

EMERGING MARKETS MASTERS FUND

QUARTERLY INVESTMENT UPDATE **SEPTEMBER 2016**

HIGHLIGHTS¹

- The MSCI Emerging Markets Index (the Index) surged 6.0% in AUD terms in the September quarter amid strong foreign inflows.
- Net tangible assets (NTA) backing per unit returned +2.5% in the September quarter. EMF's performance lagged the MSCI Emerging Markets Index's return as consumer staples stocks underperformed during the quarter.
- The Australian dollar (AUD) appreciated against most emerging market currencies despite an unexpected interest rate cut by the Reserve Bank of Australia (RBA).

MARKET PERSPECTIVES – INDEX INVESTING AND INDEX COMPOSITION

What is the purpose of share indices? Are they an investment target? Are they in place to create an investment return objective or benchmark? Or are they simply an indication of the investment opportunity in any particular market?

To understand the role of share indices it is important to understand how they are compiled in the first place. In most cases, equity indices are market capitalisation weighted, meaning the larger a company is, the larger weighting it has in the index. For example, at 30 September, Commonwealth Bank of Australia made up 8.7% of the ASX200 Index, and the big 4 banks made up over 26% of that index.

So the question investors need to ask themselves is, does a company being large make it a high quality company, or worthy of investment? In emerging markets, the largest companies, and hence the largest index constituents, are often state owned enterprises whose main objectives may not be to maximise returns for shareholders. Some good examples include Gazprom in Russia, Petrobras or Vale in Brazil, and the Chinese banks. In more difficult economic times, state controlled entities are even more likely to be required to perform national service. Recent research by UBS has shown the gap between emerging market state-owned entities and private companies' returns on equity (ROE) is at its widest since 2008 – non-state owned entities on average generate ROEs 2.7% higher than state-owned entities. As very large employers, it is easy to see how state controlled companies in China may find it politically difficult to lay-off staff to maintain profitability or efficiency.

In our mind, an index is simply a reflection of the largest part of the investment opportunity in any particular market, although it is also important to note the best opportunities in any market are often not represented in the index. An index can also serve as a useful measure of performance. However, even though an index can be used for performance comparison purposes, that is no suggestion that an investment manager's performance (or more importantly remuneration) should be assessed against an index on a short-term basis, as that could very easily lead to investment decisions which are driven by short-term performance targets rather than genuinely investing for long-term returns.

Greece is an interesting case study as an index constituent country - in 2001 Greece was elevated to developed market status (inclusion in MSCI World Index), after its entry to the European Union. However after the

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

European crisis, Greece was relegated to emerging market status once again in 2013. Could Greece be further relegated still, to frontier market status?

China is at the opposite of this spectrum – domestic-listed Chinese equities (A-Shares) are still not represented in MSCI's main regional and global indices. At some point, A-Shares will be included in these indices, which has the potential to create enormous inflows of money from international investors who do follow indices. We see this as a potentially significant catalyst for that particular market.

The examples of the United Arab Emirates and Qatar in 2014 are also instructive in some of the distortions that can be created in markets as a result of index construction. In the 6 months ahead of their promotion from the MSCI Frontier Markets Index to the MSCI Emerging Markets Index, those markets were up 78% and 39% respectively, only to fall by 24% and 22%, respectively, in their first month after actually being included in the index. These markets were clearly distorted by traders trying to take advantage of passive funds which track (whether explicitly or by stealth) the MSCI indices.

In short - indices are a useful indicator of the investment opportunity in a particular market, and can also be used for broad performance comparison purposes. However in our view they are fundamentally flawed from a portfolio construction perspective, and should only be used for performance measurement over longer time periods. We believe true value is added by taking a differentiated and fundamentally bottom-up approach to markets.

