



ASIAN
MASTERS FUND

Investment update

February 2017



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Walsh & Company Asset Management

- Walsh & Co is a Sydney-based specialist global fund manager co-founded by Max Walsh in 2007
- Walsh & Co has approximately A\$3.1 billion client assets under management across global equities, residential and commercial property, private equity, fixed income, and sustainable and social investments
- We believe the best investment opportunities are often not readily accessible to investors. We provide investors with access to market segments that are often beyond reach, helping them build high quality diversified portfolios
- Offices in Australia and New York

Asian Masters Fund

- Diversified underlying portfolio through multi-manager approach
- Access to local managers – local networks, local insights
- Targeting returns through country allocation and manager selection
- Index agnostic – over 50% of holdings not represented in the MSCI AC Asia ex Japan Index
- ASX listed (AUF.ASX) – market cap of A\$163.8 million at 31 December 2016
- Oversight by highly experienced, majority independent Board of Directors, including independent Chairman

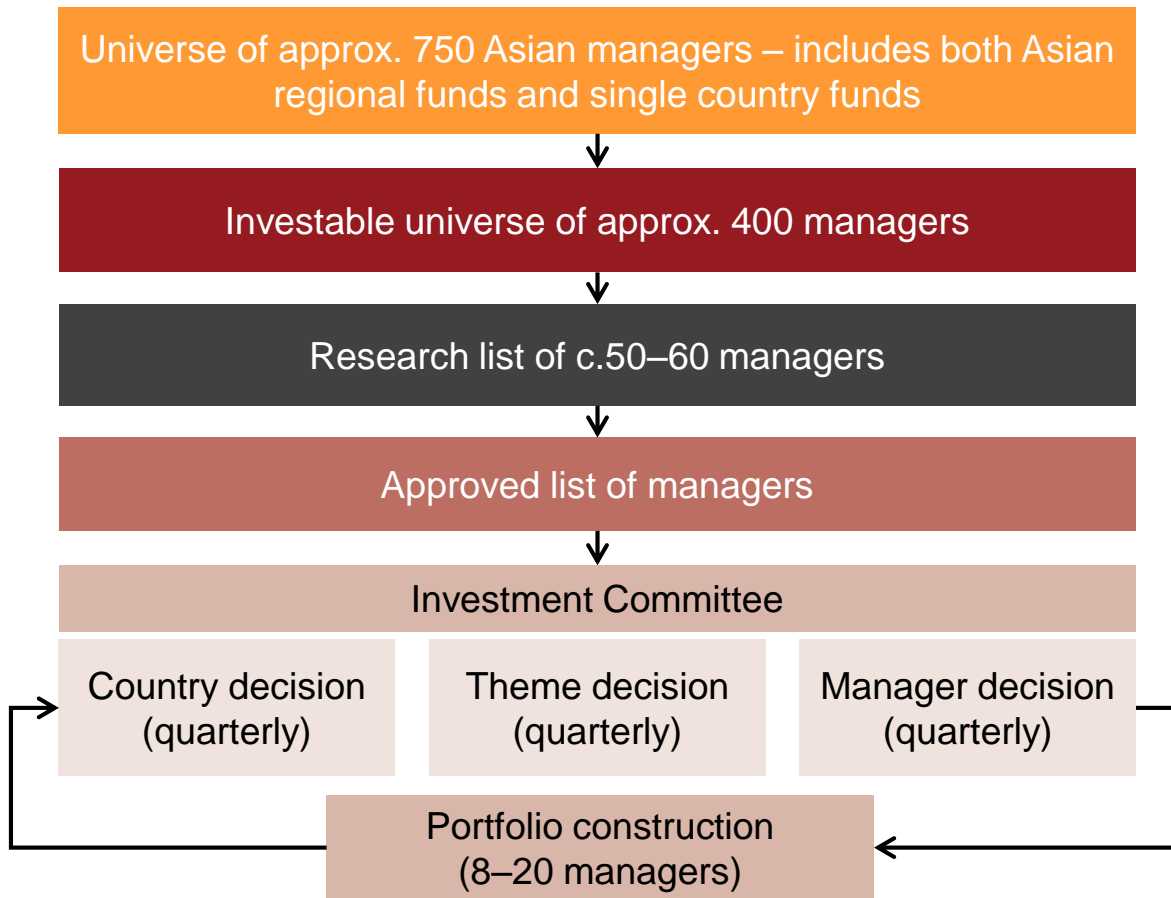
Leveraging the Asian consumer

- Asia is the world's fastest growing region¹
- Emerging middle class
 - Retail sales and spending by consumers growing strongly²
- Supportive demographics
- Focus on domestic consumption rather than low cost production and exports
- China's middle class to grow from 115 million people today, to an estimated 315 million in 2030³ – approximately the entire current US population⁴
- Asia forecast to account for around half of global urban consumption growth between 2015 and 2030⁵

Note:

