ASIAN MASTERS FUND
QUARTERLY INVESTMENT UPDATE (JUNE 2016)

HIGHLIGHTS[1]

- Net tangible assets (NTA) backing per share returned +3.4% in the June quarter, in line with the MSCI Asia ex Japan Index.
- The United Kingdom (UK) voted to leave the European Union (EU) in June sending global equity markets lower immediately after the vote. The sell-off was short-lived, as markets recovered in the following days.
- The Australian dollar (AUD) depreciated against most Asian currencies after an unexpected interest rate cut, resulting in stronger returns in AUD terms.

MARKET PERSPECTIVES – A FOCUS ON INDIA

Captivating, compelling and utterly chaotic, the Indian sub-continent is a true land of contrasts and of rising opportunity. Its 1.3 billion people comprise the world's largest democracy and we believe it is home to some of the most interesting investment opportunities. Despite gaining independence from Britain in 1947, true democratic capitalism has only evolved in India in the last decade or so, but is now genuinely embraced.

India's economic evolution can be benchmarked to its deviation from its complex licence raj system - the elaborate scheme of licences, regulations and red tape required to establish and operate businesses in force between 1947 and 1990. Economic reforms have also subsequently accelerated in recent years, so much so, the Organisation for Economic Co-operation and Development (OECD) projects 2016 economic growth for India at 7.5% following a 7.6% expansion in 2015.

CONSUMERS ARE MUCH MORE DISCERNING

Consumers have also become much more discerning in India, largely due to growing purchasing power and the rising influence of social media. For example, Amazon expects India to become its second-largest overseas market in the next few years, surpassing Japan, Germany and the UK; while the food ingredients market in India is rapidly expanding amidst increasing consumption of processed foods and rising preference for ready-to-eat meals. This figure is predicted to jump to USD50 billion by 2017 from USD32 billion at the end of 2015, with 79% of households preferring instant food for convenience and capitalising on their rise in income levels.

THE PATH TO CHANGE

When India's strongly reform-minded Prime Minister, Narendra Modi, swept to power in a landslide victory in 2014, he did so with an enormous reform agenda and a promise to revive manufacturing, build infrastructure, streamline tax rules, create new cities with high-speed connectivity, and provide banking services to hundreds of millions of people. While Modi's failure (to date) to pass major land acquisition and Goods and Services Tax (GST) legislation has dominated the financial press this year, what is not so well publicised is the massive gains he has made through incremental reforms implemented over the last two years. A good example of this is the financialisation of India's population – enabling more than 150 million new bank accounts to be established. With subsidies comprising a significant share of India's fiscal budget (and historical estimates suggesting a significant proportion were instead leaking into the hands of corrupt middle men), the upside is they can now be received directly and capitalised upon by those they are intended for.

Foreign direct investment (FDI) can be seen as a reflection of opportunity, but also of how easy it is to do business in a country. Over the last year, FDI in India has grown over 30% year-on-year (yoy) with the sub-continent receiving over USD55 billion in 2015. What this reveals is Modi's reforms have allowed foreign companies to easily take advantage of the enormous opportunities this massive market provides.

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

A FIRST HAND ACCOUNT OF OUR INVESTMENTS

In May 2016, we visited Mumbai and Bangalore to meet with the investment and research teams of Steadview Capital and Arisaig Partners – the local managers responsible for the majority of our Indian investment exposure, and we came away even more excited about the opportunities in India than when we arrived. The teams we have managing the fund's investments in India are top-class. Many investors will have heard Ravi Mehta, who manages Steadview Capital, present at the November 2015 Dixon Advisory Investor Conference. We have known how impressive Ravi is for a number of years, and after meeting his team in Mumbai, this is an investment we expect to generate exceptional returns for our funds over the coming years. Arisaig Partners similarly has an excellent team based in Mumbai to support the portfolio management team who are based in Singapore.

