ASIAN MASTERS FUND
QUARTERLY INVESTMENT UPDATE (SEPTEMBER 2016)

HIGHLIGHTS[1]

- The MSCI Asia ex Japan Index (the Index) surged 7.0% in AUD terms in the September quarter.
- Net tangible assets (NTA) backing per share returned +3.8% in the June quarter. AUF's performance lagged the MSCI Asia ex Japan Index's return as consumer staples stocks underperformed during the quarter.
- The Australian dollar (AUD) appreciated against all Asia ex Japan currencies in the September quarter except the Korean won.

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 four 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 Asia and 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.

In our mind, an index is simply a reflection of the largest part of the investment opportunity in any particular market, although it is 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 will almost certainly 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 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.

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

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, AUF's portfolio differs markedly from the MSCI Asia ex Japan Index. At the underlying portfolio level, over half of stocks in the portfolio are not even represented in the MSCI Asia ex Japan 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 REVIEW[1]

Asia ex Japan markets posted healthy returns in the third quarter of 2016 (Q3), outperforming global peers on the back of strong inflows from foreign investors. 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), Japan and other Asian countries. A weaker US dollar (USD) and more stable commodity prices also supported equity markets. The MSCI Asia ex Japan Index surged 7.0%, while returns in USD terms were significantly higher (+10.1%) as the AUD appreciated 2.9% against the USD in Q3. In general, the more cyclical North Asian markets outperformed amid a rotation from quality to value stocks, while performance of the Southeast Asian markets were mixed.

Hong Kong was the best performing market in the region, gaining 9.7% in Q3. Equities rose for three consecutive months on the back of better-than-expected second quarter (Q2) gross domestic product (GDP) growth, reported at 1.7% year-on-year (yoy), compared with +0.8% in the previous quarter, and a strong property market.

Taiwan (+8.9%) exhibited strong performance backed by significant inflows from overseas investors. Market sentiment improved significantly after the economy rebounded from a recession with Q2 GDP growing at 0.7% yoy against a contraction of 0.3% in the first quarter of 2016. A notable appreciation of the Taiwanese dollar and strong demand for the iPhone 7 also supported the market.

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.

Vietnam surged 6.3% amid a better-than-expected Q3 GDP growth at 6.4% yoy, supported by higher foreign direct investments, rising exports and a recovery of the agriculture sector. Korean equities rose 5.6% on the back of strong foreign inflows amid better corporate earnings and economic performance in Q2. Investors have also been positive about improvements in corporate governance by Korean companies.

Indonesia (+5.3%) also performed well on better-than-expected Q2 GDP growth, an interest rate cut in September and positive political developments indicating that President Jokowi has strengthened his political base. A cabinet reshuffle with the appointment of Sri Mulyani Indrawati as Finance Minister was well received by the market. The first phase of the tax amnesty program, intended to increase tax collection revenue, progressed better-than-expected.

Thailand (+2.3%) also posted positive returns but underperformed the Index. On 7 August, Thai voters approved a draft constitution written by a military-appointed committee. The military now plans to hold a general election by the end of next year.

India (+2.0%) advanced with modest gains. 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.

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

Singapore declined 1.2% in Q3 amid a sense of policy and market drift, with few companies exhibiting growth breakouts. Malaysia declined 5.3% as the currency depreciated significantly amid developments of the corruption scandal involving the 1Malaysia Development Bhd sovereign wealth fund. A weaker-than-expected GDP growth and speculation of early general elections also weighed on investor sentiment. The central bank lowered interest rates by 25 basis points (bps) in July to support growth against a backdrop of low and stable inflation.

