

ASIAN MASTERS FUND QUARTERLY INVESTMENT UPDATE (MARCH 2016)

HIGHLIGHTS

- Net tangible assets (NTA) backing per share fell 9.2 % in the March quarter amid highly volatile markets and significant dispersion between different Asian markets.
- Chinese and Indian markets struggled during the quarter, while South East Asian markets rallied.
- The United States Federal Reserve (the Fed) slowed the expected rate of interest rate increases, resulting in a weaker US Dollar (USD).

MARKET PERSPECTIVES¹

Last quarter we discussed the advent of volatility in markets emanating from China. Prior to this volatility, we had watched closely as valuations became particularly compelling. This quarter we expand on this theme and make the case that, for investors able to take a medium-to-longer term investment horizon, current valuations present an attractive entry point for investment in Asian markets.

When analysing a stock or market, a useful long-term valuation tool is the Price-to-Book (P/B) ratio. The P/B compares the current market price of a security to its underlying asset, or book, value.

Looking at the end of month data back to March 2000 (the Period), the MSCI Asia ex-Japan Index (the Index), has traded at an average P/B ratio of 1.66x. As of 31 March 2016, the Index traded at a P/B of 1.36x, which is approximately one standard deviation below the average over the last 16 years.

The Index has traded equal to, or below, the current P/B ratio for four other periods since March 2000, averaging six and a half months before valuations climb back above the current P/B level. March 2016 marks the 8th consecutive month that has seen the MSCI Asia ex-Japan Index trade at a P/B ratio below 1.36x.

We have previously noted the value at which you invest is a key driver to the future returns generated. Prospective returns when Asian markets have been at these valuations levels have been strong and compelling. Throughout the full period since March 2000, the Index has returned on average 9%, 30% and 48%² over one, three and five year periods within the sample tested. However, after a month where the Index traded at a P/B at or below the current level, the Index returned 14%, 37% and 84% on average over one, three and five years. The difference in these returns reinforces the view that the value at which you invest is a crucial driver of future returns.

It is clear Asian equities are currently trading at cheap levels relative to their own history. The P/B ratio of the MSCI Asia ex Japan Index hasn't been this low since the Global Financial Crisis. However, when Asian equity valuations are compared to those of developed markets, the contrast is even more apparent. Developed market equities (as represented by the MSCI World Index) are currently trading at a P/B ratio of approximately 2.14x. Hence Asian equities are trading at a discount of around 36% to developed markets on this basis.

While valuations are a crucial element of investment success, they are not the sole determinant of future returns – factors such as growth and quality can also have a significant impact. While valuation is an important driver in our investment selection process it is not the sole driver. While Korea and Hong Kong might be the cheapest markets within Asia, we believe the progress being made within markets such as India justify their higher valuations (although India still trades at a meaningful discount to its own average P/B ratio over the last 15 years).

Asian equity markets will always be inherently volatile. And while past performance is no guarantee of future returns, for those able to take a medium-to-longer term investment horizon, we believe current valuations present an attractive entry point for investment in Asian markets.

EQUITY MARKET REVIEW

Asia ex Japan markets experienced a volatile first quarter of 2016 (Q1). Markets suffered significant losses in January triggered by a devaluation of the Chinese currency against the USD. However, since the middle of Q1, market sentiment improved considerably amid favorable central bank policy from Europe, the United States

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

2. Using month end data.

Federal Reserve, Japan and other Asian countries. A recovery in commodity prices and weakening of the USD also supported equity markets, which rallied strongly in March. The MSCI Asia ex Japan Index declined 3.3%, but gained 1.8% in USD terms during the quarter.

Dispersion in market and sector performance was wide in Q1. Southeast Asian markets served as a safe haven during the Q1 volatility and performed strongly, while the Chinese markets and India underperformed.

Malaysia (+7.9%) was the best performing market in the region, as equities rallied on the back of a 50 basis points (bps) Statutory Reserve Requirement ratio cut, higher oil prices and a stronger currency.

