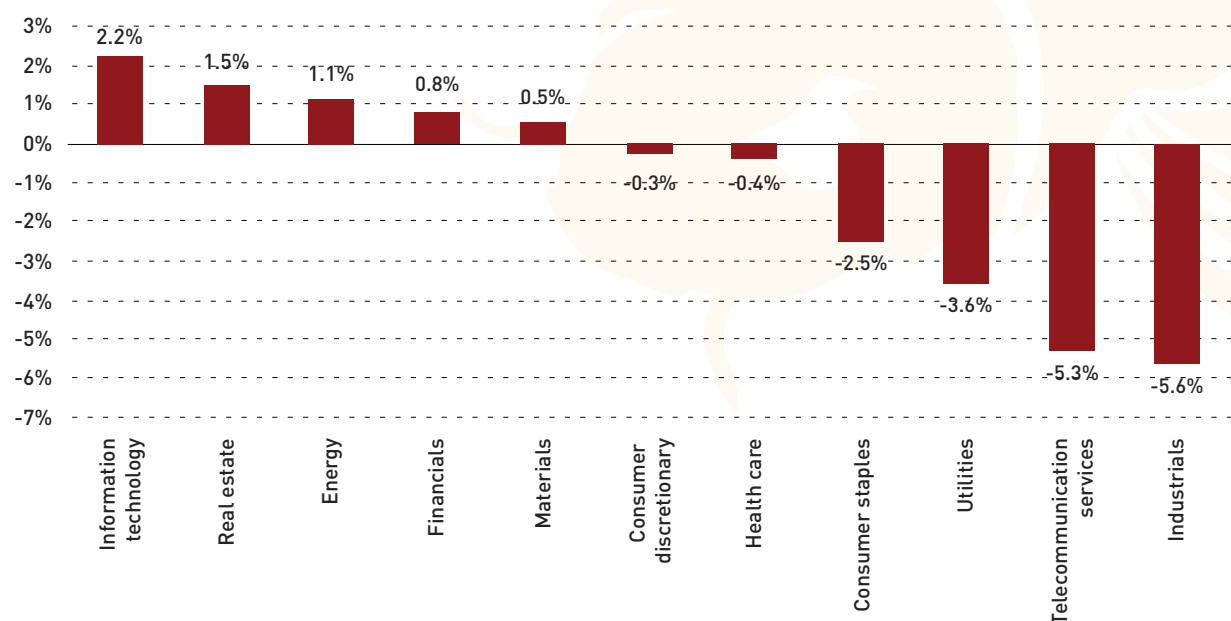
1. All figures in Australian dollars (AUD) unless specified otherwise

PERFORMANCE OF ASIAN SHARE MARKETS IN THE DECEMBER QUARTER AND 2015 CALENDAR YEAR

Index	December Quarter		2015	
	Local currency	Australian dollars	Local currency	Australian dollars
JCI (Indonesia)	8.9%	10.7%	-10.5%	-10.0%
CSI300 (China A-Shares)	16.5%	9.9%	7.2%	14.9%
KLCI (Malaysia)	5.3%	3.2%	-1.0%	-9.8%
Hang Seng (Hong Kong)	5.4%	1.4%	-3.9%	7.7%
Straits Times (Singapore)	3.8%	0.3%	-11.3%	-7.2%
MSCI Asia ex Japan	3.8%	-0.1%	-9.2%	1.7%
Ho Chi Minh (Vietnam)	3.5%	-0.5%	10.1%	17.3%
Hang Seng China Enterprises (China H-Shares)	2.7%	-1.2%	-16.9%	-6.9%
Taiex (Taiwan)	1.9%	-1.7%	-6.9%	0.2%
Kospi (Korea)	-0.1%	-3.2%	2.5%	7.1%
PSEi (Philippines)	1.0%	-3.3%	-2.0%	4.3%
Sensex (India)	0.0%	-4.8%	-3.7%	3.0%
SET (Thailand)	-4.3%	-7.1%	-11.2%	-9.1%