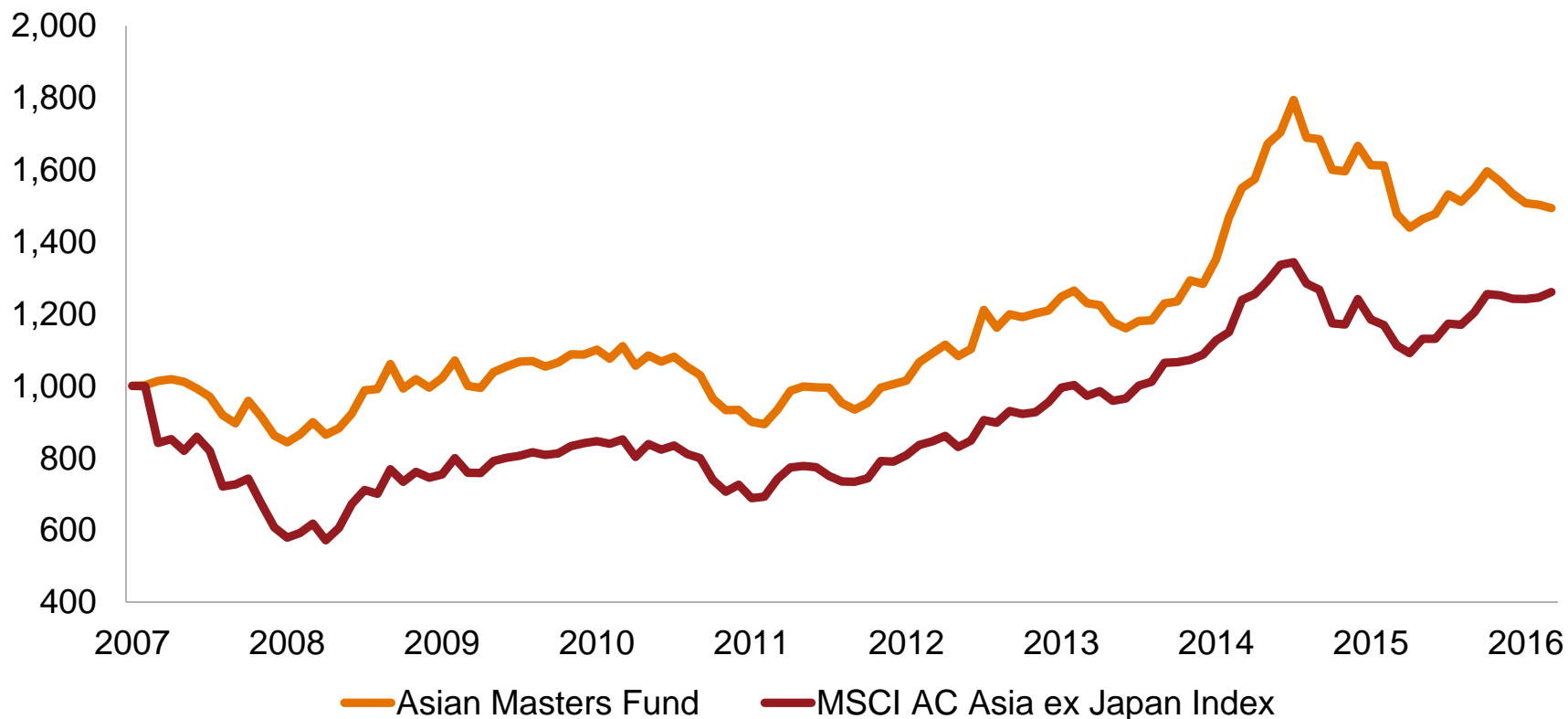
1. IMF World Economic Outlook – April 2016
2. Bloomberg, individual country economic releases – Oct 2016
3. McKinsey Global Institute – China's Choice: Capturing the \$5 trillion productivity opportunity - June 2016
4. US Census Bureau – July 2016
5. McKinsey Global Institute – Urban World: The Global Consumers to Watch – April 2016

Investment process



- Research list is refreshed quarterly based on updated results from quantitative screens
- Funds on approved list following due diligence and site visits are presented to the Investment Committee for potential inclusion in Portfolio

Solid long-term performance



Notes:

1. Change in the pre-tax NTA of the Asian Masters Fund, including dividends reinvested and the MSCI AC Asia ex Japan Index (total return in AUD) indexed to 1,000 at 3 December 2007 based on the initial NTA post initial public offer costs
2. Source: Bloomberg, Walsh & Co AM, data to 31 January 2017.

1. 2016 review



2016 – a year of market rotation

- Chinese stabilisation after concerns over debt and capital outflows abated
- Recovery of energy and commodity prices
- Significant dispersion across country and sector returns
- Significant style rotation
 - Recovery of cyclicals and value stocks
 - Quality and growth lagged
- India demonetisation caused short-term shock



