AMP Capital China Growth Fund
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AMP Capital China Growth Fund (ASX: AGF)

The responsible entity (RE) of the AMP Capital China Growth Fund (the Fund), AMP Capital Funds Management Limited (AFSL 426455), would like to update investors on matters including:

- **Recent volatility in Chinese equity markets**
- **Repatriation of funds from China**
- **Managing tax risk**
- **Exploring options to further improve fund performance**

Update on Chinese equity markets

Our current analysis suggests the negative sentiment we have seen in the last few days is not out of the ordinary, with occasional sharp market sell offs during bull markets. Following the share market fall in 1987, as well as the Global Financial Crisis, share markets took time to build firm bases and entered periods of protracted volatility before then commencing clear rising trends. It is likely this is what we are now experiencing with China.

While the recent market downturn has been sizeable, it's not among the worst in market history. Developed financial markets have been booming for the past six years at a time when global macro divergences have intensified. Recovery from the last recession has been patchy and weak by historical standards but that has not prevented a bull market in equities. More notably for Chinese shares, despite the volatility experienced during the past few weeks, those who have been invested in the market for the past year have still generated positive returns of approximately +70 per cent.

Globally, while volatility is likely to remain high and a further correction is possible, we see little risk of a recession or bear market in global shares at this point in time. What we have is a sharp adjustment of market sentiment and extreme fear without a real change in the underlying economic backdrop. We also expect the Chinese government will support economic growth through strong monetary policy easing and other measures which, in turn, should help support growth in China and the broader emerging markets. We will continue to watch and monitor the market, and will make necessary changes to our portfolio as the situation evolves.

Going through August-September, we expect to see continued volatility. We currently see the share market correction in China as a buying opportunity. While there has been a significant readjustment in valuations, the earnings backdrop for Chinese companies remains good. We remain confident there will also be aggressive support from central banks to stem any negative impact to economic fundamentals.

Repatriation of funds from China

From time to time, as part of normal capital management processes, the Fund repatriates net realised profits from China. Since inception, the Fund has made three cash repatriations in October 2008, February 2013 and January 2015. Historically, the process of repatriating cash from China has taken six to 24 months. The timeframe for repatriation of funds from China can vary significantly and the processes may be subject to delay when there is any change in applicable regulations or when regulatory approval requires additional information or analysis, including the assessment of tax liabilities by the Chinese tax authorities.

Currently, the RE is actively pursuing a further cash repatriation, which is subject to approval by the Chinese regulators.

The Fund continues to maintain sufficient working capital to meet its operating requirements. In order to further conserve liquidity until further cash is repatriated from China, payment of RE and investment manager fees have been deferred until a later date.

Managing tax risk

The Fund's investment manager, AMP Capital, and its tax advisers continue to engage closely with the Chinese tax authorities to finalise any Chinese tax liabilities.

The portfolio is subject to tax in China at 10 per cent on interest, 10 per cent on dividends and, from 17 November 2014, nil per cent on capital gains on both "land rich" and "non-land rich" China A shares. The tax rates on capital gains changed on 17 November 2014 when the Chinese Ministry of Finance released a QFII tax circular, which states that all capital gains realised after this date will not attract tax in China. In February 2015, additional communications from the Chinese tax authorities have clarified that tax on capital gains realised prior to 17 November 2014 shall only be levied for the five years preceding that date and not from inception.

Prior to 17 November 2014, the portfolio was subject to 10 per cent tax on capital gains realised on "land rich" China A shares. At the same time the portfolio was not subject to Chinese tax on capital gains on "non-land rich" China A shares as a result of tax treaty relief being available.. For capital gains on "non-land rich" China A shares realised before 17 November 2014, there remains a risk that the Fund's application for treaty relief may not be successful and that the Fund would be liable to pay tax in China at 10 per cent on a gross basis for the preceding five years.

AMP Capital has submitted relevant documentation to the Chinese tax authorities and this is now subject to approval.

Exploring options to further improve fund performance

Since inception of the Fund, discussions have been held with many interested investors regarding the Fund trading at a discount to net asset value. The responsible entity has considered many options in light of the objective of the fund.

Previously, our analysis indicated that implementation of many of these options would not have resulted in the discount being sustainably closed or were made difficult due to regulatory uncertainty in China, and were not in the best interest of all investors. In light of recent ongoing clarification of taxation laws in China, AMP Capital is considering whether some of these options may be viable in the future whilst being mindful of its duties to unitholders as a whole and subject to the repatriation considerations discussed above.

On 13 July 2015, AMP Capital released an announcement updating investors on the impact of the recent market volatility and also on its plans for the Fund. Further to this announcement, AMP Capital has now engaged Goldman Sachs to actively investigate a range of options to improve fund performance for the benefit of all unitholders.

As part of its investigations to improve fund performance, the RE is also exploring the possibility that the Fund may also invest in A Shares through the Shanghai-Hong Kong Stock Connect, which may deliver the Fund additional flexibility.

Further information

The Fund is actively managed to navigate the current market volatility and the RE is working hard to provide increased certainty regarding tax treatment, capital management options and cash repatriation for the Fund. We will keep investors updated regarding any developments on these fronts.

Further information on the Fund is contained on our website: ampcapital.com.au/china.

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