ASIAN MASTERS FUND

QUARTERLY INVESTMENT UPDATE (JUNE 2010)

EQUITY MARKET REVIEW

Asian markets fell during the June quarter, with the MSCI Asia Ex Japan Index posting a loss of 2.9% in local currency terms. However, for Australian investors, this loss translated into a gain of 3.1% in Australian dollars, as a falling Australian dollar more than offset equity market falls. The bulk of the falls occurred in May when further tightening measures undertaken by the People's Bank of China led to fears of a hard landing for the Chinese economy. Increased uncertainty about the ability of European countries to fund their public debt obligations as well as concerns around the health of the European banking system also resulted in investor risk aversion rising, further impacting flows into Asian equities.

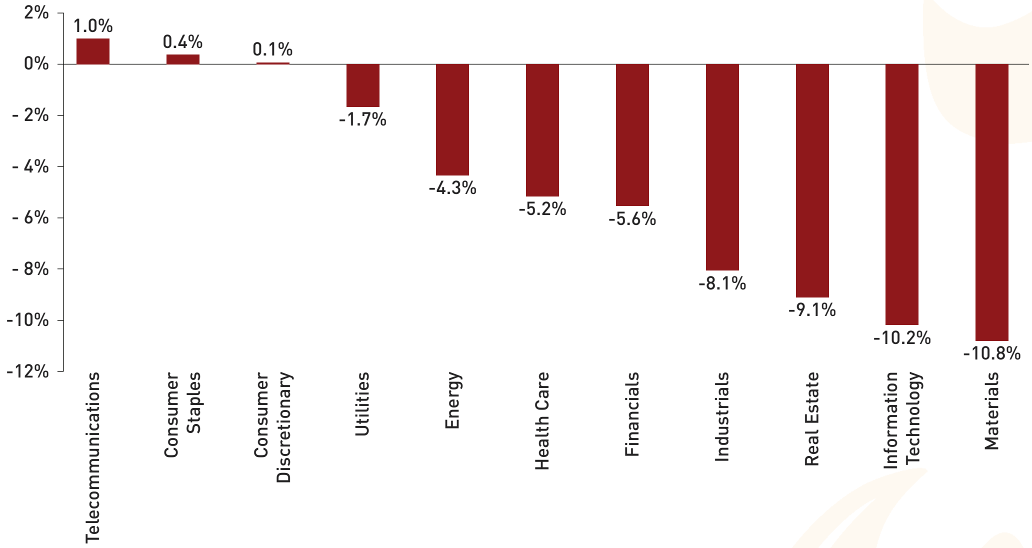
Despite the headwinds Asia strongly outperformed the developed world over the June quarter, with the MSCI World Index falling by 12.5%. Europe was again the laggard posting a decline of 14.7%. The US also declined by 11.4% whilst Japan fared only a little better, falling by 9.3% (all in US dollars).

PERFORMANCE OF ASIAN SHARE MARKETS IN THE JUNE QUARTER

	Local Currency	Australian Dollars
Shanghai Composite (China A-Shares)	-22.0%	-14.9%
Taiwan Taiex (Taiwan)	-7.4%	-0.8%
Straits Times (Singapore)	-0.6%	7.9%
Hang Seng China Enterprises (China H-Shares)	-5.5%	2.2%
KLCI (Malaysia)	0.5%	9.7%
Hang Seng (Hong Kong)	-3.5%	4.3%
JCI (Indonesia)	6.1%	15.6%
Stock Exchange Thailand (Thailand)	3.1%	11.5%
Sensex (India)	1.8%	6.7%
Kospi (Korea)	0.3%	0.7%
PSEi (Philippines)	7.6%	12.2%
Ho Chi Min (Vietnam)	2.5%	11.3%
MSCI Asia Ex Japan	-2.9%	3.1%

The June quarter was once again led by the smaller peripheral Asian markets including Indonesia, Philippines, Thailand and Vietnam. Relative to other Asian countries, these are more domestically oriented economies that are less impacted by lower demand for exports from Europe. In contrast, Greater China (China-A, China-H, Hong Kong, Taiwan) stock markets were the worst performing in Asia, especially the Chinese domestic A-Shares market. In fact, for much of 2010, it has been the ASEAN group (Indonesia, Malaysia, the Philippines, and Thailand) that has led share market returns in Asia.