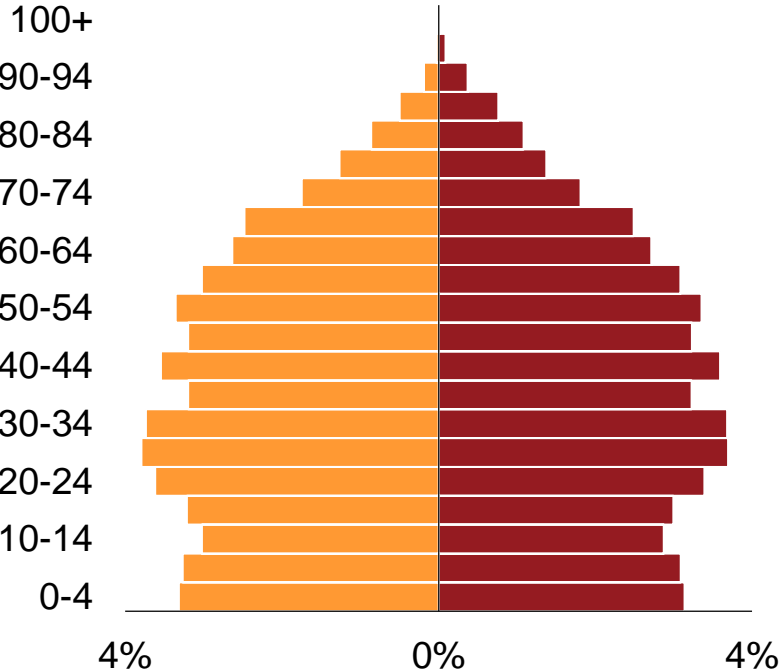
2. India focus

India – aggressive reform agenda

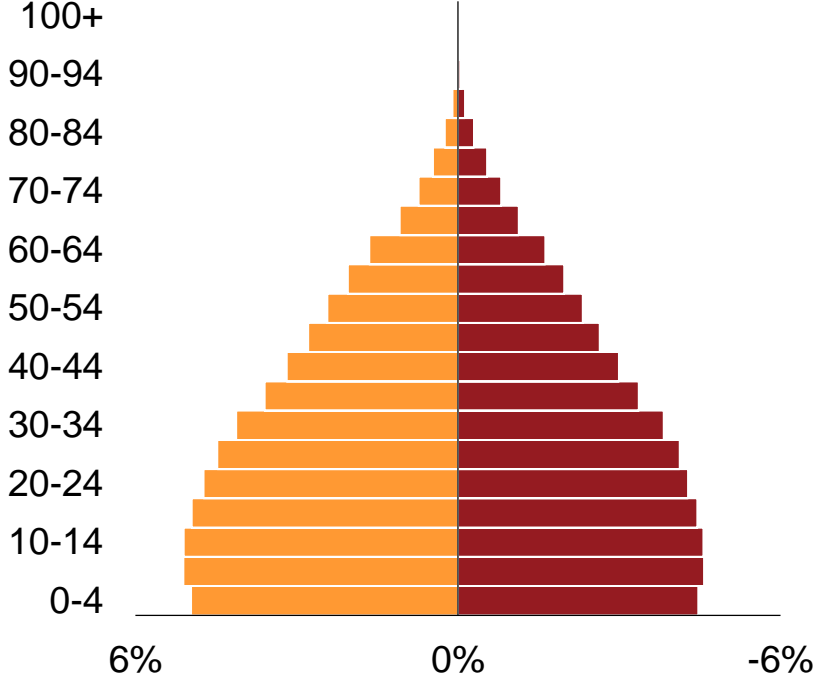
- Demonetisation was an extreme measure
 - Removal of US\$226bn or 86% of currency in issue
 - Caused short-term cash-crunch
 - But long-term very positive
 - Increased tax-take will lead to significant infrastructure spending
- Modi continues with other reform measures
 - GST being implemented
 - Reducing red-tape
- Major state elections underway

India – attractive demographics

Australia



India



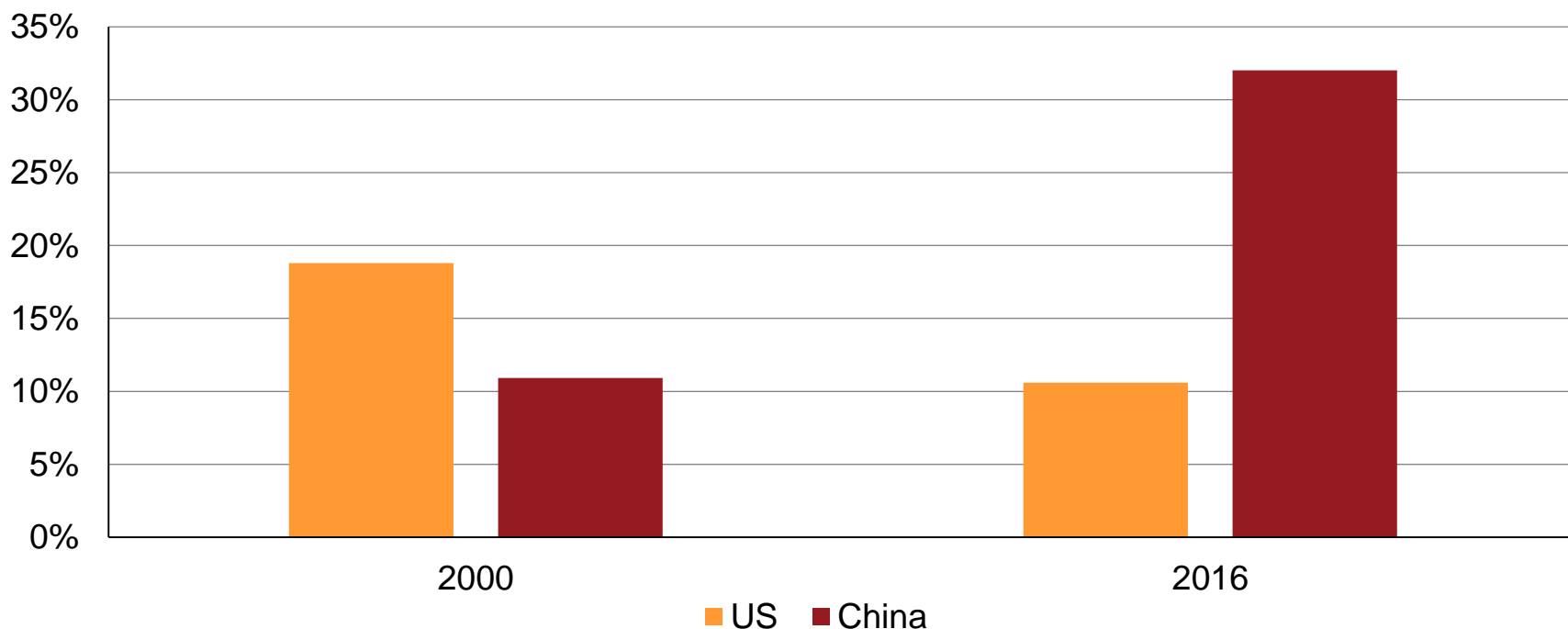
Source: "World Population Prospects: The 2015 Revision", July 2015, United Nations. Vertical axis represents age bracket, horizontal axis represents percentage of population