For this reason, EMF's portfolio differs markedly from the MSCI Emerging Markets Index. At the underlying portfolio level, over half of the stocks in the portfolio are not even represented in the MSCI Emerging Markets Index. As a result of these differences, the fund's performance will differ significantly from the index's performance over time - sometimes to the detriment, but hopefully more often to the benefit of shareholders, as shown over the life of the fund. While there may be volatility at times, over time we expect our differentiated approach to generate strong returns for shareholders.

EQUITY MARKET REVIEW¹

Emerging markets posted strong returns in the third quarter of 2016 (Q3), outperforming global peers on the back of strong inflows from foreign investors. After years of net foreign outflows, emerging market equity funds had net subscriptions of USD10.7 billion year to date (to 30 September), while inflows into emerging markets bonds were at USD49.0 billion. Sentiment was generally positive, with easing concerns over Brexit, positive earnings revisions and a favourable monetary policy stance by the United States (US) Federal Reserve (Fed), the Bank of Japan and other major central banks. A weaker US dollar (USD) and stronger commodity prices also supported equity markets.

The MSCI Emerging Markets Index (the Index) gained 6.0% in AUD terms in Q3, while returns in USD terms were higher (+9.0%) as the AUD appreciated 2.9% against the USD. The MSCI Frontier Markets Index declined 0.2% in AUD terms (+2.6% in USD terms).

Among the major emerging markets, Brazil was the best performer, rising 8.2% amid positive political developments and the government's efforts to reduce the budget deficit. On 31 August, the Brazilian Senate proceeded with the final voting to impeach President Dilma Rousseff, making way for interim President Michel Temer to officially become the new President. Temer is perceived as market friendly and is expected to implement reforms to rebuild the economy. However, the economy continues to struggle with second quarter (Q2) gross domestic product (GDP) growth reported at -3.8% year-on-year (yoy), while inflation remains elevated.

China H-Shares (+7.5%) recorded a solid performance in Q3, the strongest quarterly return since Q2 2009, driven by a broad-based improvement in China's economic conditions and a better earnings outlook. Q2 GDP growth was reported at 6.7% yoy, beating expectations. China H-Shares significantly outperformed A-Shares (+1.4%) amid strong southbound flows through the Stock Connect Program linking the Shanghai and Hong Kong exchanges. In August, the regulator approved the Shenzhen-Hong Kong Stock Connect programme, which will increase access to domestic-listed Chinese stocks by foreign investors.

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Russia (+6.2%) also performed well amid rising oil prices. After almost two years of economic recession, the downturn appears to have bottomed with Q2 GDP declining 0.6% yoy, the lowest contraction since 2014. Standard & Poor's raised Russia's outlook to stable from negative in September. On 16 September, the central bank lowered its key policy rate by 50 basis points (bps) to 10%, citing a notable decline in inflation and a strengthening ruble.

South African equities (+4.5%) also surged amid a notable appreciation of the rand in September. The country avoided another recession with Q2 GDP growing at 0.6% yoy, compared with a contraction of 0.2% in the first quarter (Q1) of 2016. The current account deficit also narrowed significantly to 3.1% of GDP in Q2 (from 5.3% of GDP in Q1). However, political risks increased during the quarter as Finance Minister Pravin Gordhan, who is well regarded by the market, was investigated over irregularities at the tax-collection authority, which he headed from 1998 to 2009.

India (+2.0%) advanced with modest gains during the quarter. The Upper House approved the landmark Goods and Services Tax Amendment Bill in August. Urjit Patel, who served as the Deputy Governor of the Reserve Bank of India (RBI) since 2013, was formally appointed as the new Governor of the RBI, succeeding Raghuram Rajan.

Mexico was the worst performer among the major emerging markets, declining 4.3% (+3.2% in local currency terms) amid a significant depreciation of its currency. The Mexican peso declined to a record low against the USD after the possibility of Donald Trump's victory in the US presidential elections increased. On 29 September, the central bank unexpectedly raised interest rates by 50bps to try to contain the peso depreciation.