Thailand rose 7.7% on account of better-than-expected economic data released earlier in the quarter. Indonesian equities gained 6.1% on the back of three interest rate cuts in 2016 and the announcement of several mini-stimulus plans by the government.

Philippines (+2.2%), Taiwan (+1.9%), Korea (-0.3%) and Singapore (-1.2%) outperformed the Index in Q1. Taiwan elected its first female President in January, Democratic Progressive Party candidate Tsai Ing-Wen.

Vietnam (-6.7%) and India (-7.3%) underperformed the Index mainly due to currency depreciation. Weak corporate earnings, depreciation of the Indian rupee against the USD and policy uncertainty surrounding the union budget had a negative impact on Indian equities in Q1. However, the announcement of a pragmatic budget, which stuck to earlier budget deficit and fiscal consolidation targets, and expectations of monetary easing by the central bank, boosted investor confidence towards the end of Q1.

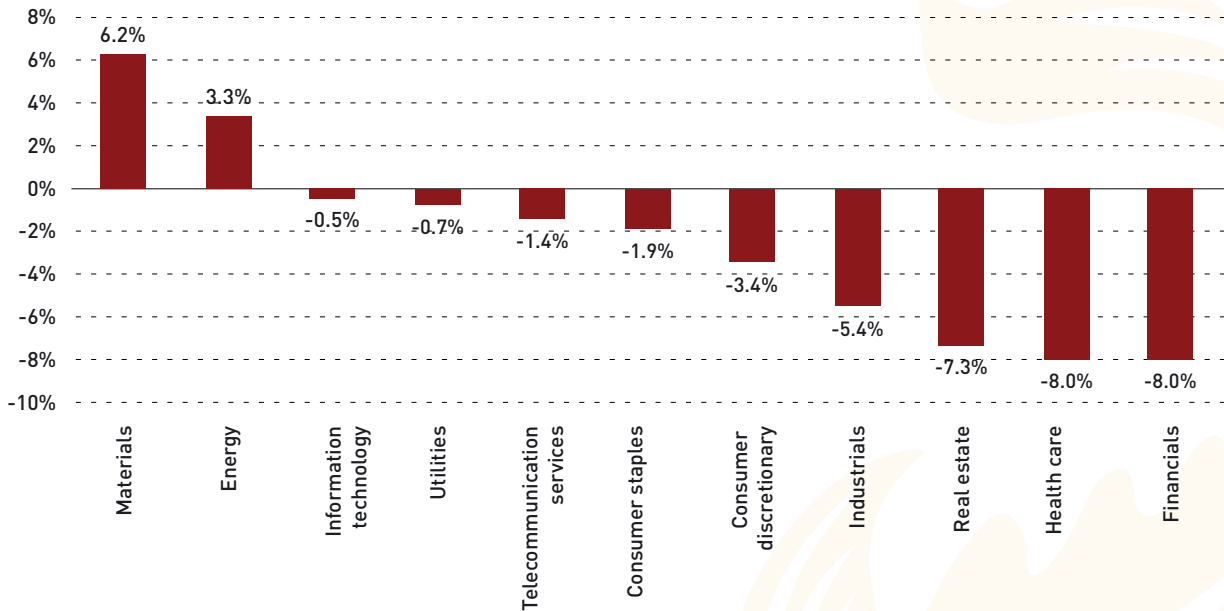
China A-Shares (-17.6%), China H-Shares (-11.5%) and Hong Kong (-9.5%) were the worst performing markets during the quarter. Chinese equities suffered significant losses in January sparked by a change in the methodology used to manage the Chinese renminbi, which resulted in depreciation against the USD. A poorly designed equity market circuit breaker system which was implemented and suspended after four days exacerbated the correction. However, sentiment improved following a 50 bps Reserve Requirement Ratio cut, a more stable currency and signs of economic improvement, resulting in a significant rebound in March.