3. China focus

China's growth story

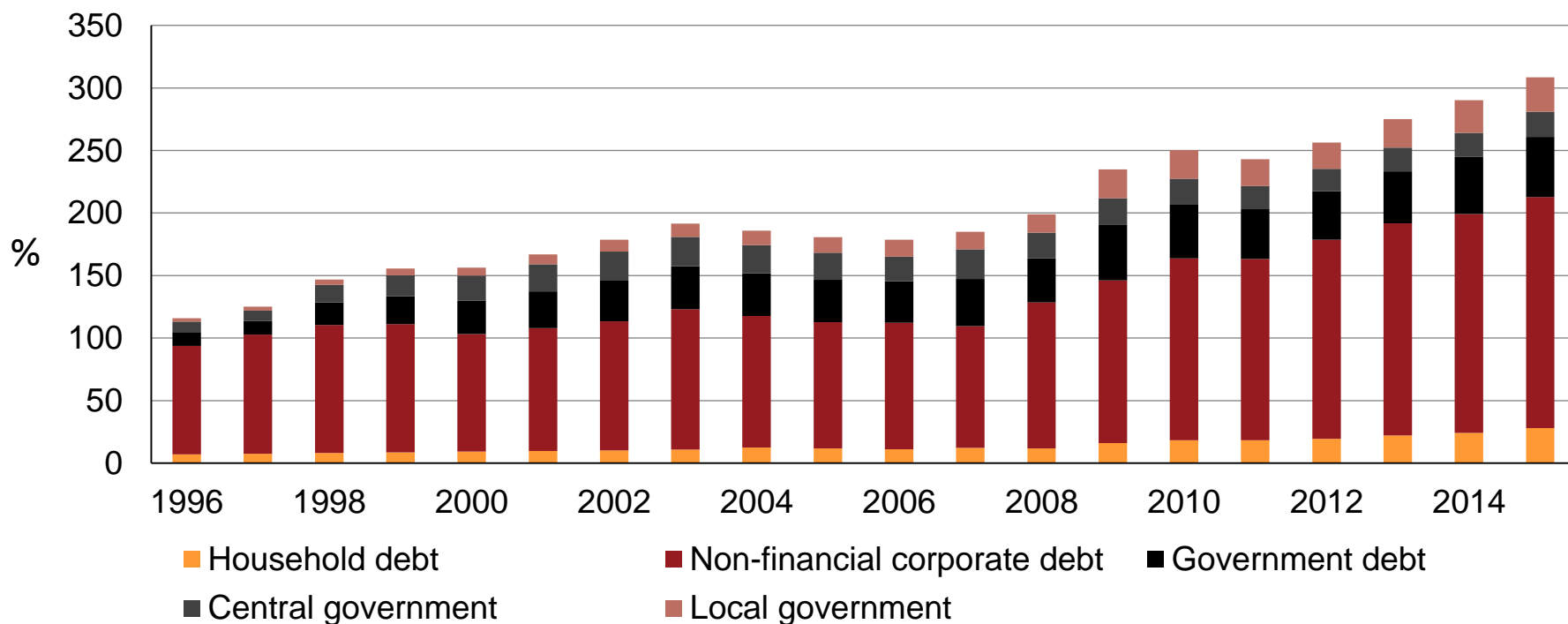
Share of world GDP growth



Source: IMF World Economic Outlook – October 2016

Significant debt build up

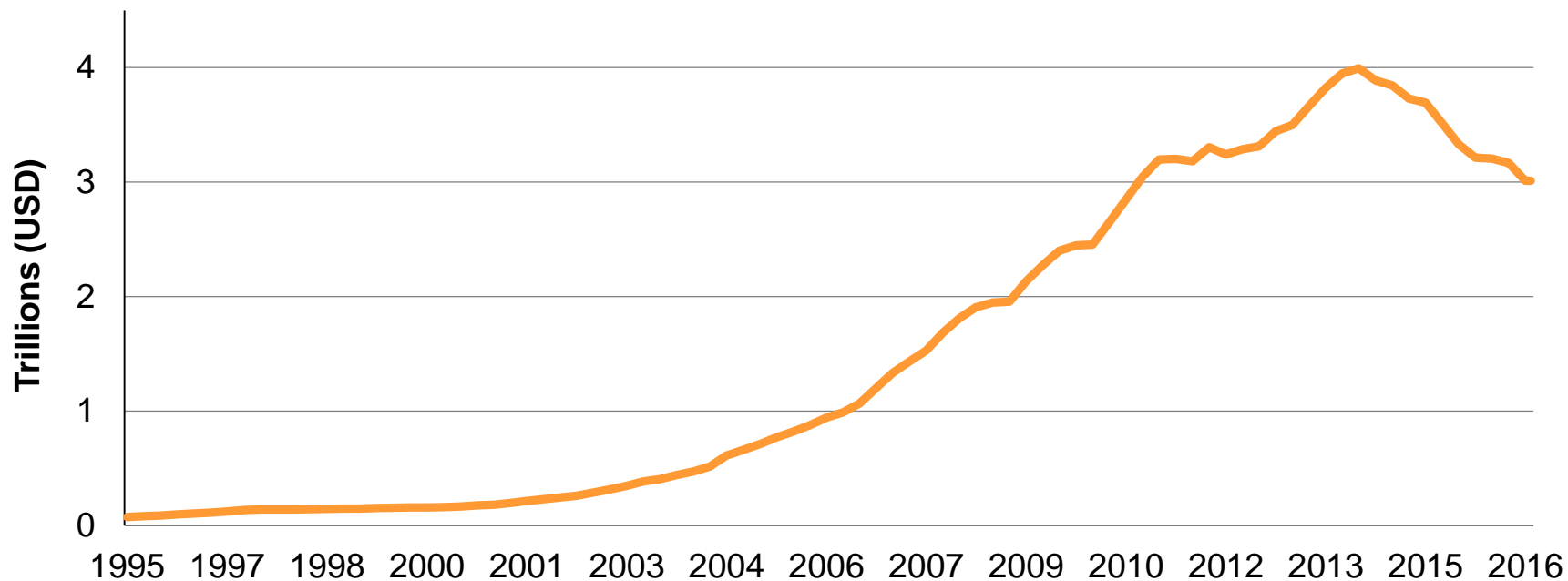
China debt (% of GDP)