The Asian region outperformed the Index, with Taiwan (+8.9%) and China H-Shares being the best performing markets within the region. Korea (+5.6%), Indonesia (+5.3%), Thailand (+2.3%), India and China A-Shares also posted positive returns, while the Philippines (-6.7%) and Malaysia (-5.3%) were the laggards largely due to political reasons.

In the Latin America region, Brazil and Peru (+4.0%) were the only gainers, while Mexico, Chile (-1.9%) and Colombia (-1.0%) underperformed.

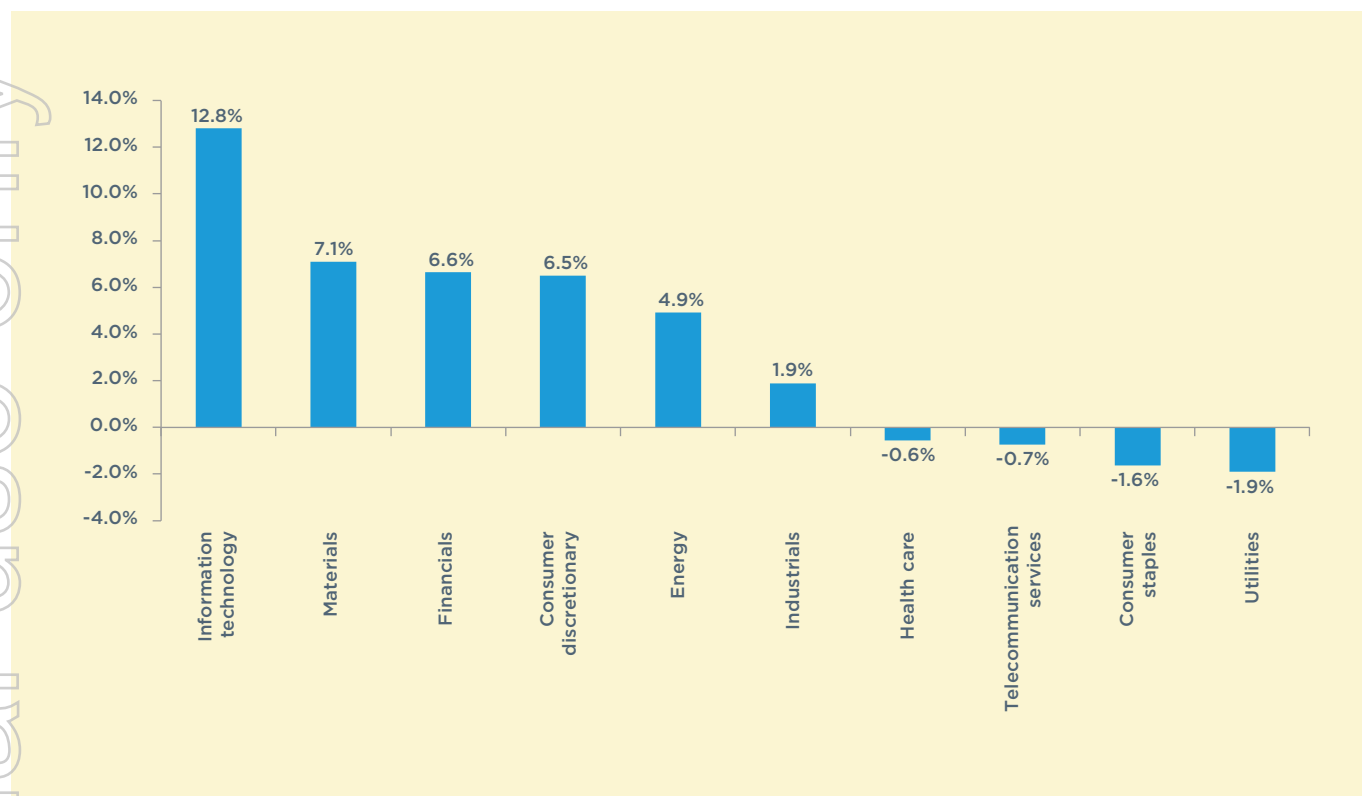
The Europe, Middle East and Africa (EMEA) region underperformed the Index. All markets posted positive returns in AUD terms except for Turkey (-7.3%), the worst performing emerging market on the back of a failed coup attempt.

