AMP Capital China Growth Fund

ARSN 122 303 744

AMP CAPITAL

Quarterly report

30 SEPTEMBER 2015

Investment objective

The AMP Capital China Growth Fund aims to: achieve long-term capital growth with a focus on investing in China A shares, which are shares in companies listed on China's Shanghai or Shenzhen stock exchanges; and outperform the S&P/CITIC 300 Total Return Index (expressed in Australian dollars).The objectives do not include the payment of regular income to investors.

The AMP Capital China Growth Fund is listed on the Australian Securities Exchange under the code AGF.

Net Asset Value (NAV)^ per unit as at 30 September 2015	$1.52

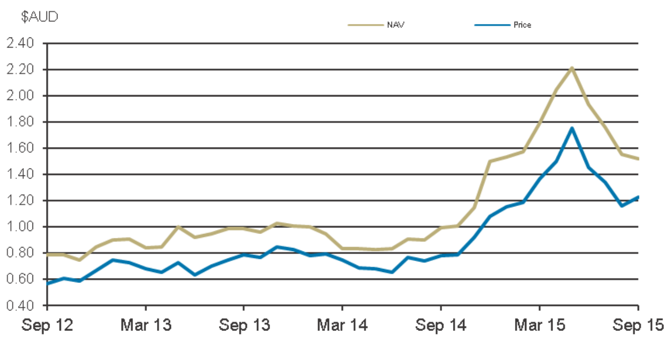
^ Calculated as at close of business.

AMP Capital China Growth Fund performance (in AUD) for the period ended 30 September 2015

	1 mth %	3 mth %	6 mth %	1 yr %	3 yr % pa	5 yr % pa	Since inception*
Net fund returns**	-2.2	-21.4	-14.8	57.7	28.2	12.7	9.7
Gross fund returns#	-1.9	-20.7	-13.7	60.6	30.5	14.9	11.6
Benchmark returns	-3.4	-22.3	-13.5	57.7	30.6	12.1	10.3

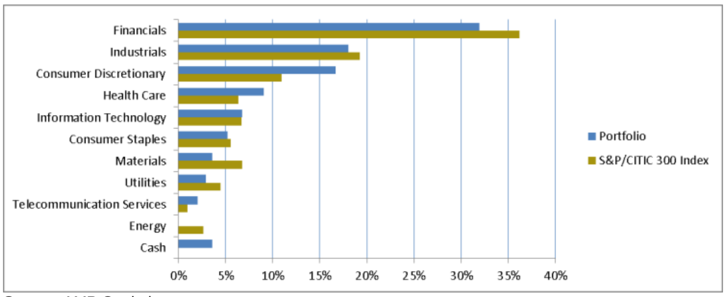
Source: AMP Capital. These returns assume distributions are reinvested. Past performance is not a reliable indicator of future performance.
* 10 January 2007.
** Net performance is calculated after fees, expenses and taxes.
*** Gross performance is calculated before fees, expenses and taxes.

AMP Capital China Growth Fund NAV and share price



Source: AMP Capital, Bloomberg. NAV figures are ex-distribution.

Sector allocation – % of total equity investments at 30 September 2015



Source: AMP Capital.

Twenty largest stock positions as at 30 September 2015

Stock	Sector	Industry	Weight (%)
Ping An Insurance Group Co of China Ltd	Financials	Insurance	4.64
China Merchants Bank Co Ltd	Financials	Commercial Banks	3.95
China Minsheng Banking Corp Ltd	Financials	Commercial Banks	3.25
CRRC Corp Ltd	Industrials	Machinery	3.23
Shanghai Pudong Development Bank Co Ltd	Financials	Commercial Banks	2.76
Jiangsu Hengrui Medicine Co Ltd	Health Care	Pharmaceuticals	2.66
Industrial Bank Co Ltd	Financials	Commercial Banks	2.07
China International Travel Services Co Ltd	Consumer Discretionary	Hotels Restaurants & Leisure	2.06
China United Network Communications Group Co Ltd	Telecommunication Services	Wireless Telecomm Services	2.04
China Everbright Bank Co Ltd	Financials	Commercial Banks	2.03
China CYTS Tours Holding Co Ltd	Consumer Discretionary	Hotels Restaurants & Leisure	2.01
GD Power Development Co Ltd	Utilities	Indept Power Prod & Energy Trading	1.86
Bank of Communications Co Ltd	Financials	Commercial Banks	1.61
Inner Mongolia Yili Industrial Group Co Ltd	Consumer Staples	Food Products	1.54
Guangdong Alpha Animation and Culture Co Ltd	Consumer Discretionary	Leisure Equipment & Products	1.44
China South Publishing & Media Group Co Ltd	Consumer Discretionary	Media	1.44
Jiangsu Changjiang Electronics Technology Co Ltd	Information Technology	Semiconductors & Semicon Equipment	1.41
Shanghai International Airport Co. Ltd	Industrials	Transportation Infrastructure	1.40
China Vanke Co Ltd	Financials	Real Estate Mgt & Development	1.38
Haitong Securities Co Ltd	Financials	Capital Markets	1.37
Total			**44.17**

Source: AMP Capital.