Source: QE China-Style II – Macquarie Investment Management, May 2016

Foreign reserves

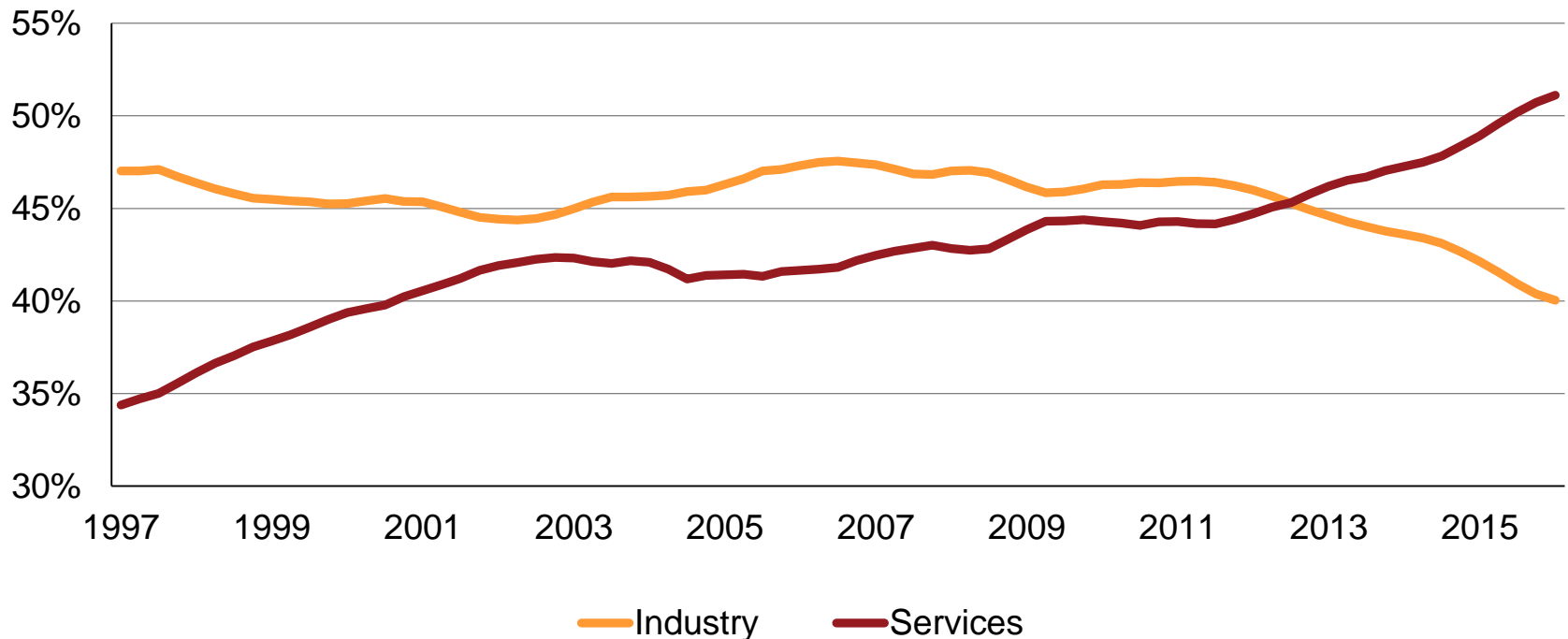
China foreign exchange reserves



Source: Bloomberg WIRACHIN Index, Quarterly data to 31 December 2016

China's economy is transitioning

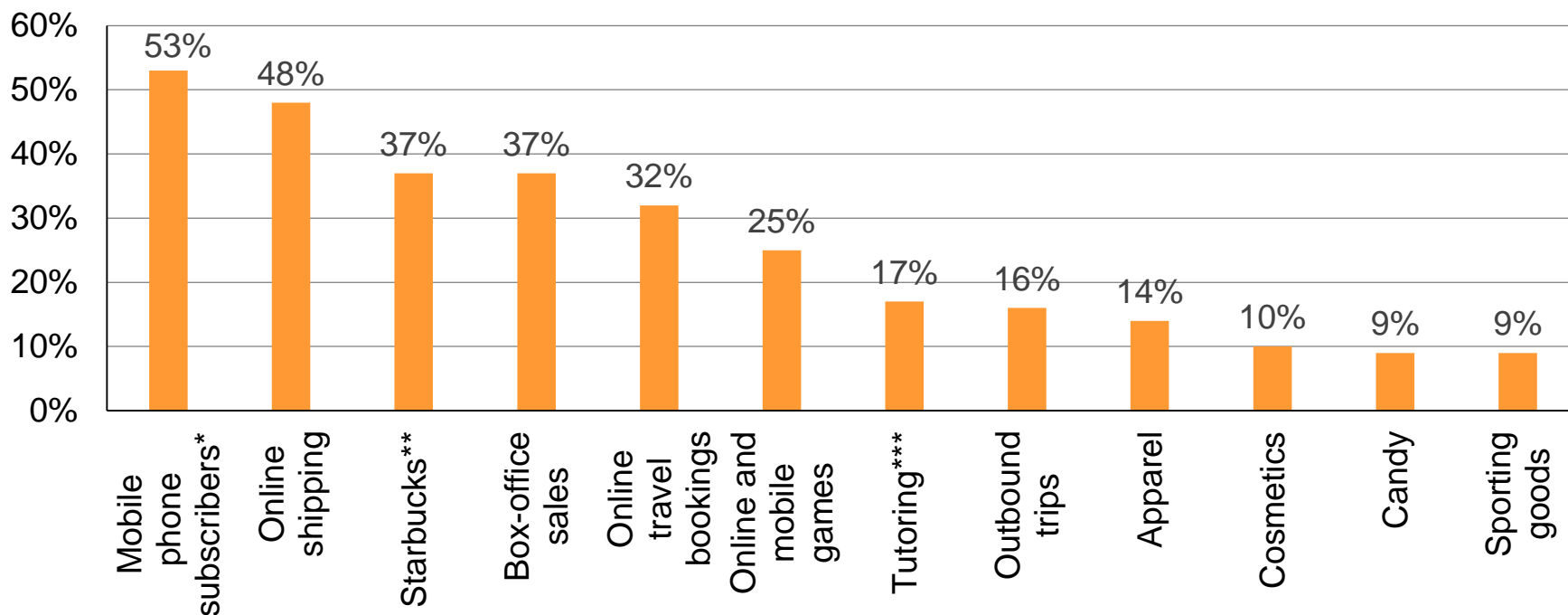
Percentage of GDP



Source: National Bureau of Statistics of China, 2016

'Old' vs 'New China'