PERFORMANCE OF EMERGING MARKETS OVER THE SEPTEMBER QUARTER

| INDEX | LOCAL | AUD |
|--|-------|-------|
| MSCI Emerging Markets Index | 9.0% | 6.0% |
| MSCI Frontier Markets Index | 2.6% | -0.2% |
| ASIA | | |
| CSI300 (China A-Shares) | 4.5% | 1.4% |
| Hang Seng China Enterprises (China H-Shares) | 10.6% | 7.5% |
| Sensex (India) | 3.6% | 2.0% |
| Kospi (Korea) | 3.7% | 5.6% |
| Taiex (Taiwan) | 8.9% | 8.9% |
| SET (Thailand) | 3.7% | 2.3% |
| JCI (Indonesia) | 7.1% | 5.3% |
| PSEi (Philippines) | -1.7% | -6.7% |
| KLCI (Malaysia) | 0.8% | -5.3% |
| EMEA (EUROPE, MIDDLE EAST & AFRICA) | | |
| Micex (Russia) | 7.5% | 6.2% |
| JSE All Share (South Africa) | 0.6% | 4.5% |
| WIG (Poland) | 5.0% | 5.2% |
| Budapest Stock Index (Hungary) | 5.1% | 5.6% |
| PX Prague (Czech Republic) | 5.9% | 4.5% |
| ISE (Turkey) | -0.4% | -7.3% |
| ASE (Greece) | 4.5% | 3.0% |
| EGX (Egypt) | 6.5% | 3.1% |
| MSCI UAE (UAE) | 6.1% | 3.1% |
| QE All Share (Qatar) | 4.7% | 1.7% |
| LATIN AMERICA | | |
| MSCI Brazil (Brazil) | 13.5% | 8.2% |
| IPC (Mexico) | 3.2% | -4.3% |
| IGBVL (Peru) | 10.4% | 4.0% |
| IPSA (Chile) | 0.5% | -1.9% |
| IGBC (Colombia) | 0.9% | -1.0% |

Source: Bloomberg, Walsh & Company Asset Management Pty Limited

PERFORMANCE OF THE SECTORS WITHIN THE MSCI EMERGING MARKETS INDEX OVER THE SEPTEMBER QUARTER (IN AUD)