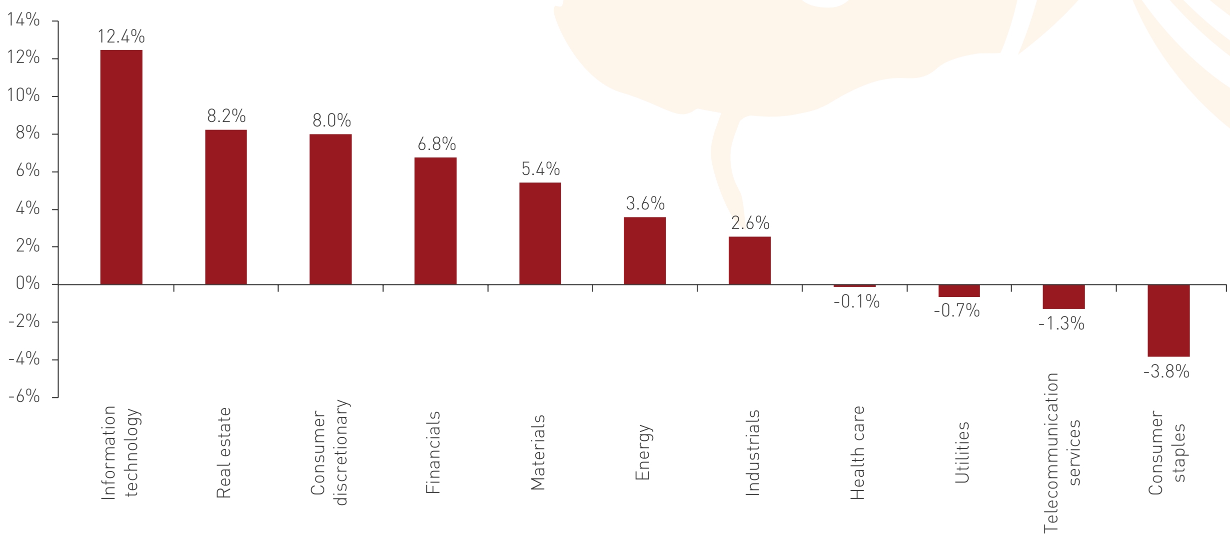
The Philippines (-6.7%) was the worst performing market in the region on the back of significant foreign outflows. Investors remained nervous due to President Rodrigo Duterte's constant flow of controversial statements against foreign leaders and a widespread criticism for his anti-drug policies. In September, the Philippine peso declined to its lowest level against the USD in seven years. However, the economy continues to perform well, with better-than-expected Q2 GDP growth reported at 7.0% yoy, the strongest since Q2 2013.

PERFORMANCE OF ASIAN SHARE MARKETS IN THE SEPTEMBER QUARTER

Index	Local Currency	Australian Dollars
Hang Seng (Hong Kong)	12.9%	9.7%
Taiex (Taiwan)	8.9%	8.9%
Hang Seng China Enterprises (China H-Shares)	10.6%	7.5%
MSCI Asia ex Japan	**10.1%**	**7.0%**
Ho Chi Minh (Vietnam)	9.4%	6.3%
Kospi (Korea)	3.7%	5.6%
JCI (Indonesia)	7.1%	5.3%
SET (Thailand)	3.7%	2.3%
Sensex (India)	3.6%	2.0%
CSI300 (China A-Shares)	4.5%	1.4%
Straits Times (Singapore)	2.7%	-1.2%
KLCI (Malaysia)	0.8%	-5.3%
PSEi (Philippines)	-1.7%	-6.7%