THE GODREJ STORY

One such example of the quality we saw was at Godrej Consumer Products, who manufacture and sell consumer staples such as soaps, hair oils and insect repellents. Their headquarters in the northern end of Mumbai's hustle and bustle is a modern, environmentally friendly building with a world-class research and development centre. It actually sits among something unique in Mumbai – 1,750 acres of mangrove land (estimated to have a value of several billions of dollars) that their Chairman gifted to a charitable trust to ensure this, one of the largest remaining green belts within Mumbai, can never be developed. Given the land's importance to Mumbai's oxygen generation (it is commonly known as Mumbai's 'second lung'), the Godrej family continues to pay for its management as an ecology centre, where the only visitors allowed are school children.

Source: Godrej

Godrej Consumer Products consistently generates a return on capital employed of 20% and generates earnings growth of 15% per annum, all while maintaining extremely high environmental, social and governance standards. As such, through Arisaig Partners, we are very happy holders of shares in Godrej Consumer Products (Godrej Consumer Products is AUF's tenth largest underlying holding). And in a country as diverse and disparate as India, distribution is crucial to the success of a consumer products business. Over 90% of retail sales still occur in small 'mom and pop' stores ('kiranas') and India still has over eight million of these kiranas. Through its combination of direct distribution and wholesalers, Godrej's products are available in 4.5 million stores.

CONNECTING PEOPLE IN THE SHARED ECONOMY

Infrastructure is one area where India continues to require significant investment, and while expectations of travel in India are of extreme traffic congestion, we were impressed with Modi's headway into developing road infrastructure, such as Mumbai's impressive 'sealink' bridge. Asian Masters Fund's Chairman, John Holland, who has spent decades travelling to India for business, noted that many of the trips we took during the week simply wouldn't have been possible 10 years ago. However these improvements in roads clearly haven't yet had an impact in Bangalore, so while progress is being made on the infrastructure front, there is still a long way to go, but it is heading in the right direction.

Source: Siddharth Bargate

Our final meeting was with Bhavish Aggarwal, the extremely impressive founder and CEO of Ola Cabs (ANI Technologies – AUF's second largest underlying investment), India's equivalent of Uber. Uber is competing very aggressively with Ola, yet Ola maintains market share of over 70% and is beating Uber on all key metrics in this rapidly growing market. Ola now operates in over 100 cities in India, completing 800,000 rides per day, and growing that number by around 10% per month. Given India's severely lacking public transport network (there is essentially no public transport outside the largest cities) and that fewer than 3% of Indians own a car, Ola is providing a basic need for people.

Unlike in the west where Uber and similar services are facing significant resistance from entrenched interest groups such as taxi drivers (or Cabcharge for that matter), for the most part these issues don't exist in India, so Ola is simply creating a whole new market. Ola also operates ride-sharing over a much broader range of services than we experience in Australia. For example, their most basic services involves ride-sharing on the back of a motorbike, or a seat on a mini-bus, while at the other end of the spectrum, Ola customers can book an air-conditioned limousine and driver for several days at a time through the mobile app.

INVESTING IN INDIA

Investing in India, contrast equals opportunity, and we remain convinced it is a market in which we should have a significant exposure. While the journey might be bumpy and at times congested, we have very high expectations of our Indian investments in the longer term.

EQUITY MARKET REVIEW[1]

The second quarter of 2016 (Q2) started with generally positive sentiment aided by favourable central bank policy from the United States (US), Japan and other Asian countries. Weakness in the US dollar (USD) due to the US Federal Reserve's (Fed) decision to keep interest rates steady in Q2, economic stabilisation in China and a rebound in commodity prices, also supported markets. Equities suffered significant losses after the UK voted to leave the EU in a referendum held on 23 June, although the sell-off was short-lived as most markets rebounded in the subsequent days. The MSCI Asia ex Japan Index (the Index) surged 3.4%, while returns in USD terms were significantly lower (+0.4%) as the AUD depreciated 2.9% against the USD in Q2. Performance diverged significantly among the different Asian markets, with the Southeast Asian economies (except Malaysia) and India outperforming North Asia.

Vietnam (+17.0%) was the best performing market in the region, as equities rallied on the back of strong economic data and strong inflows from overseas investors. Equities also reacted positively after the appointment of former deputy Prime Minister Nguyen Xuan as the 8th Prime Minister, replacing Nguyen Tan Dung who served the country for almost a decade.