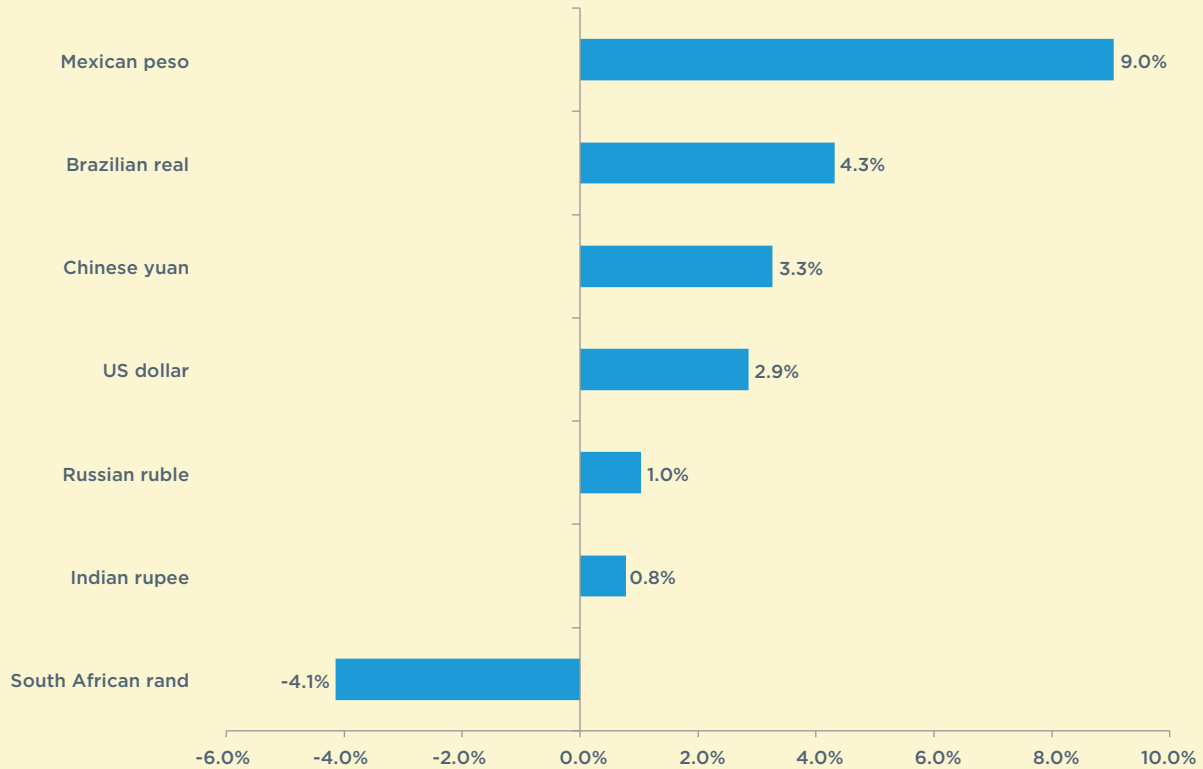


Source: Bloomberg, Walsh & Company Asset Management Pty Limited

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CURRENCY MARKET REVIEW

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



Source: Bloomberg, Walsh & Company Asset Management Pty Limited

During the September quarter, the AUD appreciated against most emerging market currencies despite an unexpected interest rate cut by the RBA. The RBA lowered interest rates by 25bps to a record low of 1.50% in August, as inflation remained low, while growth expanded at a moderate pace. The AUD appreciation was most significant against the Mexican peso (+9.0%), Brazilian real (+4.3%) and the Chinese yuan (+3.3%).

The Fed's dovish stance during Q3 resulted in a weakening of the USD against most emerging market currencies and the AUD.

EMERGING MARKETS MASTERS FUND (ASX: EMF) OVERVIEW

| | |
|---|--------------|
| EMF listing date | October 2012 |
| Total assets (\$m) | \$167.5 |
| NTA per share (30 September 2016) | \$1.78 |
| Number of securities held by underlying funds | 658 |

Source: Walsh & Company Asset Management Pty Limited

EMF PERFORMANCE

EMF's net tangible assets backing as at 30 September 2016 was \$1.78 per unit, representing an increase of 2.5% during the quarter (including distributions). EMF's NTA per unit has provided a total return of +33.9% since its inception in October 2012.

| PERFORMANCE (AUD) | SEPTEMBER QUARTER | 6 MONTHS | 1 YEAR | 3 YEARS | SINCE EMF INCEPTION |
|-------------------|-------------------|----------|--------|---------|---------------------|
| EMF* | 2.5% | 6.9% | -1.6% | 23.7% | 33.9% |

* NTA total return includes distributions reinvested; all returns are in absolute terms (not annualised)
Source: Bloomberg, Walsh & Company Asset Management Pty Limited

UNDERLYING MANAGERS

EMF currently has investments in 15 leading funds, which provide exposure across a number of emerging markets.

