ASIAN MASTERS FUND

ASIAN MASTERS FUND QUARTERLY INVESTMENT UPDATE (DECEMBER 2016)

HIGHLIGHTS[1]

- China's economy stabilised through 2016, generating real gross domestic product (GDP) growth of 6.7% for the year.
- Donald Trump unexpectedly won the United States (US) presidential election in November, while the US Federal Reserve (the Fed) raised interest rates for the second time since 2006, in their December meeting.
- Indian Prime Minister Narendra Modi surprised the market by removing 86% of cash from circulation in a radical demonetisation move. This had a short-term negative effect on Indian consumer stocks, but we see it as a positive long-term move.
- In volatile markets, the net tangible assets (NTA) backing per share returned -4.1% (including dividends) in the December quarter, with falls in consumption related stocks driving the contraction.

MARKET PERSPECTIVES[1]

2016 was a fascinating year in Asian markets. The MSCI Asia ex Japan Index (the Index) return of +6.5% hides the significant dispersion among performance from different markets. China A-Shares fell by 14%, while Thailand was up 26%. The dispersion across sectors was also broad, with energy and materials returning +21% and +20% respectively, while the health care and industrials sectors returned -12% and -5% respectively.

2016 was also an extraordinary year in global politics, few days however were as significant as 8 November. Many will remember this as the day when politics was turned on its head when Donald Trump won the US presidential election. It was also the day Indian Prime Minister Narendra Modi shocked the electorate by announcing that ₹500 and ₹1,000 notes (respectively worth approximately AUD10 and AUD20, and at the time the largest denominations in circulation) would cease to be legal tender that same night, and existing notes could be deposited into bank accounts only up until the end of December 2016. Those depositing large sums would need to account for the source of the cash, and pay significant penalties if tax hadn't been paid on the income. These notes amounted to USD224 billion, or 86% of the currency in circulation, and this in a massively cash-driven economy.

While the intentions of this step were honourable, the execution appears to have been ill thought out and with a lack of preparation. Modi was aiming to curtail India's corruption and black economy, remove counterfeit currency and improve the tax-take, while bringing a greater proportion of the economy into the formal system. The process also included the introduction of new ₹500 and ₹2,000 notes, however these were slow to be circulated, resulting in an enormous cash crunch.

While fighting corruption was one of the major stated aims of the move, it was initially expected that a meaningful proportion (perhaps up to 20%) of the cash would not be deposited, given the supposedly dubious sources. However this simply didn't happen. If there were people sitting on large cash-piles of ill-gotten gains, they have managed to successfully launder the cash through the system.

On the positive side, the Finance Minister, Arun Jaitley, has reported tax collection has already increased markedly. This will surely be one of the great successes of the demonetisation, given only 1% of Indians currently pay income tax.

The move resulted in enormous short-term disruption, with people queuing for hours at banks to exchange or deposit cash, and supply chains, which historically relied on cash, grinding to a halt. Those in rural areas, with limited access to banking services were particularly impacted. This process has also hit consumption hard, with many resorting to old-fashioned bartering to secure basic goods. Our portfolio has considerable exposure to the Indian consumer sector, and these stocks were particularly affected in the fourth quarter of 2016 (Q4).

However despite the issues in implementation, we believe the well-intentioned move will have a positive long-term effect. We would expect a continued rapid transition to the formal economy, with digital banking services, including the use of credit cards and other mobile payment systems, growing rapidly. We also expect the negative impact on consumption and overall economic growth, to be short-term. We remain very positive on the long-term growth and reform story in India, and expect our holdings there to rebound.

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

TRUMP IMPACT

Donald Trump made some extraordinary comments during his election campaign, and his twitter-feed has remained busy since. However which of his election policies he will genuinely follow-through with, and which were simply rhetoric to win votes, remains to be seen. It certainly seems unlikely that some of his more extreme policies can be fully enacted. We believe it is highly unlikely Trump will implement a 45% across-the-board tariff on imports from China as he suggested during the campaign. Such a move would have a major impact on consumer prices in the US, particularly on goods sold at places like Walmart. Furthermore, US exports to China have grown by 600% since China joined the World Trade Organisation (WTO) in 2001, and any retaliation by China would likely have a big impact on the more than 900,000 US jobs which are supported by exports to China.