'New China' growth markets – YoY growth 2012–2015



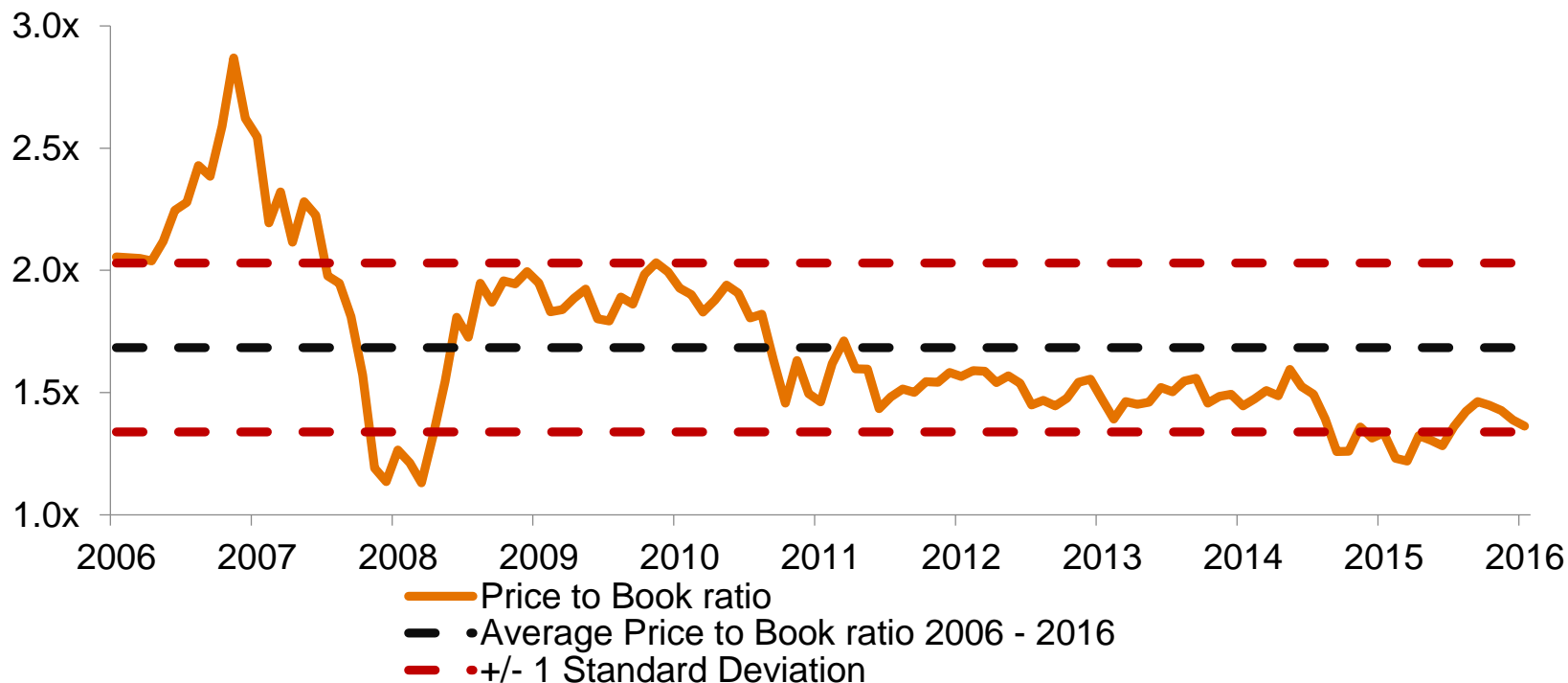
Source: 'Myths to Ignore in Emerging Markets', March 2016, AB Global

4. Outlook



Asia (ex-Japan) valuations

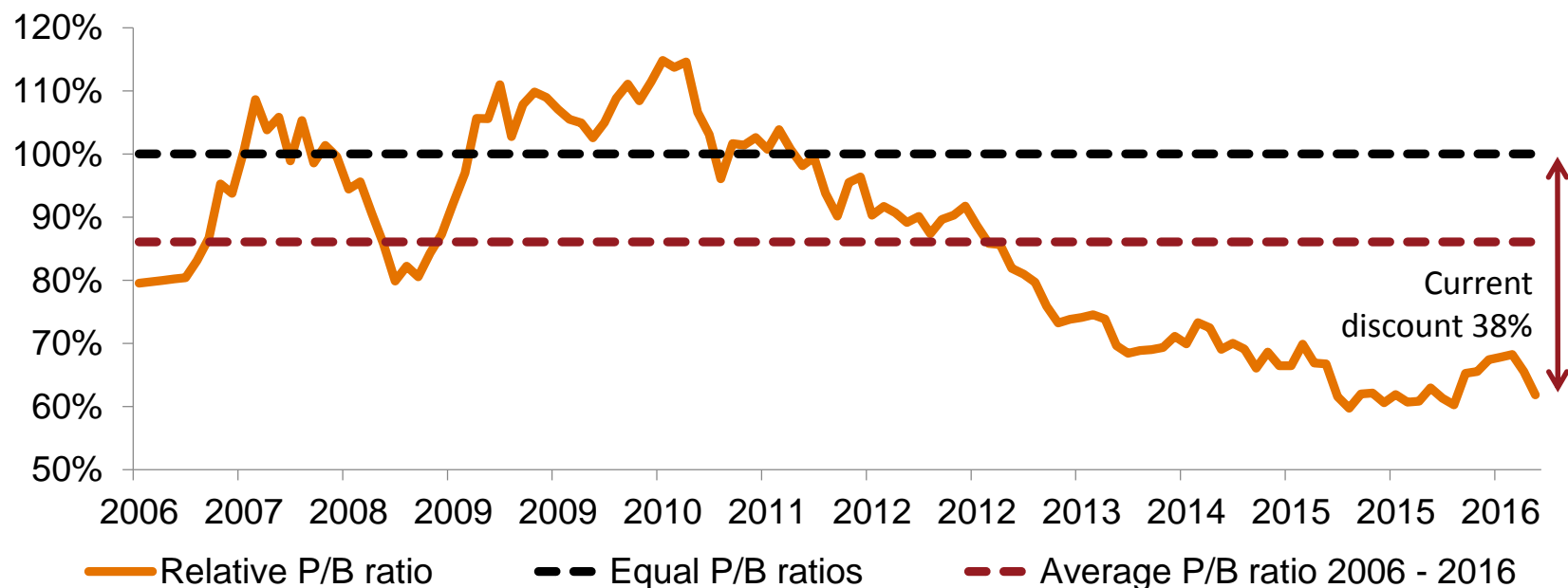
MSCI AC Asia ex Japan Index – price to book ratio



Source: Bloomberg, MSCI, Walsh & Co AM, data to 31 December 2016

Asia (ex-Japan) valuations

MSCI AC Asia ex Japan – price to book ratio relative to MSCI World



Source: Bloomberg, MSCI, Walsh & Co AM, MSCI AC Asia ex Japan Index and MSCI World Index (developed markets) data to 31 December 2016

Asian market outlook

- Trump – uncertainty, but also opportunity
 - Domestic oriented markets should be more resilient
- Asian fundamentals strong
 - Asia is the world's fastest growing region
 - Earnings recovery underway
- Focus on domestic drivers
- Reforms – mixed picture
- Valuations at historically attractive levels
- Volatility likely to continue
 - **Active management is key!**

Appendix



Portfolio

Partnering with best-in-class specialist managers to build a high quality, diversified portfolio