Fund performance

The China A-share market fell 22.3% in Australian dollar terms in the third quarter of 2015, as market volatility continued, amid renewed investor worries regarding Chinese macro-economic weakness. The Fund outperformed the benchmark by 1.6% (before fees).

After consecutive double-digit monthly declines in July (-12.5%) and August (-14.34%), the A-share market entered a tighter trading zone in September (-4.78%). Daily swings of 2-5% became the new norm in China A-shares and investors remained wary on the market, resulting in a continuous decline in trading volumes.

China's government responded with measures designed to stabilise the stock market, including using state-owned institution China Securities Finance Corporation to purchase shares, halting new initial public offerings, and encouraging state-owned enterprises (SOEs) to execute share buybacks. On one extreme day, around half of China-listed companies (48% of the total, or 1,378 companies out of 2,873) were voluntarily suspended for a range of reasons. The number of suspended companies subsequently dropped to around 400, reflecting early success of the latest government measures to stabilise the market.

The biggest contributors to Fund performance were our underweights in the energy and material sectors, which declined amid the market sell-off. Our underweight in financials, reflecting the soft macroeconomic environment and weak earnings growth, also proved beneficial. Stock selection in the healthcare sector was another key contributor.

In terms of detractors, our exposure to the media sector contributed negatively to Fund performance, as investors shunned riskier stocks with high valuations.

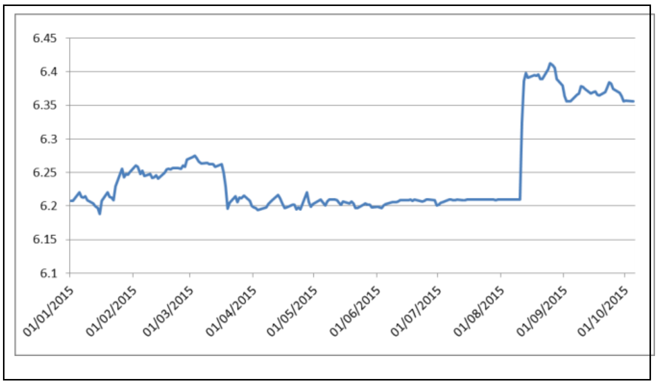
We believe the sharp pullbacks were significant price corrections for the Chinese share market, rather than any ominous sign for China's economic growth. Companies with merger and acquisition angles and internet-driven business models will be favoured by investors. Following the market falls, investors will pay close attention to policy changes (and tone) as well as growth recovery signals.

Market commentary

The major event for the quarter was the unexpected one-off weakening of the renminbi by around 2% on 10 August, to reflect changes in the way the People's Bank of China (PBOC) calculates the daily fix. The fixing mechanism now takes into account the closing spot rate of the previous day, meaning that market participants play a greater role in determining the renminbi's initial trading level.

The People's Bank of China (PBOC) stated that this was a one-off revision and that the new fixing mechanism would be more market-orientated. We believe the move was reasonable, as the mid-point fix had long deviated from market rates, affecting its benchmark role and authority. The change also paves the way for the renminbi to join the International Monetary Fund's Special Drawing Rights currency basket (lack of exchange rate flexibility had previously been highlighted as a technical barrier to the renminbi's inclusion).

<u>One-off adjustment in renminbi exchange rate versus the US dollar</u>



Source: Bloomberg

On the macroeconomic front, the latest purchasing managers' index reading was the lowest since 2009. Similarly, economic data such as domestic and export orders, output/input prices and employment declined at an increased pace. Foreign exchange reserves fell US$43.3 billion to US$3.514 trillion by the end of September. Several rounds of reserve ratio and interest rate cuts were delivered by the PBOC over the past few months in an effort to boost domestic demand. In addition, in order to stimulate consumption and support GDP growth, at the end of the quarter China's government announced policies to encourage demand for automobiles (tax cut) and property (relaxing mortgage down-payment rules).

Meanwhile, the long-awaited SOE reform scheme was announced. One of the key measures was to encourage mixed ownership by bringing in private investments.

On the global front, the US Federal Open Market Committee (FOMC) meeting outcome was unambiguously dovish, as the benchmark Federal Funds Rate was kept near zero. This reflected heightened concerns regarding international and financial market developments. Compared with the June meeting, most FOMC participants lowered their projections for the Federal Funds Rate at the end of this year and beyond. Three factors were behind the shift: (1) downside risks to global growth; (2) tighter financial conditions, and; (3) negative news on inflation.

In contrast, some Asian countries remained in monetary easing mode. Taiwan's central bank surprised the market by announcing its first interest rate cut in six years – reducing its rate by 12.5 bps, from 1.875% to 1.750%. Similarly, the Reserve Bank of India unexpectedly cut its policy rate, by 50 bps.

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