On this basis, we will wait for more concrete pronouncements from the Trump administration before making significant portfolio changes. While Trump's potential assault on international trade could have a meaningful negative impact on a number of Asian markets, we believe the heaviest impact would be on export driven sectors and economies. For this reason, we take comfort from the fact that our portfolio has a strong focus on domestic consumption sectors rather than export dominated industries and countries.

OUTLOOK

There are clearly risks to Asian markets over the coming year, particularly of a geopolitical nature, but we believe the long-term emergence of the Asian middle-class, driven by China and India, remains firmly intact. Furthermore, we believe equity valuations remain compelling, particularly when compared with Australian and other developed market equity valuations.

EQUITY MARKET REVIEW[1]

Market sentiment in Q4 was largely influenced by the US presidential election and monetary policy decisions by the Fed. Asian equities declined significantly after Donald Trump's unexpected victory and after the Fed raised interest rates by 25 basis points (bps) in December. These events also resulted in significant foreign outflows from Asian markets, leading to weaker currencies relative to the US dollar (USD). However, improving economic data in China and a significant rise in crude oil prices following an agreement by major oil producing nations to cut production had a positive impact on equity markets. The MSCI Asia ex Japan Index fell 0.5%, while returns in USD terms were significantly lower (-6.3%) as the AUD depreciated 5.9% against the USD in Q4. The Index gained 6.5% in the 2016 calendar year. There was significant dispersion of returns among Asian markets in Q4 and in the calendar year.

Thailand was the best performing market in Q4 (+6.8%) and in the 2016 calendar year (+25.8%). Foreign investors added USD2.2 billion to Thai equities for the whole year of 2016, while local institutions turned to become net buyers in the last three months of the year. The government rolled out several policies to accelerate spending including tax-related spending and cash handouts for low-income groups. The government also announced a cabinet reshuffle on 16 December, which was well received by the market. However, third quarter (Q3) GDP growth slowed slightly, reported at 3.2% yoy, compared with 3.5% in the previous quarter. The appointment of Maha Vajiralongkorn as the 10th King of the Chakri dynasty on 13 October, after the demise of the King Bhumibol Adulyadej, did not have a negative impact on markets as previously expected.

China H-Shares (+4.1%) and China A-Shares (+3.8%) posted gains in Q4 on the back of positive economic data, despite significant losses in December due to the government's move to restrict large insurers from buying A-Shares and the imposition of stringent capital control rules. Renewed fears of currency devaluation and concerns over potential protectionist policies to be implemented by Donald Trump also weighed on markets. China's Q3 GDP remained steady, expanding 6.7% yoy. China A-Shares were the worst performing market in the calendar year, declining 14.3%, while H-Shares gained 2.4%.

Taiwanese equities surged 3.6% in Q4 amid robust economic data, with Q3 GDP growing at a better-than-expected 2.0% yoy, compared with 1.1% yoy in Q2. Strong demand for Apple's new iPhone also sent technology stocks higher. Taiwan performed well in 2016, posting an 18.6% gain. Vietnam gained 1.8% in Q4 and 18.3% in the 2016 calendar year. The World Bank maintained a positive economic outlook for Vietnam, forecasting 6.3% GDP growth for 2017.

Indonesia rose 1.0% in Q4 amid robust Q3 corporate earnings releases, a successful second phase of the tax amnesty programme and a revised credit rating outlook from stable to positive by Fitch Ratings. In October, the

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

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central bank lowered interest rates by 25 basis points to 4.75%, the sixth cut in 2016, while Q3 GDP advanced 5.0% yoy. Indonesia was the second best performing market in 2016, rising 21.5%.

Singapore gained 0.9% in Q4 and 2.7% in the 2016 calendar year. Hong Kong (+0.6%) outperformed the Index in Q4 largely due to currency appreciation, as the Hong Kong dollar is pegged to the USD. Hong Kong equities finished the 2016 calendar year up 5.3%.