Source: Bloomberg, Walsh & Company Asset Management Pty Limited

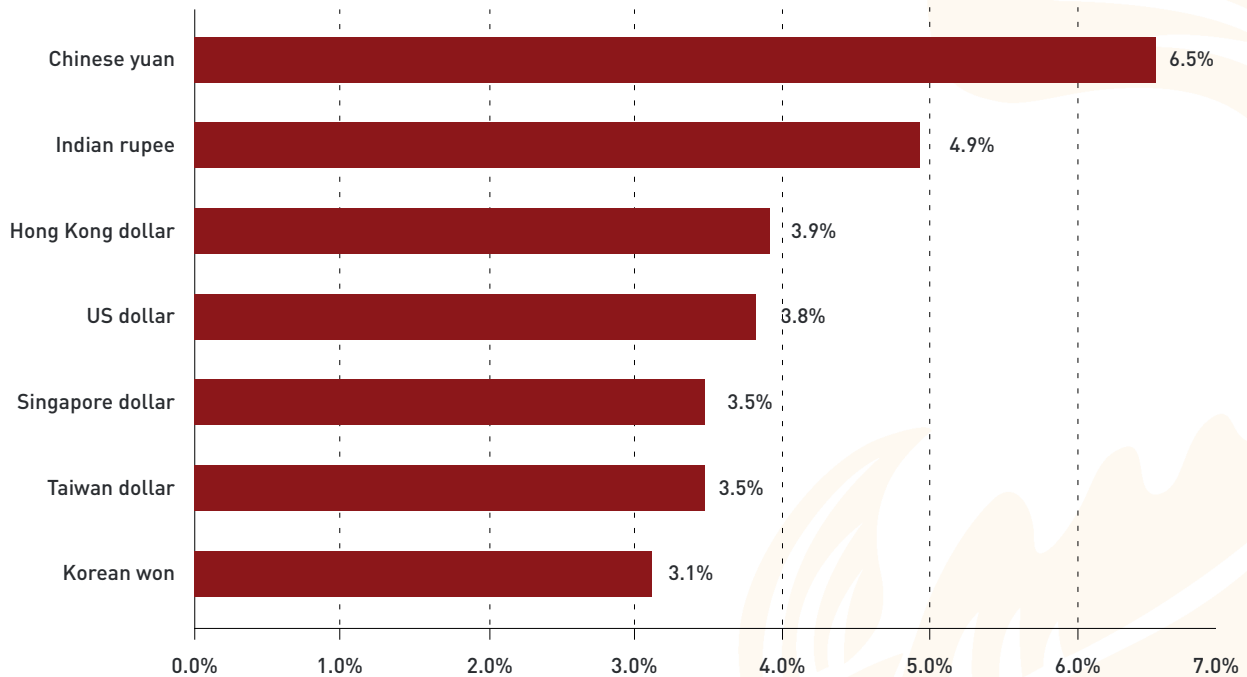
PERFORMANCE OF THE SECTORS WITHIN THE MSCI ASIA EX JAPAN INDEX OVER THE DECEMBER QUARTER (IN AUD)



Source: Bloomberg, Walsh & Company Asset Management Pty Limited

CURRENCY MARKET REVIEW

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



Source: Bloomberg, Walsh & Company Asset Management Pty Limited

During the December quarter, the Australian dollar (AUD) appreciated against all Asia ex Japan currencies except the Indonesian rupiah (-2.1%). The rise was most significant against the Chinese yuan (+6.5%), Indian rupee (+4.9%) and Hong Kong dollar (+3.9%).

ASIAN MASTERS FUND (ASX: AUF) OVERVIEW

AUF listing date	December 2007
Total assets (\$m)	\$168.8
NTA per share (December 2015)	\$1.34
Number of securities held by underlying funds	524

Source: Walsh & Company Asset Management Pty Limited

AUF PERFORMANCE

From 30 September 2015 to 31 December 2015, AUF's net tangible asset backing per share returned +1.0%, outperforming the MSCI Asia ex Japan Index by 1.1%. AUF has performed strongly since inception, outperforming the Index by 46.0%. In the 2015 calendar year AUF returned +9.8%, making it the best performing all-cap Asia ex Japan equity fund (with assets over AUD20m) available to Australian retail investors.

