AMP Capital China Growth Fund
ARSN 122 303 744

ASX Announcement

18 SEPTEMBER 2015

Manager
ASX Market Announcements
Australian Securities Exchange
Level 4, 20 Bridge Street
SYDNEY NSW 2000

Announcement No: 61/2015

AMP Capital China Growth Fund (ASX: AGF)

In accordance with ASX Listing Rule 3.17.1, attached is a letter to AMP Capital China Growth Fund investors to be despatched in the coming days.

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17 September 2015

<mailing name>
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Dear <salutation>

We are writing to provide you with a copy of an announcement we issued to the ASX on 17 September regarding the AMP Capital China Growth Fund (ASX:AGF). The announcement gives an update on the outcomes of the recent strategic review of the Fund and a summary of the review's key findings.

The announcement refers to a presentation of supporting analysis which can be found on the AMP Capital website http://www.ampcapital.com.au/china, or via ASX announcements http://www.asx.com.au/asx/statistics/announcements.do, or which can be obtained by calling us on either of the numbers below.

If you have any questions about this announcement or your investment, please contact AMP Capital Client Services on 1800 658 404 or +61 2 8048 8230.

Yours sincerely

Stephen Dunne
Managing Director, AMP Capital

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AMP Capital China Growth Fund (ASX: AGF) – Outcomes of Strategic Review

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Purpose

The responsible entity ("RE") of the AMP Capital China Growth Fund (the "Fund"), AMP Capital Funds Management Limited (AFSL 426455), provides an update to unitholders in relation to the previously announced strategic review of the Fund ("Strategic Review"). As a result of the Strategic Review, the RE has made a number of decisions in relation to the Fund's strategy and ongoing operations and these are explained below.

Background to the Strategic Review

In July 2015, the RE announced it would conduct a comprehensive Strategic Review of the Fund. The review was conducted in accordance with the RE's duties to investors, including its duty to monitor the overall performance of the Fund.

As part of the review, the RE considered the discount between net asset value ("NAV") per unit and ASX trading price (referred to as the "Discount"). It also analysed the performance of the Fund (as compared to its peers) and other operational benchmarking.

In undertaking the Strategic Review the following measures were taken:

- The RE was assisted by Goldman Sachs as advisers;
- A Steering Committee ("SC"), comprised of senior management, was formed to review alternatives, advise and make recommendations to the RE;
- The RE consulted with a range of unitholders and also considered the views expressed by Metage Capital in its letter to unitholders[1] and the public statements made by LIM Advisors[2]; and
- To assist in managing potential conflicts of interest and duty, the RE established an independent Advisory Committee (AC) to review the SC's recommendations and the advice of management and Goldman Sachs and make its own recommendations to the Board of the RE. The members of the AC are Peter Rowe (Chairman of the AC), Grant Bailey and John Evans.[3]

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[1] *Metage Capital Limited Open Letter to the Board of AMP Capital Funds Management Limited (the Board), the Responsible Entity of AMP Capital China Growth Fund dated 11 May 2015.*

[2] Public statements by LIM Advisors: 20 July 2015 and 2 September 2015

[3] Mr Rowe currently serves as Chairman of the Managed Investment Scheme Compliance Committee of AMP Capital Funds Management Limited and was previously a Partner of Herbert Smith Freehills from July 1989 to July 2011. Prior to his appointment in 2005 as the Head of the Financial Services Group, Mr. Rowe developed and led the securitisation practice of Herbert Smith Freehills. He joined Herbert Smith Freehills in 1986 as a Solicitor.

Mr Bailey is a Non-executive Director on AMP Capital Holdings Limited Board and Chair of its Audit & Risk Committee having been appointed in June 2014. Previously he spent 12 years in a variety of senior executive roles at ING Investment Management internationally, including Chief Executive Officer (CEO) of ING's Asia Pacific business based in Hong Kong, CEO of its Middle East business based in Dubai, as well as CEO of

Overview of Strategic Review

The Strategic Review focused on two main alternatives:

- Continue to operate the Fund in a manner largely consistent with its present form, with some changes aimed at improving the Fund's operations (including potential changes to disclosure, governance and capital management); or
- Fundamental changes to the Fund's structure such as a potential de-listing or wind-up of the Fund.

These are discussed in further detail below and in the attached presentation. The presentation also provides detail on the options the RE considered and discussion of drivers of the Discount and performance.