	Fund	31 Dec 2016 weight (%)
Regional	Arisaig Asia Consumer Fund	12.6%
	Prusik Asia Smaller Companies Fund	7.9%
	AllianceBernstein Asia ex-Japan Fund	7.1%
	Asian Opportunities Absolute Return Fund	7.0%
	Asia New Stars No.1 Fund	5.6%
Country	CK Absolute Return Fund	11.3%
	Wells Fargo China Equity Fund	10.7%
	Steadview Capital Fund	10.2%
	JPMorgan Taiwan Fund	7.4%
	Cephei QFII China Absolute Return Fund	7.3%
	APS China A-Share Fund	4.8%
	NCC China A-Share Fund	4.6%
	Komodo Fund	2.0%
	Total Invested¹	98.5%
	Cash	1.5%
	Total¹	100.0%

Source: Walsh & Co AM

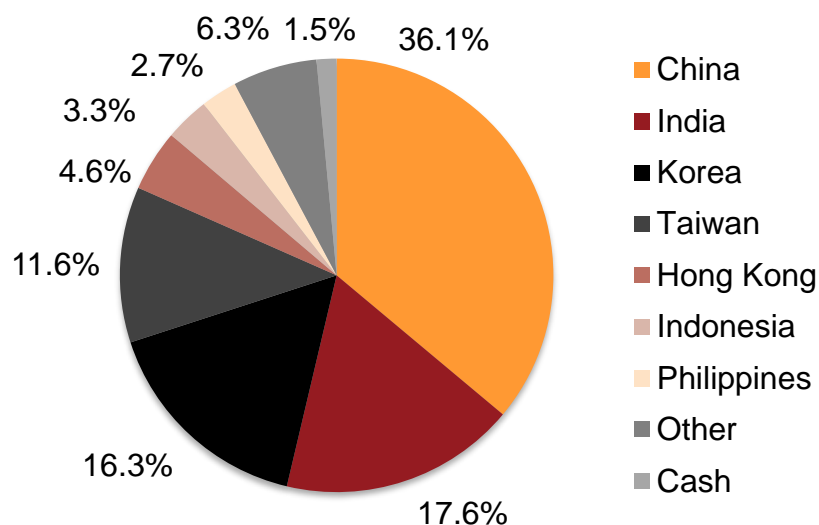
Notes:

1. Some figures may not reconcile due to rounding

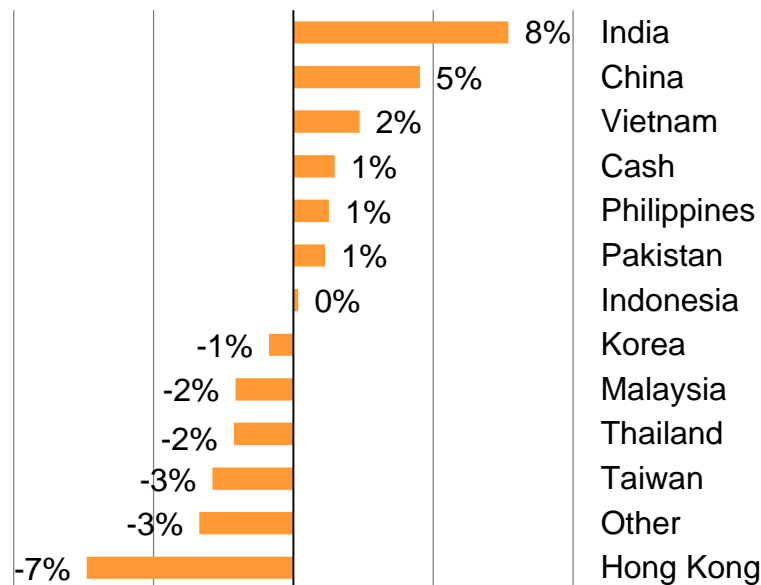
Portfolio – country allocation

Investments across 14 Asian countries

Country allocation^{1,2}



Relative weights^{1,3}



Source: Walsh & Co AM, MSCI. Data as 31 December 2016.

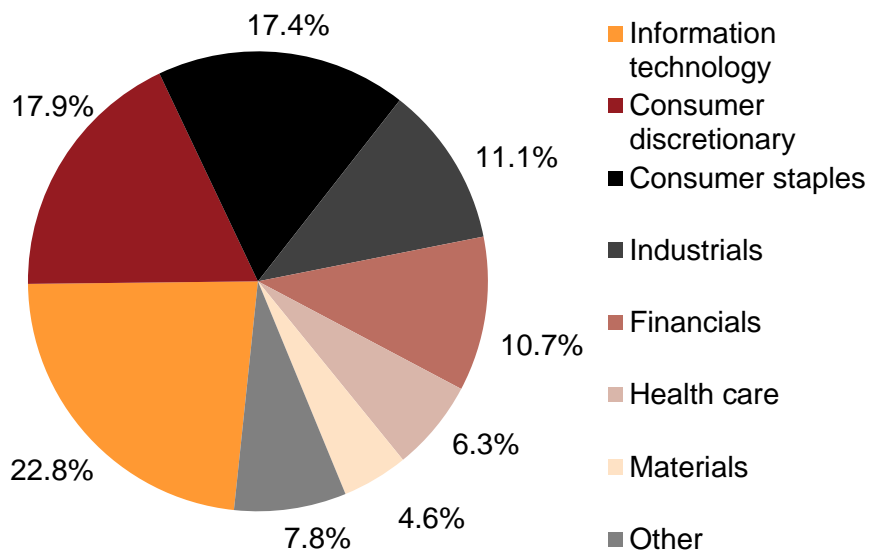
Notes:

1. Some figures may not reconcile due to rounding.
2. Other includes, but is not limited to, Bangladesh, Thailand, Vietnam, Pakistan, Singapore and Malaysia.
3. Relative to MSCI AC Asia ex Japan Index. 'Other' includes, but is not limited to, Bangladesh, Pakistan and Sri Lanka.