India declined 0.4% in Q4 but outperformed the Index amid high volatility triggered by the government's surprise move to demonetise high-value bank notes. Slow progress on the goods and services tax bill and deteriorating economic activity due to the cash crunch dampened investor sentiment. On 4 October the central bank's newly constituted monetary policy committee surprised markets by lowering interest rates by 25 bps to 6.25%. Indian equities finished the year up 1.8%.

Malaysia declined 2.3% in Q4 and was the third worst performer in the calendar year, losing 3.0%. Sentiment towards Malaysian assets was negatively affected throughout the 2016 calendar year by the corruption scandal involving the country's sovereign wealth fund 1Malaysia Development Bhd.

Korea declined 3.9% in Q4, largely attributed to the corruption charges against President Park. On 8 December, the Korean Parliament voted to impeach President Park, appointing Prime Minister Hwang Kyo-ahn as the acting President. Weak GDP data and Samsung's decision to permanently discontinue its Galaxy Note 7 smartphone also weighed on markets. Korean equities gained 2.1% in the 2016 calendar year.

The Philippines (-7.0%) continued to be the worst performer within the region in Q4 amid significant foreign outflows due to President Duterte's controversial rhetoric and fears of Trump's protectionist policies. The offshoring and outsourcing sector represents a significant part of the economy. However, Q3 GDP registered the strongest growth since the second quarter of 2013, reported at 7.1% yoy, driven by strong domestic demand and a surge in fixed asset investment, prompting the World Bank to upwardly revise its 2016 GDP growth forecast to 6.8% from 6.4%. The Philippines was the second worst performing market in 2016, falling 3.9%.

PERFORMANCE OF ASIAN SHARE MARKETS IN THE DECEMBER QUARTER AND 2016 CALENDAR YEAR

Index	December Quarter		2016	
	Local Currency	Australian Dollars	Local Currency	Australian Dollars
SET (Thailand)	4.2%	6.8%	23.9%	25.8%
Hang Seng China Enterprises (China H-Shares)	-1.9%	4.1%	1.4%	2.4%
CSI300 (China A-Shares)	1.8%	3.8%	-9.3%	-14.3%
Taiex (Taiwan)	1.0%	3.6%	15.5%	18.6%
Ho Chi Minh (Vietnam)	-2.1%	1.8%	18.6%	18.3%
JCI (Indonesia)	-1.1%	1.0%	17.5%	21.5%
Straits Times (Singapore)	0.8%	0.9%	3.8%	2.7%
Hang Seng (Hong Kong)	-5.3%	0.6%	4.3%	5.3%
Sensex (India)	-4.3%	-0.4%	3.5%	1.8%
MSCI Asia ex Japan	**-6.3%**	**-0.5%**	**5.4%**	**6.5%**
KLCI (Malaysia)	0.0%	-2.3%	0.1%	-3.0%
Kospi (Korea)	-0.8%	-3.9%	3.4%	2.1%
PSEi (Philippines)	-10.2%	-7.0%	0.2%	-3.9%