Source: Bloomberg, Walsh & Company Asset Management Pty Limited

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

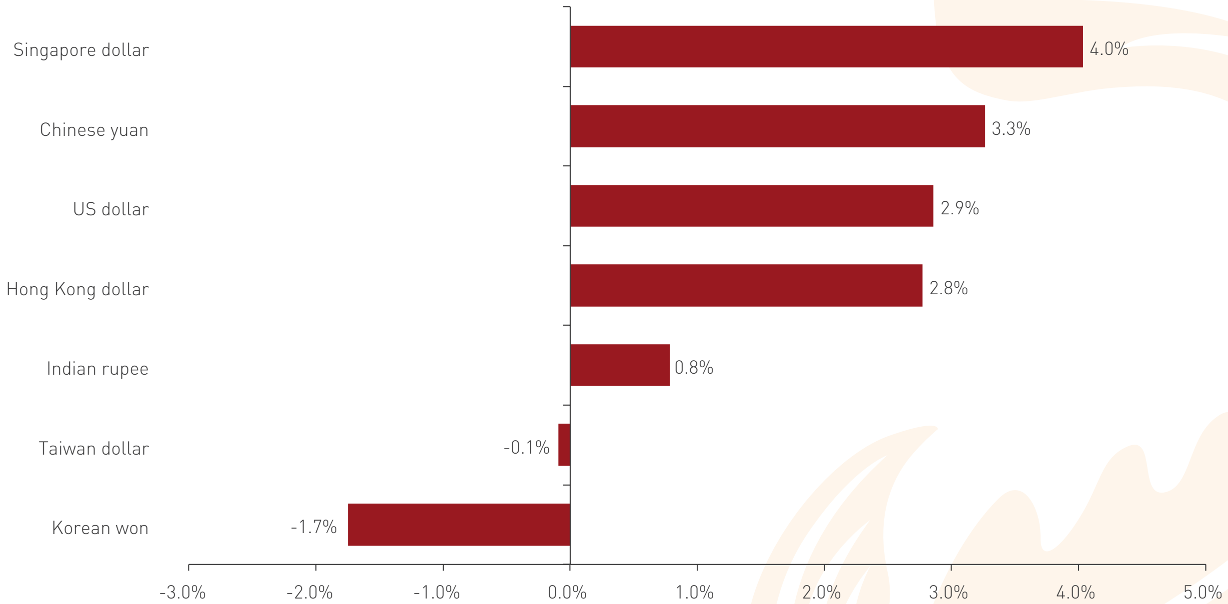


Source: Bloomberg, Walsh & Company Asset Management Pty Limited

ASIAN MASTERS FUND

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 all Asia ex Japan currencies, except the Korean won, despite an interest rate cut by the Reserve Bank of Australia (RBA). The RBA unexpectedly 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 Singapore dollar (+4.0%), Chinese yuan (+3.3%), US dollar (+2.9%) and Hong Kong dollar (+2.8%).

The Fed's dovish stance during Q3 resulted in a weakening of the USD against all Asia ex Japan currencies, except the Philippine peso and the Malaysian ringgit.

ASIAN MASTERS FUND (ASX: AUF) OVERVIEW

AUF listing date	December 2007
Net assets ($m)	$169.6
NTA per share (September 2016)	$1.27
Number of securities held by underlying funds	507

Source: Walsh & Company Asset Management Pty Limited

ASIAN MASTERS FUND

AUF PERFORMANCE

From 30 June to 30 September 2016, AUF's net tangible asset backing per share returned +3.8%. AUF has performed strongly since inception, outperforming the Index by 31.7%.

Performance (AUD)	September Quarter	6 Months	1 Year	3 Years	5 Years	Since AUF Inception
AUF*	3.8%	7.2%	-1.7%	30.6%	68.1%	56.9%
MSCI Asia ex Japan Index	7.0%	10.7%	6.9%	35.0%	77.1%	25.2%
Relative**	-3.2%	-3.5%	-8.7%	-4.4%	-9.0%	31.7%

* 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 June 2016	Weight at 30 Sep 2016
Arisaig Asia Consumer Fund	Asian consumer specialist	16.6%	15.2%
Steadview Capital Fund	Country specialist – India	11.6%	10.9%
CK Absolute Return Fund	Country specialist – Korea	9.6%	9.5%
Asian Opportunities Absolute Return Fund	Asian region	8.7%	8.2%
Prusik Asian Smaller Companies Fund	Asian small cap specialist	7.8%	7.7%
JPMorgan Taiwan Fund	Country specialist – Taiwan	7.4%	7.3%
Cephei QFII China Absolute Return Fund	Country specialist – China	7.1%	7.2%
Wells Fargo China Equity Fund	Country specialist – China	5.8%	6.9%
APS China A-Share Fund	Country specialist – China	6.4%	6.5%
NCC China A-Share Fund	Country specialist – China	6.7%	6.3%
Asia New Stars No.1 Fund	Asian small cap specialist	6.1%	6.1%
AllianceBernstein Asia ex-Japan Fund	Asian region	4.1%	5.5%
Komodo Fund	Country Specialist – Indonesia	-	1.9%
Cash*		1.9%	0.9%
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

ASIAN MASTERS FUND

COUNTRY ALLOCATION

Indicative look-through country allocation mix at 30 September 2016:

Country	AUF Weight	MSCI Asia ex Japan Index Weight	Active Weight**
China	34.4%	31.4%	2.9%
India	20.0%	9.9%	10.1%
Korea	15.1%	17.3%	-2.2%
Taiwan	12.8%	14.2%	-1.4%
Hong Kong	3.8%	12.3%	-8.5%
Philippines	3.6%	1.6%	2.0%
Indonesia	3.4%	3.2%	0.2%
Vietnam	2.4%	-	2.4%
Thailand	1.3%	2.6%	-1.3%
Singapore	0.9%	4.5%	-3.5%
Pakistan	0.7%	-	0.7%
Malaysia	0.6%	3.1%	-2.5%
Other	0.1%	-	0.1%
Cash*	0.9%	-	0.9%
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	20.3%	27.7%	-7.4%
Consumer staples	19.9%	5.2%	14.7%
Consumer discretionary	19.4%	9.5%	10.0%
Industrials	12.3%	7.9%	4.4%
Financials	9.2%	23.5%	-14.3%
Health care	5.6%	2.5%	3.2%
Materials	4.7%	4.2%	0.6%
Utilities	2.5%	3.7%	-1.2%
Real estate	2.3%	6.1%	-3.8%
Telecommunication services	1.9%	5.8%	-3.9%
Energy	0.9%	4.0%	-3.2%
Cash*	0.9%	-	0.9%
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