Summary of conclusions

After careful consideration of the interests of all unitholders, the RE has decided the Fund should continue in its present form. The Fund's original purpose to provide Australian investors with access to the China A-share market remains relevant, and the Fund provides one of the few ways for retail Australian investors to access this market. However, the RE did form the view that a number of enhancements to the Fund would be in the best interests of unitholders.

The RE does not believe that it is in the best interests of unitholders to wind up or delist the Fund at this time. However, the RE will continue to monitor whether this remains the position in the future. Should the market structure and the competitive environment evolve making the Fund no longer fit-for-purpose, the RE is committed to exploring strategic options to unlock value for all unitholders.

Capital management

The RE examined potential options to offer investors a one-off redemption facility to allow investors to redeem units at NAV less redemption costs. It also considered an on-market buyback program.

Based on analysis of significant capital management activities undertaken by the comparable peers described below, the RE concluded that these capital management options would be unlikely to sustainably narrow the Fund's Discount over the long term to the benefit of all unitholders. The RE was also concerned that any capital management option involving a substantial redemption opportunity could reduce scale, trading liquidity and operational flexibility of the Fund, which would not be in the best interests of unitholders.

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the Australian business based in Sydney and was with Citigroup for 10 years in a variety of senior roles within their investment management operations.

Mr Evans is an Associate Professor in the Sydney Business School. From 2009-2012 he was Head of the School of Risk & Actuarial Studies at the UNSW. Previously, he served as Chairman of Emerging Leaders Investment Limited, and Chairman of several Risk and Compliance Committees of financial institutions. He has also served as a Guardian of the New Zealand Superannuation Fund and consulted to several industry superannuation funds.

Implement changes

The Strategic Review identified that certain enhancements to the Fund could be made. The RE believes these changes should benefit existing unitholders and may make the Fund more attractive to new investors. This may increase demand, which could assist in narrowing the Discount. These changes are described in the table below:

Changes	Benefits
Operational	
Implement Shanghai-Hong Kong Stock Connect trading platform	Shanghai-Hong Kong Stock Connect is a cross-border investment channel linking the Hong Kong and Shanghai stock exchanges allowing investors in each market to trade shares in the other using their local brokerages, subject to certain quotas. One of the benefits of utilising Shanghai-Hong Kong Stock Connect is that it will provide the Fund with enhanced liquidity for working capital purposes.
Alter the default DRP election to allow new investors to opt-in, rather than requiring them to opt-out	Historically the ‘opt-out’ default DRP election for investors was adopted because of concerns about the Fund having sufficient liquidity to pay distributions due to repatriation challenges. Whilst protective of liquidity, this had a somewhat dilutionary effect on NAV. The RE believes that accessing China A-shares through Shanghai-Hong Kong Stock Connect will provide sufficient liquidity to enable the RE to change the default election to ‘opt-in’ for new investors. This change should reduce the dilutionary impact of new issuances on NAV over time.[4]
Improve marketing of the Fund, including the appointment of a dedicated Head of Investor Relations	The RE believes that through enhanced marketing efforts of the Fund, investor demand for the Fund could increase, which may improve trading liquidity in the Fund’s units.
Governance and disclosure enhancements	
Establishment of an ongoing Advisory Committee (AC) composed of external members[5]	The RE has decided to continue on an ongoing basis the AC established to assist it in connection with the Strategic Review. The AC’s main role going forward will be to assist the RE in its review of strategic issues, including in situations of conflict and in determining whether the Fund continues to be fit for purpose. The purpose and function of the AC will be articulated in its charter, which will be made available to the public.
Enhance the Fund’s disclosure by providing daily NAV estimates and a breakdown of the Fund’s fees to make the underlying components more transparent	More frequent NAV disclosure increases transparency of the Fund’s performance. As investors better understand the components of the Fund’s fees the RE believes they will be able to better benchmark these fees against the cost of other investment opportunities.

[4] Existing investors will continue to have the opportunity to vary or cease participation in the DRP.