Performance (AUD)	December Quarter	6 Months	1 Year	3 Years	5 Years	Since AUF Inception
AUF*	1.0%	-4.6%	9.8%	51.1%	49.8%	61.1%
MSCI Asia ex Japan Index	-0.1%	-8.9%	1.7%	39.7%	39.3%	15.1%
Relative**	1.1%	4.3%	8.0%	11.4%	10.5%	46.0%

*NTA total return includes dividends reinvested; All returns are in absolute terms (not annualised)

**Figures may not reconcile due to rounding

Source: Bloomberg, Walsh & Company Asset Management Pty Limited

UNDERLYING MANAGERS

AUF currently has investments in 13 leading funds that provide exposure across a number of Asian markets.

Manager	Mandate	Weight at 30/09/2015	Weight at 31/12/2015
Arisaig Asia Consumer Fund	Asian consumer specialist	15.2%	15.4%
Steadview Capital Fund	Country specialist – India	11.3%	11.0%
CK Absolute Return Fund	Country specialist – Korea	9.1%	8.9%
Asian Opportunities Absolute Return Fund	Asian region	8.7%	8.8%
JPMorgan Taiwan Fund	Country specialist – Taiwan	7.5%	7.6%
NCC China A-Share Fund	Country specialist – China	6.4%	7.2%
Cephei QFII China Absolute Return Fund	Country specialist – China	6.7%	7.0%
APS China A-Share Fund	Country specialist – China	5.7%	6.5%
Macquarie Asia New Stars No.1 Fund	Asian small cap specialist	6.3%	6.1%
Prusik Asia Fund	Asian region	5.8%	6.0%
Aberdeen Asian Opportunities Fund	Asian region	7.4%	5.8%
Prusik Asia Smaller Companies Fund	Asian small cap specialist	5.0%	4.9%
JPMorgan China Pioneer A-Share Fund	Country specialist – China	2.9%	3.2%
Cash*		2.0%	1.4%
Total**		100.0%	100.0%

*Excludes any cash held by underlying investment managers

**Figures may not reconcile due to rounding

Source: Walsh & Company Asset Management Pty Limited

COUNTRY ALLOCATION

Indicative look-through country allocation mix at 31 December 2015:

Country	AUF weight	MSCI Asia ex Japan Index weight	Active weight**
China	33.9%	30.3%	3.6%
India	21.7%	9.9%	11.7%
Korea	12.0%	17.7%	-5.7%
Taiwan	11.0%	13.8%	-2.8%
Hong Kong	7.7%	12.6%	-4.9%
Philippines	3.3%	1.6%	1.7%
Vietnam	2.9%	-	2.9%
Singapore	2.1%	5.1%	-3.1%
Thailand	1.3%	2.3%	-1.0%
Indonesia	0.9%	2.9%	-2.0%
Pakistan	0.7%	-	0.7%
Malaysia	0.5%	3.7%	-3.2%
Other	0.7%	-	0.7%
Cash*	1.4%	-	1.4%
Total**	100.0%	100.0%	-

*Excludes any cash held by underlying investment managers

**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	20.3%	5.6%	14.8%
Information technology	19.0%	23.3%	-4.3%
Consumer discretionary	17.5%	8.5%	9.0%
Industrials	13.8%	9.3%	4.5%
Financials	13.1%	32.1%	-18.9%
Health care	5.5%	2.7%	2.8%
Materials	4.6%	4.2%	0.5%
Utilities	3.2%	4.1%	-1.0%
Telecommunication services	1.4%	6.3%	-4.8%
Energy	0.1%	4.0%	-3.9%
Cash*	1.4%	-	1.4%
Total**	100.0%	100.0%	-