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

	Company	Country	Weight
1	Samsung Electronics Co Ltd	Korea	2.2%
2	Page Industries Ltd	India	1.6%
3	Eicher Motors Ltd	India	1.4%
4	ANI Technologies Pvt Ltd	India	1.3%
5	Philippine Seven Corp	Philippines	1.3%
6	Foshan Haitian Flavouring and Food Co Ltd	China	1.1%
7	Jiangsu Hengrui Medicine Co Ltd	China	1.0%
8	Britannia Industries Ltd	India	1.0%
9	Midea Group Co Ltd	China	1.0%
10	Kweichow Moutai Co Ltd	China	0.9%
11	Nestle India Ltd	India	0.9%
12	Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	0.9%
13	Yes Bank Ltd	India	0.9%
14	Flipkart Online Services Pvt Ltd	India	0.9%
15	Tencent Holdings Ltd	China	0.9%
16	Godrej Consumer Products Ltd	India	0.9%
17	Vietnam Dairy Products JSC	Vietnam	0.8%
18	Wangsu Science & Technology Co Ltd	China	0.8%
19	Hangzhou Hikvision Digital Technology Co Ltd	China	0.8%
20	Marico Ltd	India	0.8%
21	IndusInd Bank Ltd	India	0.8%
22	China Originwater Technology Co Ltd	China	0.7%
23	Colgate Palmolive India Ltd	India	0.7%
24	Zhengzhou Yutong Bus Co Ltd	China	0.7%
25	Orion Corp	Korea	0.7%
26	Vitasoy International Holdings Ltd	Hong Kong	0.7%
27	Jiangsu Kangde Xin Composite Material Co Ltd	China	0.6%
28	Cafe De Coral Holding Ltd	Hong Kong	0.6%
29	Jollibee Foods Corp	Philippines	0.6%
30	Kajaria Ceramics Ltd	India	0.6%
31	Trent Ltd	India	0.6%
32	Largan Precision Co Ltd	Taiwan	0.6%
33	Naver Corp	Korea	0.5%
34	Alibaba Group Holding Ltd	China	0.5%
35	Hota Industrial Manufacturing Co Ltd	Taiwan	0.5%

	Company	Country	Weight (%)
36	Mobile World Investment Corp	Vietnam	0.5%
37	Astral Polytechnik Ltd	India	0.5%
38	Yonghui Superstores Co Ltd	China	0.5%
39	Wistron NeWeb Corp	Taiwan	0.5%
40	China Water Affairs Group	Hong Kong	0.5%
41	Unilever Indonesia Tbk	Indonesia	0.5%
42	LG Chem Ltd	Korea	0.5%
43	Amorepacific Corp	Korea	0.5%
44	Fujian Dali Group Co Ltd	China	0.5%
45	PVR Ltd	India	0.5%
46	China CAMC Engineering Co Ltd	China	0.5%
47	Beijing Venustech Inc	China	0.5%
48	Lepu Medical Technology Beijing Co Ltd	China	0.4%
49	Industrial and Commercial Bank of China Ltd	China	0.4%
50	Nestle Pakistan Ltd	Pakistan	0.4%
	Total		**37.6%**

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.

ASIAN MASTERS FUND

AUF BOARD OF DIRECTORS

John Holland

Max Walsh

Alex MacLachlan

June Aitken

Christopher Lee

DISCLAIMER

This Quarterly Update (Update) has been prepared by Walsh & Company Asset Management as Investment Manager of the Asian Masters Fund (Company).

An investment in the Company is subject to various risks, many of which are beyond the control of the Investment Manager and the Company. The past performance of the Company is not a guarantee of the future performance of the Company.

This Update contains statements, opinions, projections, forecasts and other material (forward looking statements), based on various assumptions. Those assumptions may or may not prove to be correct. None of the Investment Manager and the Company, their officers, employees, agents, analysts nor any other person named in this Update makes any representation as to the accuracy or likelihood of fulfilment of the forward looking statements or any of the assumptions upon which they are based.

This Update may contain general advice. Any general advice provided has been prepared without taking into account your objectives, financial situation or needs. Before acting on the advice, you should consider the appropriateness of the advice with regard to your objectives, financial situation and needs, and consider obtaining advice from a financial advisor. You should obtain a copy of the relevant Prospectus or offer document before making any decisions to purchase the product.