[5] External for the purposes of section 601JB of the Corporations Act

Options considered by the RE

Description	Key advantages	Key considerations/ disadvantages
Changes to the Fund (whilst retaining current structure)		
> Enhancements described above	> Increased transparency for the benefit of all unitholders > AC brings independent point of view to RE decision making through its consultative role > Shanghai-Hong Kong Stock Connect should provide greater liquidity to repatriate and/or reinvest capital > DRP opt-in might improve liquidity	> While these measures may increase demand, which could assist in narrowing the Discount, the exact extent is uncertain > Some incremental costs may be incurred by the RE and the Fund to implement and maintain the measures
Capital Management		
> One-off capital management; or > On-going capital management program	> Allows participating unitholders to realise the difference between the traded price and the NAV (less costs)	> Benefit only flows to participating selling unitholders > Capital actions by peers have not sustainably reduced the Discount over the long term > Potential reduction in Fund size could impact on the liquidity in trading in the Fund's units > Ongoing capital management actions have the potential to result in an eventual wind-up of the Fund
De-list the Fund		
> De-list the Fund to operate the Fund without access to on-market trading > To the extent possible, offer unitholders the option to cash out (at NAV less costs) or remain in the unlisted fund	> Gives an opportunity to exit the Fund at NAV (less costs) for those unitholders who no longer wish to invest in the de-listed fund > In comparison to a wind-up, it has the benefit of continuing to provide investors with exposure to the China A-share market	> The de-listed fund may need to be closed-end which would significantly limit liquidity > Depending on how many investors remain in the Fund (or any successor) once delisted, the Fund could be sub-scale > Could result in an eventual wind-up of the Fund > Potential friction costs in connection with the cash out option, particularly given recent increased volatility in the market and outstanding tax repatriation issues > Ability for unitholders to access the cash out option may be limited
Wind up the Fund		
> Wind up the Fund at NAV (less costs) and return funds to unitholders > The Fund would cease to exist post the wind-up	> Unitholders receive NAV (less costs) > Pro rata return to all unitholders	> Removes the current opportunity for Australian investors to access actively managed A$ exposure to the China A-share market (the Fund's core purpose) > Potential friction costs particularly given recent increased volatility in the market and outstanding tax repatriation issues > The timing of any orderly wind-up would be uncertain

Fund performance and drivers of the Discount

Drivers of the Discount

The RE believes that there is no single reason driving the Fund's Discount. However the RE believes there are structural features related to the Fund's substantial exposure to investments in the China A-share market which contribute to the Discount, including:

- The significant volatility within the China A-share market;
- The observed premium valuation of many individual China A-shares relative to their H-share listing as with many of the shares to which the Fund has exposure. H-shares refer to Chinese companies listed on the Hong Kong Stock Exchange; and
- Timing and taxation issues regarding repatriation of capital experienced by the Fund and many of its peers.[6]

Fund performance

The Strategic Review included peer benchmarking analysis of the Fund's operations and performance against peer funds. The RE considered that two funds should be classified as key Tier 1 peers[7] and six Funds should be classified as Tier 2 peers[8] – these funds have materially less China A-share exposure but are actively managed.

The key conclusions of the benchmarking analysis, which are summarised in the presentation attached, included:

- The Fund's NAV has outperformed its Tier 1 and Tier 2 peers over both the short and long term.[9] Although the Fund has not generally outperformed its benchmark index since inception.[10]
- The Fund's total unitholder return has generally outperformed its Tier 1 and Tier 2 peers over both the short and long term.[11]
- The Fund's current Discount (20.4%) is around the long-term average (19.6%) and is currently lower than its Tier 1 peers.[12]
- Significant capital management activity undertaken by Tier 1 and Tier 2 peers has not resulted in a material long-term change to the discount between NAV and trading price.

Next steps

The RE believes, at the present time, having conducted the Strategic Review and considered the views of a range of unitholders, that it is appropriate that the Fund continue in its current form.

It also believes that the changes to be made to the Fund will be of benefit to unitholders. The RE expects to implement the changes progressively over the coming six months.

If you would like more information or have any questions about this announcement, please do not hesitate to contact us.

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[6] Previously discussed in the Fund's Investor Update on 26 August 2015
[7] Tier 1 peers include: the HSBC China Dragon Fund and the Morgan Stanley China A Share Fund.
[8] Tier 2 peers include: Templeton Dragon Fund, JP Morgan China Region Fund, Aberdeen Greater China Fund, Fidelity China Special Situations, The China Fund, Inc. and JP Morgan China Investment Trust.
[9] As measured on a NAV total unitholder return basis (assuming distributions are reinvested) in the relevant local currency of each individual peer.
[10] For detailed analysis of the Fund's performance in comparison to its peers, please refer to slides 9 and 10 of the attached presentation.
[11] As measured on a total unitholder return basis (assuming distributions are reinvested) in the relevant local currency of each individual peer.
[12] For detailed analysis of the Fund's discount in comparison to its peers, please refer to slides 12 and 13 of the attached presentation.