PERFORMANCE OF THE SECTORS WITHIN THE MSCI ASIA EX JAPAN INDEX OVER THE JUNE QUARTER

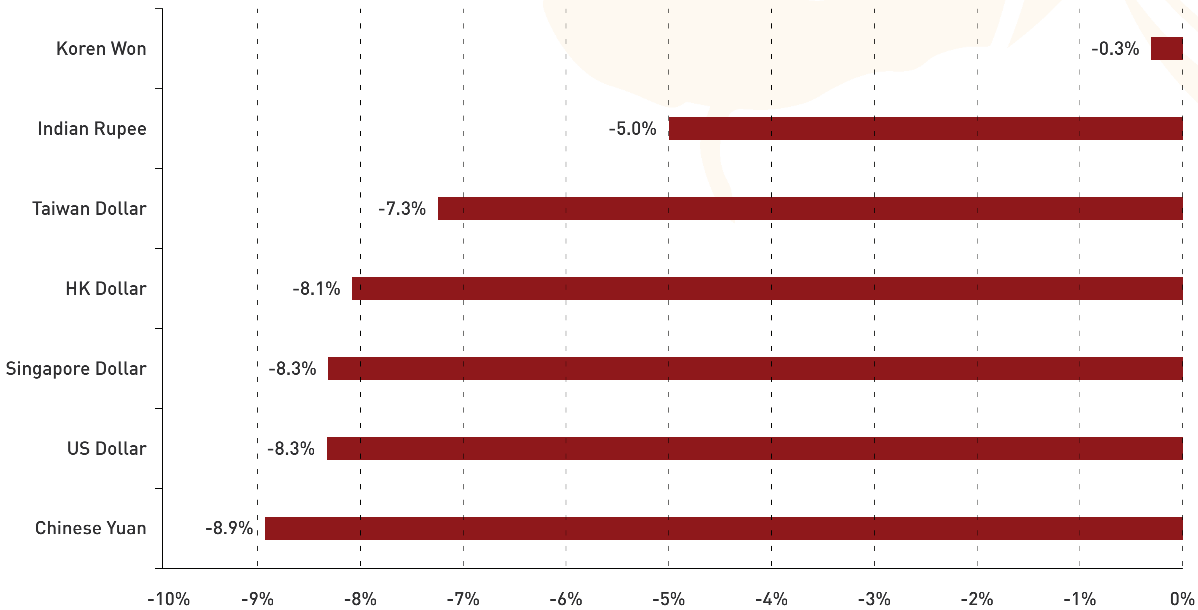


The defensive, higher yielding sectors such as the telecommunications, utilities and the consumer sectors were the market leaders over the June quarter, in particular the car and car parts makers as well as household product producers. Falling commodity prices drove down the materials sector, especially metals, mining and forestry product stocks. Other cyclical sectors such as information technology and industrials also suffered.

CURRENCY MARKET REVIEW

The Australian dollar, along with other commodity currencies, was a victim of increased risk aversion during the quarter with positions being unwound in favour of perceived safe havens like the US dollar, the Japanese yen, and the Swiss franc. Hence, the Asian currencies, many of which are pegged to the US dollar, also rose against the Australian dollar. Further boosting Asian currencies was the June announcement by the Chinese government that it would be "de-pegging" the yuan from the US dollar and reverting to a more flexible exchange rate policy pegged to a basket of currencies. As a result, the Chinese currency gained 0.7% against the US dollar following the announcement.

PERFORMANCE OF AUSTRALIAN DOLLAR AGAINST VARIOUS ASIAN CURRENCIES OVER THE JUNE QUARTER



ASIAN MASTERS FUND (ASX: AUF) OVERVIEW

AUF Listing Date	**December 2007**
Total Assets ($m)	**102.4**
NTA per Share (30 June 2010)	**$1.007**
Number of securities held	**555**

AUF PERFORMANCE

For the period 31 March 2010 to 30 June 2010, the unaudited pre-tax NTA of the Asian Masters Fund ("AUF") increased by 1.6%. During the month of June AUF paid shareholders a dividend of $0.01 per share, bringing the total return of AUF over the June quarter to 2.6%. This represents an underperformance relative to the MSCI Asia ex Japan Index of 0.4%. As shown below, AUF has performed very strongly since inception, generating an outperformance relative to the index of 26.2%.

	Since AUF listing	June quarter
AUF	6.6%	2.6%
MSCI Asia ex Japan Index	-19.6%	3.1%
Out (Under) performance	26.2%	-0.4%

UNDERLYING MANAGERS

AUF currently has investments in 14 leading funds that provide exposure across a number of Asian markets. There have been no changes to the manager line up since the end of the March quarter.