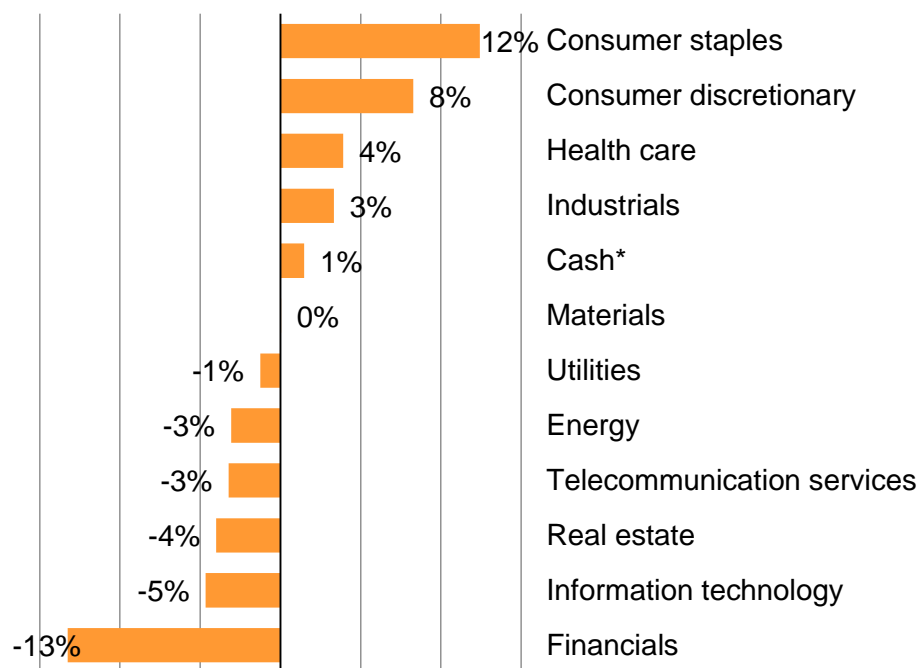
Portfolio – sector allocation

Exposure to highly attractive Asian consumer sectors

Sector allocation^{1,2}



Relative weights^{1,3}



Source: Walsh & Co AM, MSCI. Data as 31 December 2016.

Notes:

1. Some figures may not reconcile due to rounding.
2. Other includes Utilities, Telecommunication Services and Energy.
3. Relative to MSCI AC Asia ex Japan Index.

Performance – total return¹

	1 year	2 year	3 year	5 year	Since inception ²
NTA ³	1.1	-3.6	21.4	59.8	49.4
AUF Share Price	4.2	-3.6	18.6	55.8	45.4
MSCI Asia ex Japan	13.4	1.8	29.7	70.0	26.1
Relative⁴(NTA- Index)	-12.3	-5.4	-8.3	-10.2	23.2

Source: Walsh & Co AM, MSCI, Bloomberg

Notes:

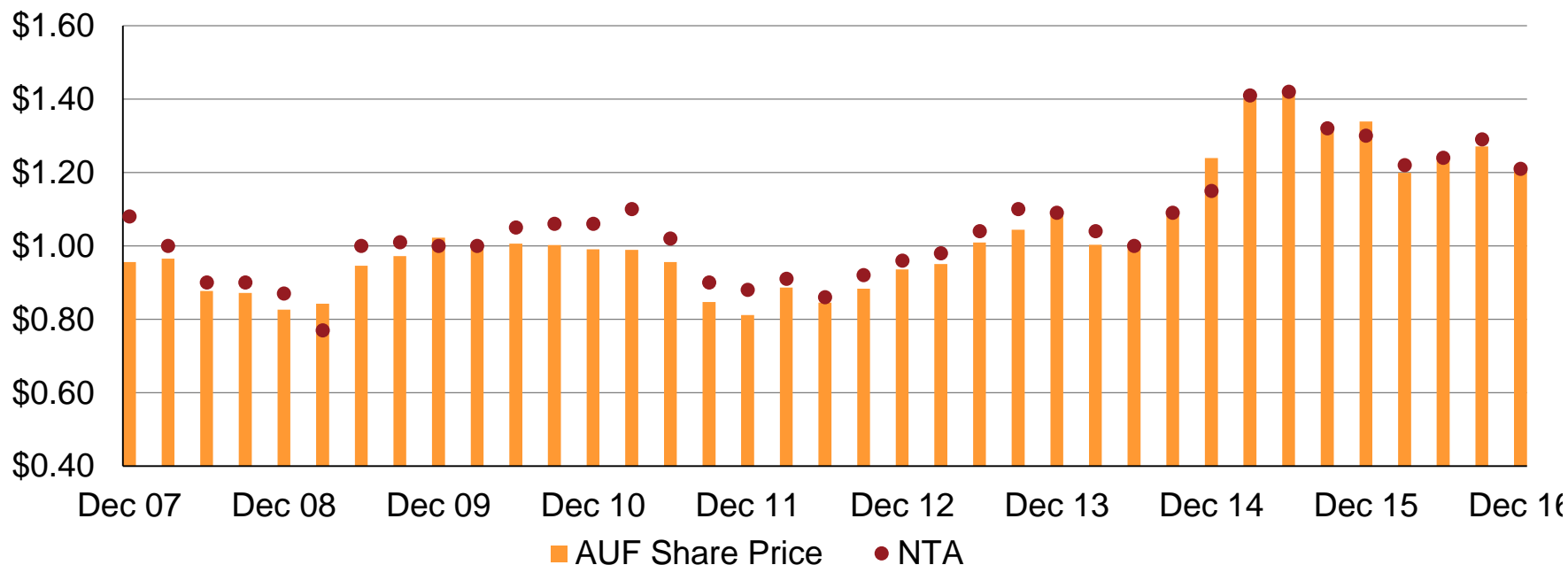
1. As at 31 January 2017, inclusive of dividends reinvested
2. Inception date was 4 December 2007
3. Returns based on pre-tax NTA
4. Some figures may not reconcile due to rounding

Performance commentary - 2016

- Portfolio biased to quality and growth factors – these lagged in 2016
- Chinese exposure, particularly A-share exposure weighed on performance, especially in Q1 2016
- Significant Consumer exposure weighed on returns, particularly in India following the demonetisation
- Portfolio was underweight to cyclical and “value” sectors which bounced

Commitment to capital management

Average month-end premium to NTA of 2.7%¹



Source: Bloomberg, Walsh & Co AM, data to 31 Dec 2016

Notes:

1. Average monthly share price premium/discount to NTA over the period 31 December 2007 to 30 December 2016

Asian Masters Fund

WALSH & COMPANY

ASSET MANAGEMENT

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