PERFORMANCE OF ASIAN SHARE MARKETS IN THE MARCH QUARTER

Index	Local currency	Australian dollars
KLCI (Malaysia)	2.2%	7.9%
SET (Thailand)	10.4%	7.7%
JCI (Indonesia)	5.7%	6.1%
PSEi (Philippines)	5.2%	2.2%
Taiex (Taiwan)	4.9%	1.9%
Kospi (Korea)	1.8%	-0.3%
Straits Times (Singapore)	-1.2%	-1.2%
MSCI Asia ex Japan	1.8%	-3.3%
Ho Chi Minh (Vietnam)	-2.6%	-6.7%
Sensex (India)	-2.6%	-7.3%
Hang Seng (Hong Kong)	-4.7%	-9.5%
Hang Seng China Enterprises (China H-Shares)	-6.8%	-11.5%
CSI 300 Index (China A-Shares)	-13.7%	-17.6%

Source: Bloomberg, Walsh & Company Asset Management Pty Limited

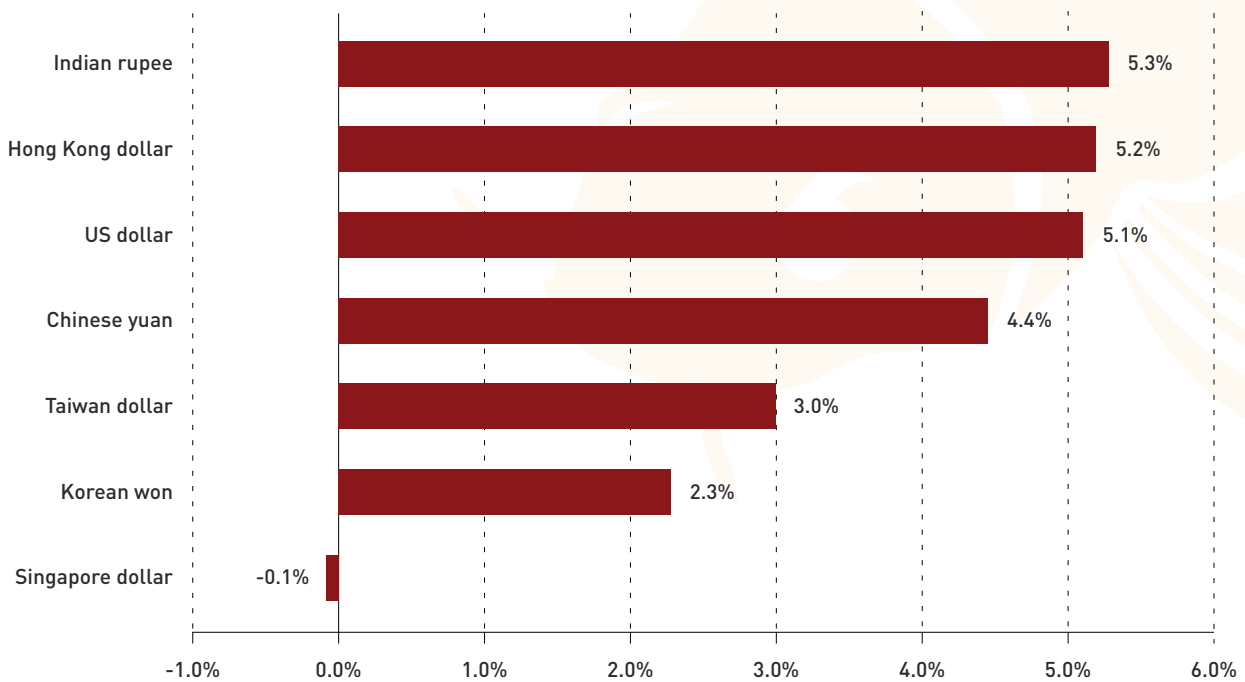
PERFORMANCE OF THE SECTORS WITHIN THE MSCI ASIA EX JAPAN INDEX OVER THE MARCH QUARTER (IN AUD)



Source: Bloomberg, Walsh & Company Asset Management Pty Limited

CURRENCY MARKET REVIEW

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



Source: Bloomberg, Walsh & Company Asset Management Pty Limited

During the March quarter, the AUD appreciated against most Asia ex Japan currencies. The gain was most significant against the Indian rupee (+5.3%), Hong Kong dollar (+5.2%), US dollar (+5.1%) and Chinese yuan (+4.4%). The Fed's dovish comments in March resulted in a weakening of the USD.