The Philippines (+8.3%) exhibited strong performance after Rodrigo Duterte's victory in the presidential election, as investors remained optimistic he would maintain the successful economic policies of the previous administration. Markets also cheered the announcement of an eight-point economic agenda by President Duterte in May, aimed at lifting restrictions on foreign direct investment, accelerating infrastructure spending, increasing tax revenue and modernising the agriculture sector.

India also rose significantly (+8.1%) on optimistic domestic factors including an above-average monsoon forecast and progress on economic reforms such as the relaxation of foreign direct investment caps in select sectors. Upbeat corporate earnings releases and the central bank's move to cut interest rates by 25 basis points (bps) to 6.5% in April also boosted equities.

Indonesia (+7.7%) posted robust returns, triggered by accommodative monetary policy by the central bank and economic stimulus packages by the government. The central bank cut interest rates by 25 bps to 6.5% in June after inflation dropped to a six-year low in May. The government unveiled the 12th economic policy package in April in an effort to improve the ease of doing business and attract more inward investments. The Parliament also passed the long-awaited Tax Amnesty law in June, which is expected to bring in USD42 billion in offshore assets and USD3.5 billion in additional tax revenue this year.

Thailand (+6.9%), Hong Kong (+5.4%) and Singapore (+4.4%) outperformed the Index in Q2. China H-Shares (+3.3%), Taiwan (+3.1%) and Korea (+0.8%) also posted gains, but underperformed the Index.

China A-Shares (-1.2%) remained volatile amid mixed economic data and lower expectations of further economic stimulus measures. Investors remained sceptical that the recent economic stabilisation was achieved due to temporary stimulus measures and leverage. MSCI's decision to leave China A-Shares out of its global benchmark indices also undermined investor sentiment.

Malaysia (-2.9%) was the worst performing market in the region, as the political uncertainty over corruption allegations against the Prime Minister and the government's action to wind up the embattled state fund, 1Malaysia Development Bhd., continued to weigh on investor confidence.

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

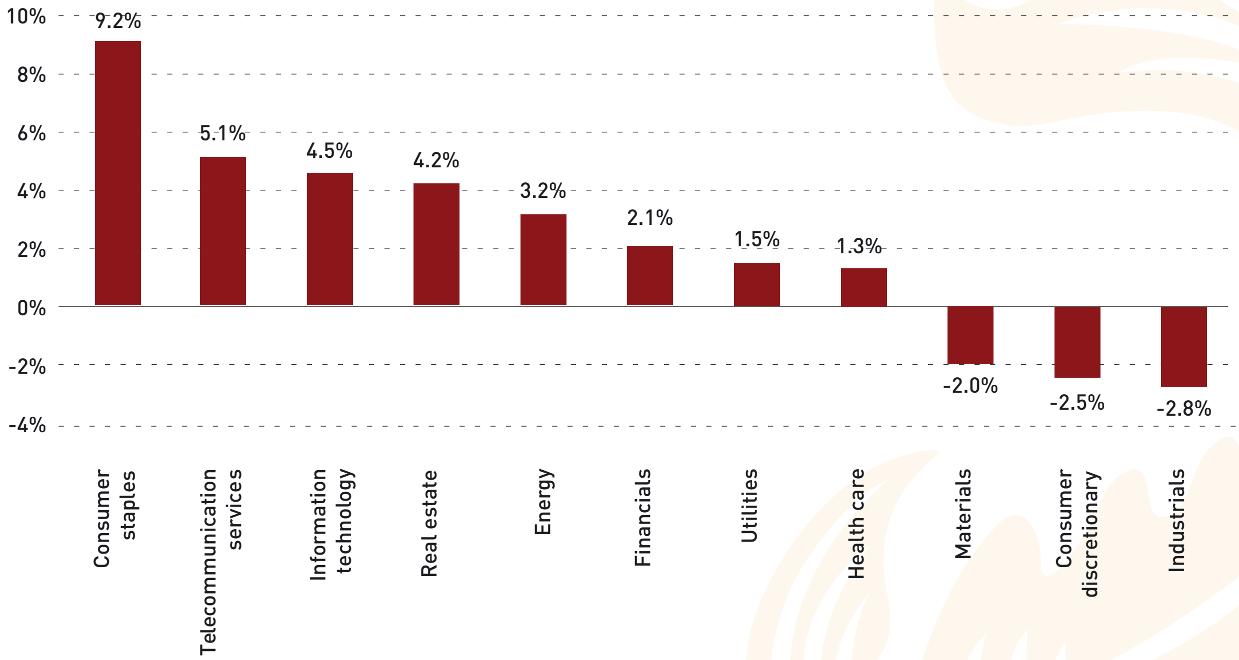
PERFORMANCE OF ASIAN SHARE MARKETS IN THE JUNE QUARTER