Source: Bloomberg, Walsh & Company Asset Management Pty Limited

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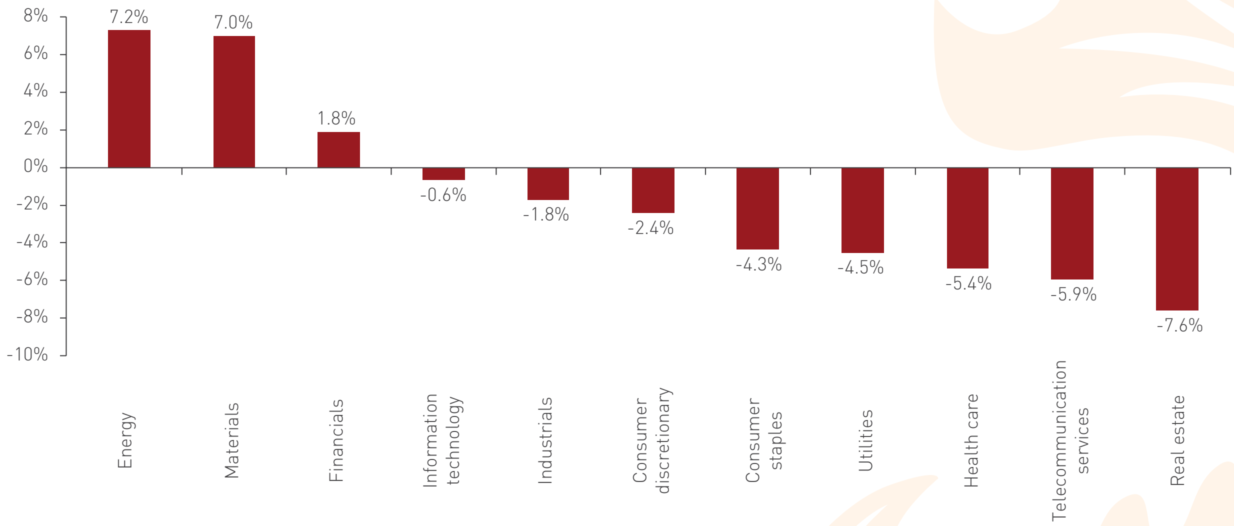
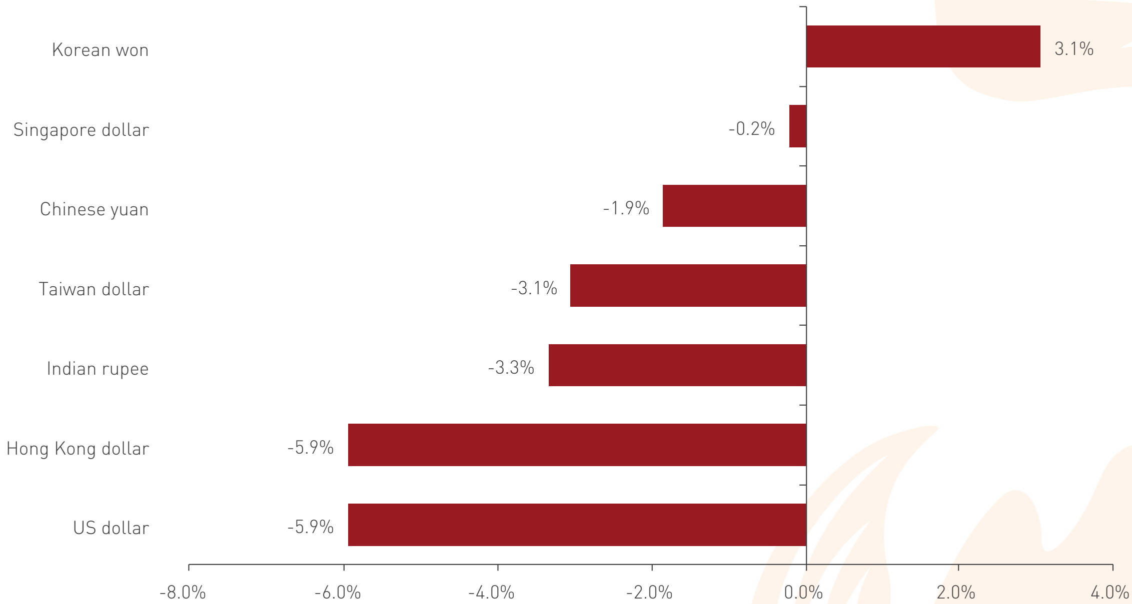
PERFORMANCE OF THE SECTORS WITHIN THE MSCI ASIA EX JAPAN INDEX OVER THE DECEMBER QUARTER (IN AUD)



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 AUD depreciated against all Asia ex Japan currencies apart from the Korean won and Malaysian ringgit. The Reserve Bank of Australia maintained the status quo on interest rates citing weak economic activity and uncertainty surrounding employment growth. The AUD depreciation was most significant against the Hong Kong dollar (-5.9%), Indian rupee (-3.3%) and Taiwan dollar (-3.1%).

The Fed raised interest rates and sounded more hawkish during Q4, resulting in a strengthening of the USD against all Asia ex Japan currencies, except the Hong Kong dollar, which is pegged to the USD.

ASIAN MASTERS FUND (ASX: AUF) OVERVIEW

AUF listing date	December 2007
Total assets ($m)	$163.2
NTA per share (December 2016)	$1.22
Number of securities held by underlying funds	531

Source: Walsh & Company Asset Management Pty Limited

AUF PERFORMANCE

From 30 September 2016 to 31 December 2016, AUF's NTA backing per share returned -4.1%, compared with the MSCI Asia ex Japan Index which fell by 0.5%. AUF has performed strongly since inception, outperforming the Index by 25.8%.