ASIAN MASTERS FUND (ASX: AUF) OVERVIEW

AUF listing date	December 2007
Total assets (\$m)	\$151.1
NTA per share (March 2016)	\$1.20
Number of securities held by underlying funds	588

Source: Walsh & Company Asset Management Pty Limited

AUF PERFORMANCE

From 31 December 2015 to 31 March 2016, AUF's net tangible asset backing per share returned -9.2%, underperforming the MSCI Asia ex Japan Index by 6.0%. AUF has performed strongly since inception, outperforming the Index by 34.9%.

Performance (AUD)	March Quarter	6 Months	1 Year	3 Years	5 Years	Since AUF Inception
AUF*	-9.2%	-8.4%	-12.5%	35.0%	36.2%	46.2%
MSCI Asia ex Japan Index	-3.3%	-3.4%	-12.5%	36.2%	34.9%	11.4%
Relative**	-6.0%	-5.0%	-0.1%	-1.1%	1.3%	34.9%

* 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 31/12/2015	Weight at 31/03/2016
Arisaig Asia Consumer Fund	Asian consumer specialist	15.4%	15.6%
Steadview Capital Fund	Country specialist – India	11.0%	11.1%
CK Absolute Return Fund	Country specialist – Korea	8.9%	9.6%
Asian Opportunities Absolute Return Fund	Asian region	8.8%	8.8%
JPMorgan Taiwan Fund	Country specialist – Taiwan	7.6%	7.4%
Cephei QFII China Absolute Return Fund	Country specialist – China	7.0%	7.0%
NCC China A-Share Fund	Country specialist – China	7.2%	6.8%
APS China A-Share Fund	Country specialist – China	6.5%	6.3%
Prusik Asia Fund	Asian region	6.0%	6.2%
Asia New Stars No.1 Fund	Asian small cap specialist	6.1%	6.0%
Prusik Asia Smaller Companies Fund	Asian small cap specialist	4.9%	5.2%
Wells Fargo China Equity Fund	Country specialist – China	-	5.1%
Aberdeen Asian Opportunities Fund	Asian region	5.8%	3.4%
JPMorgan China Pioneer A-Share Fund	Country specialist – China	3.2%	-
Cash*		1.4%	1.3%
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 March 2016:

Country	AUF weight	MSCI Asia ex Japan Index weight	Active weight**
China	36.8%	28.1%	8.7%
India	20.5%	9.5%	10.9%
Korea	13.4%	18.3%	-4.9%
Taiwan	11.5%	14.5%	-3.0%
Hong Kong	3.9%	12.7%	-8.9%
Vietnam	3.5%	-	3.5%
Philippines	3.1%	1.7%	1.4%
Thailand	1.7%	2.6%	-0.9%
Singapore	1.4%	5.3%	-3.9%
Indonesia	1.2%	3.2%	-1.9%
Pakistan	0.7%	-	0.7%
Malaysia	0.7%	4.1%	-3.4%
Other	0.3%	-	0.3%
Cash*	1.3%	-	1.3%
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 discretionary	18.8%	8.5%	10.4%
Information technology	18.3%	23.9%	-5.6%
Consumer staples	18.0%	5.6%	12.4%
Industrials	17.3%	9.5%	7.9%
Financials	10.3%	30.6%	-20.3%
Health care	5.6%	2.6%	3.0%
Materials	5.3%	4.6%	0.7%
Utilities	2.6%	4.2%	-1.6%
Telecommunication services	1.9%	6.4%	-4.6%
Energy	0.5%	4.2%	-3.7%
Cash*	1.3%	-	1.3%
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	Weights (%)
1	ANI TECHNOLOGIES PVT LTD	India	1.6%
2	PAGE INDUSTRIES LTD	India	1.5%
3	EICHER MOTORS LTD	India	1.3%
4	FOSHAN HAITIAN FLAVOURING AND FOOD CO LTD	China	1.1%
5	SAMSUNG ELECTRONICS CO LTD	Korea	1.1%
6	FLIPKART ONLINE SERVICES PVT LTD	India	1.1%
7	VINAMILK VIETNAME DAIRY PRODUCTS JSC	Vietnam	1.0%
8	JIANGSU HENGRUI MEDICINE CO LTD	China	0.9%
9	PHILIPPINE SEVEN CORP	Philippines	0.9%
10	NESTLE INDIA LTD	India	0.9%
11	BRITANNIA INDUSTRIES LTD	India	0.9%
12	TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD	Taiwan	0.9%
13	GODREJ CONSUMER PRODUCTS LTD	India	0.8%
14	MARICO LTD	India	0.8%
15	SAMSUNG C&T CORP	Korea	0.7%
16	MIDEA GROUP CO LTD	China	0.7%
17	VITASOY INTERNATIONAL HOLDINGS LTD	Hong Kong	0.7%
18	COLGATE PALMOLIVE INDIA LTD	India	0.7%
19	ZHENGZHOU YUTONG BUS CO LTD	China	0.7%
20	AIA GROUP LTD	Hong Kong	0.7%
21	UNIVERSAL ROBINA CORP	Philippines	0.7%
22	JIANGSU KANGDE XIN COMPOSITE MATERIAL CO LTD	China	0.6%
23	CHINA WATER AFFAIRS GROUP	Hong Kong	0.6%
24	SK GROUP	Korea	0.6%
25	LG CHEM LTD	Korea	0.6%
26	JOLLIBEE FOODS CORP	Philippines	0.6%
27	TENCENT HOLDINGS LTD	China	0.6%
28	CAFE DE CORAL HOLDING LTD	Hong Kong	0.6%
29	TUNG THIH ELECTRONIC CO LTD	Taiwan	0.6%
30	CHINA MOBILE LTD	China	0.6%
31	NAVER CORP	Korea	0.6%

TOP 50 HOLDINGS CONT

	Company	Country	Weights (%)
32	HANGZHOU HIKVISION DIGITAL TECHNOLOGY CO LTD	China	0.6%
33	UNILEVER INDONESIA TBK PT	Indonesia	0.6%
34	CHINA ORIGINWATER TECHNOLOGY CO LTD	China	0.5%
35	ASTRAL POLYTECHNIK LTD	India	0.5%
36	CHINA VANKE CO LTD	China	0.5%
37	KWEICHOW MOUTAI CO LTD	China	0.5%
38	STRIDES ARCOLAB LTD	India	0.5%
39	ZHEJIANG HUACE FILM & TV CO LTD	China	0.5%
40	YONGHUI SUPERSTORES CO LTD	China	0.5%
41	HANDSOME CO LTD	Korea	0.5%
42	LEPU MEDICAL TECHNOLOGY BEIJING CO LTD	China	0.5%
43	ORION CORP	Korea	0.5%
44	SHRIRAM CITY UNION FINANCE LTD	India	0.5%
45	TENCENT HOLDINGS LTD	China	0.5%
46	INNER MONGOLIA YILI INDUSTRIAL GROUP CO LTD	China	0.5%
47	BAIDU INC	China	0.5%
48	WOLONG ELECTRIC GROUP CO LTD	China	0.5%
49	HOTA INDUSTRIAL MANUFACTURING CO LTD	Taiwan	0.5%
50	TRENT LTD	India	0.5%
	TOTAL		35.2%

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

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Max Walsh



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Chris Lee

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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