Index	Local Currency	Australian Dollars
Ho Chi Minh (Vietnam)	13.7%	17.0%
PSEi (Philippines)	7.9%	8.3%
Sensex (India)	7.2%	8.1%
JCI (Indonesia)	5.0%	7.7%
SET (Thailand)	3.8%	6.9%
Hang Seng (Hong Kong)	2.4%	5.4%
Straits Times (Singapore)	1.5%	4.4%
MSCI Asia ex Japan	**0.4%**	**3.4%**
Hang Seng China Enterprises (China H-Shares)	0.3%	3.3%
Taiex (Taiwan)	0.2%	3.1%
Kospi (Korea)	-1.3%	0.8%
CSI 300 (China A-Shares)	-1.1%	-1.2%
KLCI (Malaysia)	-2.9%	-2.9%

Source: Bloomberg, Walsh & Company Asset Management Pty Limited

ASIAN MASTERS FUND

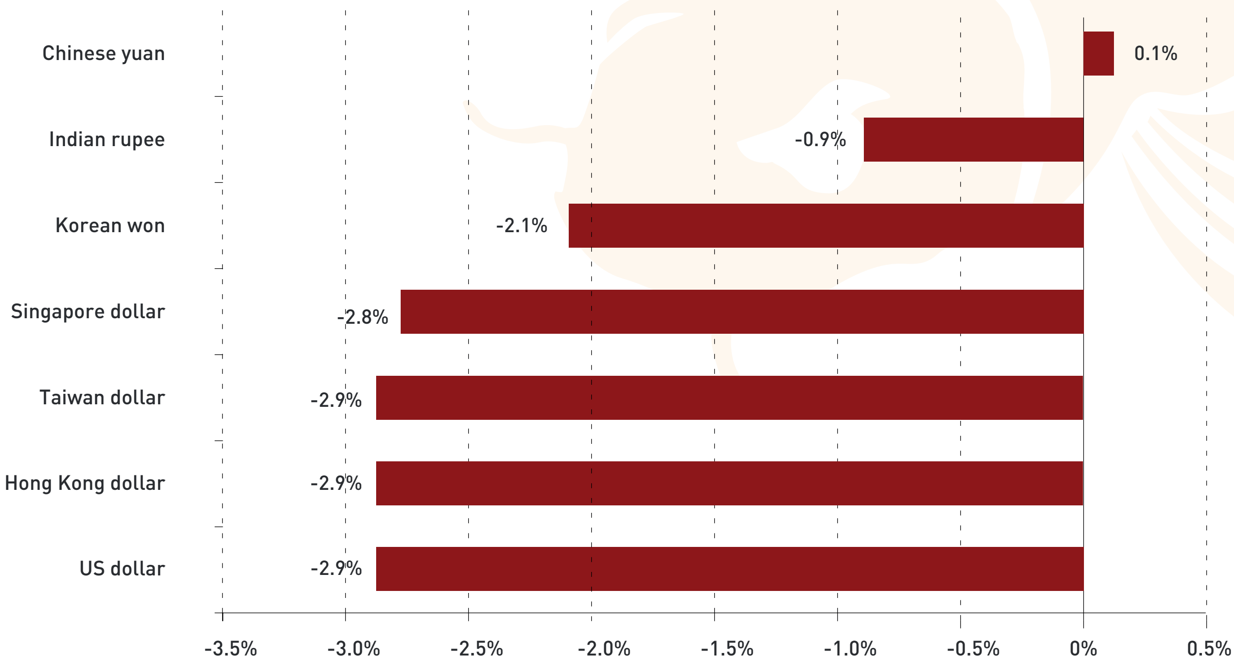
PERFORMANCE OF THE SECTORS WITHIN THE MSCI ASIA EX JAPAN INDEX OVER THE JUNE QUARTER (IN AUD)