| MANAGER | MANDATE | WEIGHT AT 30 JUNE 2016 | WEIGHT AT 30 SEP 2016 |
|--|-----------------------------------|------------------------|-----------------------|
| Steadview Capital Fund | India country specialist | 15.3% | 15.6% |
| BMO LGM Frontier Markets Fund | Global Frontier Markets | 12.8% | 11.3% |
| Lazard Emerging Markets Fund | Global Emerging Markets | 10.1% | 9.6% |
| Somerset Emerging Markets Dividend Growth Fund | Global Emerging Markets | 7.9% | 8.0% |
| Polunin Discovery Frontier Markets Fund | Global Frontier Markets | 7.5% | 7.9% |
| Wells Fargo China Equity Fund | China country specialist | 6.7% | 7.1% |
| APS China A-Share Fund | China country specialist | 6.3% | 6.2% |
| Cephei QFII China Absolute Return Fund | China country specialist | 5.2% | 5.2% |
| Arisaig Latin America Consumer Fund | Latin America consumer specialist | 5.2% | 5.1% |
| Arisaig Africa Consumer Fund | Africa consumer specialist | 5.3% | 4.9% |
| NCC China A-Share Fund | China country specialist | 4.8% | 3.7% |
| GBM Crecimiento Fund | Mexico country specialist | 3.9% | 3.7% |
| Schroder International Emerging Europe Fund | Eastern Europe region | 3.0% | 3.2% |
| Russian Prosperity Fund | Russia country specialist | - | 2.9% |
| Brasil Capital Equity Fund | Brazil country specialist | 1.3% | 1.3% |
| East Capital Russian Fund | Russia country specialist | 1.8% | - |
| iShares MSCI Brazil Capped ETF | Brazil country specialist | 1.3% | - |
| Cash* | | 1.6% | 4.2% |
| 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 as at 30 September 2016:

| COUNTRY | EMF WEIGHT | MSCI EMERGING MARKETS INDEX WEIGHT | ACTIVE WEIGHT** |
|----------------|---------------|------------------------------------|-----------------|
| China | 22.8% | 27.0% | -4.2% |
| India | 18.2% | 8.5% | 9.7% |
| Mexico | 5.6% | 3.7% | 2.0% |
| Russia | 5.5% | 3.7% | 1.9% |
| Brazil | 5.1% | 7.4% | -2.3% |
| South Africa | 2.4% | 7.1% | -4.7% |
| Other | 15.7% | 42.7% | -27.0% |
| Frontier | 20.4% | - | 20.4% |
| Cash* | 4.2% | - | 4.2% |
| 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

Indicative look-through region exposure as at 30 September 2016:

| REGION | EMF WEIGHT | MSCI EMERGING MARKETS INDEX WEIGHT | ACTIVE WEIGHT** |
|-------------------------------------|---------------|------------------------------------|-----------------|
| Asia | 54.6% | 71.3% | -16.7% |
| EMEA (Europe, Middle East & Africa) | 25.9% | 15.7% | 10.2% |
| Latin America | 15.3% | 13.0% | 2.3% |
| Cash* | 4.2% | - | 4.2% |
| 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 | EMF WEIGHT | MSCI EMERGING MARKETS INDEX WEIGHT | ACTIVE WEIGHT** |
|-------------------------------|---------------|--|-----------------|
| Financials | 18.9% | 23.7% | -4.8% |
| Consumer staples | 22.0% | 7.9% | 14.1% |
| Information technology | 12.9% | 23.9% | -11.0% |
| Consumer discretionary | 11.2% | 10.6% | 0.6% |
| Industrials | 11.1% | 5.9% | 5.2% |
| Energy | 4.7% | 7.3% | -2.6% |
| Materials | 4.7% | 6.4% | -1.7% |
| Health care | 3.5% | 2.6% | 0.9% |
| Telecommunication services | 3.1% | 6.1% | -3.0% |
| Utilities | 1.9% | 2.9% | -1.0% |
| Real estate | 1.9% | 2.7% | -0.8% |
| Cash* | 4.2% | - | 4.2% |
| 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