* Excludes any cash held by underlying investment managers

**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	Weight (%)
1	SAMSUNG ELECTRONICS COMPANY LTD	Korea	2.1%
2	ANI TECHNOLOGIES PVT LTD	India	1.9%
3	PAGE INDUSTRIES LTD	India	1.6%
4	FLIPKART ONLINE SERVICES PVT LTD	India	1.2%
5	BRITANNIA INDUSTRIES LTD	India	1.2%
6	MARICO LTD	India	1.2%
7	TSMC LTD	Taiwan	1.2%
8	GODREJ CONSUMER PRODUCTS LTD	India	1.0%
9	FOSHAN HAITIAN FLAVOURING AND FOOD CO LTD	China	0.9%
10	NESTLE INDIA LTD	India	0.9%
11	VIETNAM DAIRY PRODUCTS JSC	Vietnam	0.8%
12	UNIVERSAL ROBINA CORP	Philippines	0.8%
13	PHILIPPINE SEVEN CORP	Philippines	0.8%
14	MIDEA GROUP CO LTD	China	0.8%
15	JOLLIBEE FOODS CORP	Philippines	0.8%
16	MIRAE ASSET SECURITIES CO LTD	Korea	0.8%
17	ORION CORP	Korea	0.7%
18	COLGATE PALMOLIVE INDIA LTD	India	0.7%
19	JIANGSU KANGDE XIN COMPOSITE MATERIAL CO LTD	China	0.7%
20	INNER MONGOLIA YI LI INDUSTRY CO LTD	China	0.7%
21	AIA GROUP LTD	Hong Kong	0.7%
22	ASTRAL POLYTECHNIK LTD	India	0.7%
23	VITASOY INTERNATIONAL HOLDINGS LTD	Hong Kong	0.7%
24	UNITED BREWERIES LTD	India	0.7%
25	SAMSUNG C&T CORP	Korea	0.7%
26	CHINA MERCHANTS BANK CO LTD	China	0.6%
27	BEIJING VENUSTECH INC	China	0.6%
28	SK GROUP	Korea	0.6%
29	KANGMEI PHARMACEUTICAL CO LTD	China	0.6%
30	STRIDES ARCOLAB LTD	India	0.6%
31	CAFE DE CORAL HOLDING LTD	Hong Kong	0.6%

TOP 50 HOLDINGS CONT

	Company	Country	Weight (%)
32	SHRIRAM CITY UNION FINANCE LTD	India	0.6%
33	CHINA WATER AFFAIRS GROUP	Hong Kong	0.6%
34	MIRAE ASSET LIFE INSURANCE CO LTD	Korea	0.6%
35	PING AN INSURANCE (GROUP) COMPANY OF CHINA LTD	China	0.5%
36	EICHER MOTORS LTD	India	0.5%
37	SHANGHAI JAHWA UNITED CO LTD	China	0.5%
38	YONGHUI SUPERSTORES CO LTD	China	0.5%
39	LA OPALA RG LTD	India	0.5%
40	SHANGHAI INTERNATIONAL AIRPORT CO LTD	China	0.5%
41	CHINA TAIPING INSURANCE HOLDINGS COMPANY LIMITED	Hong Kong	0.5%
42	FEILO ACOUSTICS CO LTD	China	0.5%
43	JIANGSU HENGRUI MEDICINE CO LTD	China	0.5%
44	TRENT LTD	India	0.5%
45	HON HAI PRECISION INDUSTRY CO LTD	Taiwan	0.5%
46	GRG BANKING EQUIPMENT CO LTD	China	0.5%
47	NESTLE PAKISTAN LTD	Pakistan	0.4%
48	HYUNDAI MOBIS CO LTD	Korea	0.4%
49	UNILEVER INDONESIA TBK	Indonesia	0.4%
50	CHINA VANKE CO LTD	China	0.4%
	TOTAL		37.2%

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

AUF BOARD OF DIRECTORS



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June Aitken

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.

MSCI Asia ex Japan Index source: MSCI. Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.

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