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 AUD depreciated against most Asian ex Japan currencies as the Reserve Bank of Australia unexpectedly lowered interest rates by 25bps to a record low of 1.75% in May, citing lower than expected inflationary pressures. The decline was most significant against the Hong Kong dollar (-2.9%), Taiwan dollar (-2.9%) and Singapore dollar (-2.8%).

The Fed's dovish announcements in policy meetings during the second quarter resulted in a weakening of the USD.

ASIAN MASTERS FUND (ASX: AUF) OVERVIEW

AUF listing date	December 2007
Total assets ($m)	$153.4
NTA per share (June 2016)	$1.24
Number of securities held by underlying funds	482

Source: Bloomberg, Walsh & Company Asset Management Pty Limited

AUF PERFORMANCE

From 31 March to 30 June 2016, AUF's net tangible asset backing per share returned +3.4%, in line with the MSCI Asia ex Japan Index. AUF has performed strongly since inception, outperforming the Index by 34.3%.

Performance (AUD)	June Quarter	6 Months	1 Year	3 Years	5 Years	Since AUF Inception
AUF*	3.4%	-6.2%	-10.5%	30.2%	43.6%	51.3%
MSCI Asia ex Japan Index	3.4%	0.0%	-8.9%	30.3%	44.2%	17.0%
Relative**	0.0%	-6.2%	-1.6%	0.0%	-0.6%	34.3%

* 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 12 leading funds that provide exposure across a number of Asian markets.

Manager	Mandate	Weight at 31 March 2016	Weight at 30 June 2016
Arisaig Asia Consumer Fund	Asian consumer specialist	15.6%	16.6%
Steadview Capital Fund	Country specialist – India	11.1%	11.6%
CK Absolute Return Fund	Country specialist – Korea	9.6%	9.6%
Asian Opportunities Absolute Return Fund	Asian region	8.8%	8.7%
Prusik Asian Smaller Companies Fund	Asian small cap specialist	5.2%	7.8%
JPMorgan Taiwan Fund	Country specialist – Taiwan	7.4%	7.4%
Cephei QFII China Absolute Return Fund	Country specialist – China	7.0%	7.1%
NCC China A-Share Fund	Country specialist – China	6.8%	6.7%
APS China A-Share Fund	Country specialist – China	6.3%	6.4%
Asia New Stars No.1 Fund	Asian small cap specialist	6.0%	6.1%
Wells Fargo China Equity Fund	Country specialist – China	5.1%	5.8%
AllianceBernstein Asia ex-Japan Fund	Asian region	-	4.1%
Prusik Asia Fund	Asian region	6.2%	-
Aberdeen Asian Opportunities Fund	Asian region	3.4%	-
Cash*		1.3%	1.9%
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 30 June 2016:

Country	AUF Weight	MSCI Asia ex Japan Index Weight	Active Weight**
China	34.8%	30.4%	4.4%
India	20.8%	9.9%	11.0%
Korea	15.4%	17.2%	-1.8%
Taiwan	12.0%	14.2%	-2.3%
Philippines	3.6%	1.9%	1.7%
Hong Kong	2.9%	12.2%	-9.3%
Vietnam	2.5%	-	2.5%
Indonesia	1.6%	3.2%	-1.6%
Thailand	1.5%	2.7%	-1.2%
Singapore	0.8%	5.0%	-4.2%
Pakistan	0.8%	-	0.8%
Malaysia	0.7%	3.5%	-2.8%
Other	0.9%	-	0.9%
Cash*	1.9%	-	1.9%
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	20.4%	5.7%	14.7%
Consumer discretionary	19.0%	8.6%	10.4%
Information technology	18.7%	25.7%	-7.0%
Industrials	16.0%	9.4%	6.6%
Financials	8.7%	29.2%	-20.6%
Health care	5.9%	2.6%	3.3%
Materials	3.9%	4.2%	-0.3%
Utilities	3.6%	4.0%	-0.4%
Telecommunication services	1.4%	6.4%	-5.0%
Energy	0.5%	4.1%	-3.6%
Cash*	1.9%	-	1.9%
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