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

| | COMPANY | COUNTRY | WEIGHT |
|----|---|--------------|--------|
| 1 | Page Industries Ltd | India | 2.2% |
| 2 | Eicher Motors Ltd | India | 1.9% |
| 3 | ANI Technologies Pvt Ltd | India | 1.9% |
| 4 | Yes Bank Ltd | India | 1.3% |
| 5 | Flipkart Online Services Pvt Ltd | India | 1.3% |
| 6 | Vietnam Dairy Products JSC | Vietnam | 1.1% |
| 7 | IndusInd Bank Ltd | India | 1.1% |
| 8 | Kajaria Ceramics Ltd | India | 0.8% |
| 9 | China Construction Bank Corp | China | 0.8% |
| 10 | Commercial International Bank | Egypt | 0.8% |
| 11 | Astral Polytechnik Ltd | India | 0.7% |
| 12 | PriceSmart Inc | Costa Rica | 0.7% |
| 13 | Wangsu Science & Technology Co Ltd | China | 0.7% |
| 14 | OTP Bank Nyrt | Hungary | 0.7% |
| 15 | Aramex PJSC | UAE | 0.7% |
| 16 | Famous Brands Ltd | South Africa | 0.7% |
| 17 | Oil Company Lukoil PJSC | Russia | 0.7% |
| 18 | Samsung Electronics Co Ltd | Korea | 0.6% |
| 19 | Beijing Kangde Xin Composite Material Co Ltd | China | 0.6% |
| 20 | Jiangsu Hengrui Medicine Co Ltd | China | 0.6% |
| 21 | Baidu Inc | China | 0.6% |
| 22 | SK Hynix Inc | Korea | 0.6% |
| 23 | Union de Cervecerias Peruanas Backus y Johnston SAA | Peru | 0.6% |
| 24 | Bank of Georgia Holdings Plc | Georgia | 0.5% |
| 25 | Natura Cosmeticos SA | Brazil | 0.5% |
| 26 | Kweichow Moutai Co Ltd | China | 0.5% |
| 27 | Fan Milk Ltd | Ghana | 0.5% |
| 28 | M Dias Branco SA | Brazil | 0.5% |
| 29 | Sberbank of Russia PJSC | Russia | 0.5% |
| 30 | Tencent Holdings Ltd | China | 0.5% |

| | COMPANY | COUNTRY | WEIGHT |
|----|---|--------------|--------------|
| 31 | Strides Arcolab Ltd | India | 0.5% |
| 32 | Taiwan Semiconductor Manufacturing Co Ltd | Taiwan | 0.5% |
| 33 | East African Breweries Ltd | Kenya | 0.5% |
| 34 | Yonghui Superstores Co Ltd | China | 0.5% |
| 35 | China Mobile Ltd | China | 0.5% |
| 36 | Beijing Originwater Technology Co Ltd | China | 0.5% |
| 37 | La Opala RG Ltd | India | 0.4% |
| 38 | Bajaj Finserv Ltd | India | 0.4% |
| 39 | Hangzhou Hikvision Digital Ltd | China | 0.4% |
| 40 | Beijing Venustech Inc | China | 0.4% |
| 41 | Indiabulls Housing Finance Ltd | India | 0.4% |
| 42 | Raia Drogasil SA | Brazil | 0.4% |
| 43 | Nagacorp Ltd | Cambodia | 0.4% |
| 44 | Shoprite Holdings Ltd | South Africa | 0.4% |
| 45 | Guaranty Trust Bank Plc | Nigeria | 0.4% |
| 46 | HCL Technologies Ltd | India | 0.4% |
| 47 | Axis Bank Ltd | India | 0.4% |
| 48 | Tasly Pharmaceutical Group Co Ltd | China | 0.4% |
| 49 | Florida Ice & Farm Co SA | Costa Rica | 0.4% |
| 50 | Ambev SA | Brazil | 0.4% |
| | Total | | 34.2% |

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

Source: 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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