After achieving excellent returns in the 2015 calendar year, 2016 was a challenging one in contrast. From a country allocation perspective, the significant positions in China and India, which provided enormous benefits to AUF in 2015, proved to be a drag on performance in 2016. China A-Shares, a market in which the fund had a significant proportion of its assets invested at the start of the year, were the worst performing market in the region, declining 14.3% in 2016, while H-Shares gained 2.4%. We have largely maintained the allocation to the Chinese markets throughout the year as they have remained cheap, but we have shifted part of the A-Share exposure into H-Shares, which proved to be the right decision given the significant dispersion of returns between these two markets. Indian equities, particularly those exposed to the consumer sectors, suffered due to the cash crunch caused by the demonetisation in November, but we are confident this measure will provide significant benefits to the economy in the long-term, therefore we have not changed the allocation to the Indian market.

There was a rotation from quality and growth into value stocks in Asia in 2016, which also contributed to AUF's softer performance in 2016. 2016 was also a year in which cyclical sectors outperformed, with the best performing sectors being energy (+21.3%), materials (+19.9%) and information technology (+18.0%), all sectors in which AUF has relatively small positions. Consumer staples (0.0%) and consumer discretionary (+0.9%), in which AUF has 35% of its portfolio, lagged the MSCI Asia ex Japan Index in 2016. Despite this, we remain positive on the long-term consumption trends in Asia, and will continue to maintain significant exposure to these sectors.

AUF is a long-term investor and we continue to believe in the strong case for investing in Asia (ex Japan) equities. Asia remains the fastest growing region in the world, populations are young and growing and urbanisation continues at a rapid rate, creating a growing middle class of consumers. In addition, the prospects of reforms in countries like China and India should be positive for Asian equities. Through the active selection of underlying managers, AUF is well positioned to benefit from these long-term trends.

Performance (AUD)	December Quarter	6 Months	1 Year	3 Years	5 Years	Since AUF Inception
AUF*	-4.1%	-0.5%	-6.7%	18.9%	68.2%	50.4%
MSCI Asia ex Japan Index	-0.5%	6.5%	6.5%	24.2%	79.9%	24.6%
Relative**	-3.6%	-7.0%	-13.2%	-5.3%	-11.7%	25.8%

* 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 Sep 2016	Weight at 31 Dec 2016
Arisaig Asia Consumer Fund	Asian consumer specialist	15.2%	12.6%
CK Absolute Return Fund	Country specialist – Korea	9.5%	11.3%
Wells Fargo China Equity Fund	Country specialist – China	6.9%	10.7%
Steadview Capital Fund	Country specialist – India	10.9%	10.2%
Prusik Asian Smaller Companies Fund	Asian small cap specialist	7.7%	7.9%
JPMorgan Taiwan Fund	Country specialist – Taiwan	7.3%	7.4%
AllianceBernstein Asia ex-Japan Fund	Asian region	5.5%	7.1%
Asian Opportunities Absolute Return Fund	Asian region	8.2%	7.0%
Cephei QFII China Absolute Return Fund	Country specialist – China	7.2%	7.3%
Asia New Stars No.1 Fund	Asian small cap specialist	6.1%	5.6%
APS China A-Share Fund	Country specialist – China	6.5%	4.8%
NCC China A-Share Fund	Country specialist – China	6.3%	4.6%
Komodo Fund	Country Specialist – Indonesia	1.9%	2.0%
Cash*		0.9%	1.5%
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

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COUNTRY ALLOCATION

Indicative look-through country allocation mix at 31 December 2016:

Country	AUF Weight	MSCI Asia ex Japan Index Weight	Active Weight**
China	36.1%	31.6%	4.5%
India	17.6%	9.9%	7.7%
Korea	16.3%	17.2%	-0.9%
Taiwan	11.6%	14.5%	-2.9%
Hong Kong	4.6%	12.0%	-7.4%
Indonesia	3.3%	3.1%	0.2%
Philippines	2.7%	1.4%	1.3%
Vietnam	2.4%	-	2.4%
Pakistan	1.1%	-	1.1%
Malaysia	0.9%	3.0%	-2.1%
Thailand	0.6%	2.8%	-2.1%
Singapore	0.6%	4.6%	-4.0%
Other	0.6%	-	0.6%
Cash*	1.5%	-	1.5%
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**
Information technology	22.8%	27.5%	-4.7%
Consumer discretionary	17.9%	9.6%	8.3%
Consumer staples	17.4%	4.9%	12.4%
Industrials	11.1%	7.8%	3.3%
Financials	10.7%	24.0%	-13.3%
Health care	6.3%	2.4%	3.9%
Materials	4.6%	4.5%	0.1%
Utilities	2.3%	3.5%	-1.3%
Telecommunication services	2.2%	5.5%	-3.2%
Real estate	1.8%	5.8%	-4.0%
Energy	1.4%	4.5%	-3.1%
Cash*	1.5%	-	1.5%
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

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TOP 50 HOLDINGS

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

	Company	Country	Weight
1	Samsung Electronics Co Ltd	Korea	2.8%
2	Page Industries Ltd	India	1.5%
3	Philippine Seven Corp	Philippines	1.2%
4	Eicher Motors Ltd	India	1.2%
5	Tencent Holdings Ltd	China	1.2%
6	TSMC Ltd	Taiwan	1.0%
7	Alibaba Group Holding Ltd	China	1.0%
8	ANI Technologies Pvt Ltd	India	0.8%
9	Nestle India Ltd	India	0.8%
10	Yes Bank Ltd	India	0.8%
11	Godrej Consumer Products Ltd	India	0.8%
12	Flipkart Online Services Pvt Ltd	India	0.8%
13	Jiangsu Hengrui Medicine Co Ltd	China	0.8%
14	Britannia Industries Ltd	India	0.8%
15	China Mobile Ltd	China	0.7%
16	IndusInd Bank Ltd	India	0.7%
17	Marico Ltd	India	0.7%
18	Vietnam Dairy Products JSC	Vietnam	0.7%
19	China Originwater Technology Co Ltd	China	0.7%
20	Kweichow Moutai Co Ltd	China	0.6%
21	Wangsu Science & Technology Co Ltd	China	0.6%
22	Largan Precision Co Ltd	Taiwan	0.6%
23	Vitasoy International Holdings Ltd	Hong Kong	0.6%
24	Colgate Palmolive India Ltd	India	0.6%
25	Cafe De Coral Holding Ltd	Hong Kong	0.6%
26	Mobile World Investment Corp	Vietnam	0.6%
27	Zhengzhou Yutong Bus Co Ltd	China	0.6%
28	Foshan Haitian Flavouring and Food Co Ltd	China	0.6%
29	Naver Corp	Korea	0.6%
30	Hangzhou Hikvision Digital Technology Co Ltd	China	0.6%
31	Tongda Group Holdings Ltd	China	0.6%
32	Wistron NeWeb Corp	Taiwan	0.6%
33	China Construction Bank Corp	China	0.5%
34	Taiwan Paiho Ltd	Taiwan	0.5%
35	Midea Group Co Ltd	China	0.5%

	Company	Country	Weight
36	Industrial and Commercial Bank of China Ltd	China	0.5%
37	Nestlé Pakistan Ltd	Pakistan	0.5%
38	Hyundai Motor Co	Korea	0.5%
39	LG Chem Ltd	Korea	0.5%
40	Trent Ltd	India	0.5%
41	Hon Hai Precision Industry Co Ltd	Taiwan	0.5%
42	Lepu Medical Technology Beijing Co Ltd	China	0.5%
43	Astral Polytechnik Ltd	India	0.5%
44	Orion Corp	Korea	0.5%
45	Jiangsu Kangde Xin Composite Material Co Ltd	China	0.5%
46	Fujian Dali Group Co Ltd	China	0.5%
47	Baidu Inc	China	0.5%
48	Beijing Venustech Inc	China	0.4%
49	Bank of China Ltd	China	0.4%
50	Syngene International Ltd	India	0.4%
	Total		**35.5%**

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.

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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