ASIAN
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TOP 50 HOLDINGS

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

	Company	Country	Weight (%)
1	PAGE INDUSTRIES LTD	India	1.7%
2	ANI TECHNOLOGIES PVT LTD	India	1.6%
3	PHILIPPINE SEVEN CORP	Philippines	1.3%
4	FOSHAN HAITIAN FLAVOURING AND FOOD CO LTD	China	1.2%
5	EICHER MOTORS LTD	India	1.2%
6	JIANGSU HENGRUI MEDICINE CO LTD	China	1.2%
7	FLIPKART ONLINE SERVICES PVT LTD	India	1.1%
8	NESTLE INDIA LTD	India	1.1%
9	MIDEA GROUP CO LTD	China	1.0%
10	GODREJ CONSUMER PRODUCTS LTD	India	1.0%
11	YES BANK LTD	India	0.9%
12	SAMSUNG ELECTRONICS CO LTD	Korea	0.9%
13	BRITANNIA INDUSTRIES LTD	India	0.9%
14	TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD	Taiwan	0.9%
15	MARICO LTD	India	0.8%
16	KWEICHOW MOUTAI CO LTD	China	0.8%
17	COLGATE PALMOLIVE INDIA LTD	India	0.8%
18	VIETNAM DAIRY PRODUCTS JSC	Vietnam	0.8%
19	HANGZHOU HIKVISION DIGITAL TECHNOLOGY CO LTD	China	0.8%
20	CHINA ORIGINWATER TECHNOLOGY CO LTD	China	0.7%
21	ZHENGZHOU YUTONG BUS CO LTD	China	0.7%
22	VITASOY INTERNATIONAL HOLDINGS LTD	Hong Kong	0.7%
23	CAFE DE CORAL HOLDING LTD	Hong Kong	0.7%
24	JOLLIBEE FOODS CORP	Philippines	0.6%
25	HOTA INDUSTRIAL MANUFACTURING CO LTD	Taiwan	0.6%
26	ASTRAL POLYTECHNIK LTD	India	0.6%
27	UNIVERSAL ROBINA CORP	Philippines	0.6%
28	JIANGSU KANGDE XIN COMPOSITE MATERIAL CO LTD	China	0.6%
29	INDUSIND BANK LTD	India	0.6%
30	TENCENT HOLDINGS LTD	China	0.6%
31	SK GROUP	Korea	0.6%
32	YONGHUI SUPERSTORES CO LTD	China	0.6%
33	UNILEVER INDONESIA TBK PT	Indonesia	0.6%
34	CHINA WATER AFFAIRS GROUP	Hong Kong	0.6%
35	TRENT LTD	India	0.5%

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	Company	Country	Weight (%)
36	HANDSOME CO LTD	Korea	0.5%
37	GUANGDONG HAID GROUP CO LTD	China	0.5%
38	CHINA MOBILE LTD	China	0.5%
39	STRIDES ARCOLAB LTD	India	0.5%
40	CHINA CAMC ENGINEERING CO LTD	China	0.5%
41	WANGSU SCIENCE & TECHNOLOGY CO LTD	China	0.5%
42	SIIC ENVIRONMENT HOLDINGS LTD	China	0.5%
43	HANSOL TECHNICS CO LTD	Korea	0.5%
44	KAJARIA CERAMICS LTD	India	0.5%
45	LEPU MEDICAL TECHNOLOGY BEIJING CO LTD	China	0.5%
46	ORION CORP	Korea	0.5%
47	CHINA VANKE CO LTD	China	0.5%
48	SAMSUNG C&T CORP	Korea	0.5%
49	NESTLE PAKISTAN LTD	Pakistan	0.5%
50	LARGAN PRECISION CO LTD	Taiwan	0.5%
	Total		**37.7%**

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

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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