Manager	Mandate	Weight as at 31/03/2010	Weight as at 30/06/2010
Value Partners High Dividend Yield Fund	Asian Region	14.7%	15.4%
Aberdeen Asian Opportunities Fund	Asian Region	11.7%	12.5%
Value Partners Taiwan Fund	Country specialist	10.3%	10.4%
HSBC India Fund	Country specialist	9.5%	9.8%
Invesco Greater China Fund	Country specialist	8.0%	8.0%
Treasury New Asia Fund	Asian Region	6.0%	6.0%
JF Korea Fund	Country specialist	5.1%	4.9%
Legg Mason Asian Enterprise Fund	Asian Region	5.0%	4.9%
Comgest Growth Asia ex Japan Fund	Asian Region	4.8%	4.8%
Invesco PRC Fund	Country specialist	4.5%	4.4%
Lion Global Singapore Malaysia Fund	Country specialist	3.8%	4.0%
Phillip Capital Thai Fund	Country specialist	3.1%	3.2%
Aberdeen China Opportunities Fund	Country specialist	3.0%	3.1%
Lion Global Vietnam Fund	Country specialist	2.4%	2.5%
Cash*		8.1%	6.0%

*Excludes any cash held by underlying investment managers.

ASIAN MASTERS FUND

COUNTRY ALLOCATION

The table below reflects the indicative look through country allocation mix as at 30 June 2010.

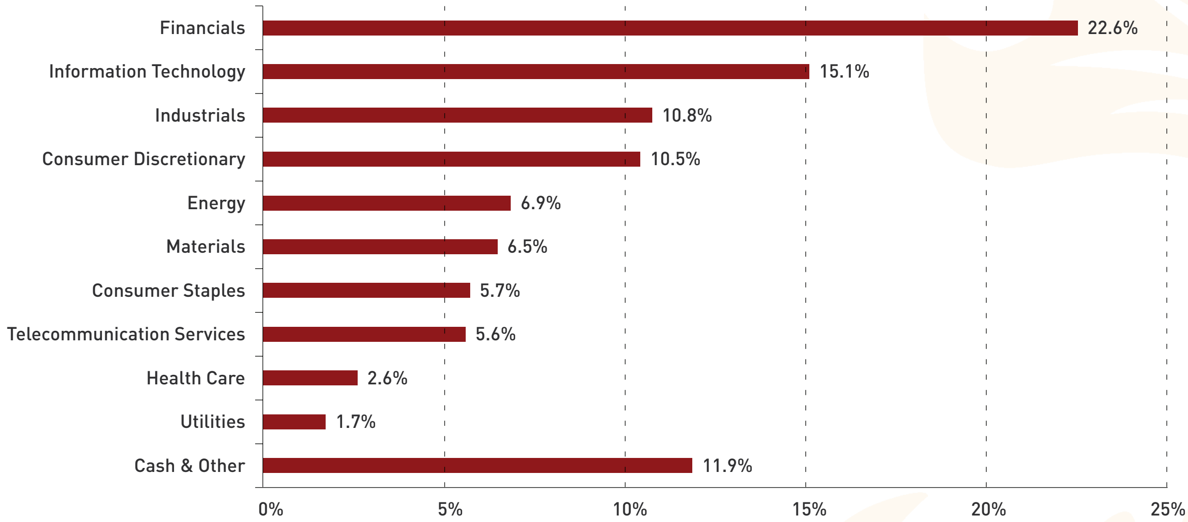
	Gross invested position	Invested position net of cash		
	AUF Weight	**AUF Invested**	**Index Weight**	**Active Weight**
China	20.9%	24.4%	25.5%	-1.1%
Taiwan	14.4%	16.9%	15.4%	1.5%
India	11.8%	13.8%	11.2%	2.6%
Hong Kong	9.8%	11.4%	11.1%	0.3%
Korea	8.6%	10.1%	19.3%	-9.2%
Singapore	7.9%	9.3%	7.1%	2.2%
Thailand	3.8%	4.5%	2.1%	2.4%
Malaysia	2.7%	3.2%	4.1%	-0.9%
Vietnam	2.6%	3.1%	0.0%	3.1%
Indonesia	0.9%	1.1%	3.3%	-2.3%
Philipines	0.5%	0.6%	0.7%	-0.1%
Sri Lanka	0.1%	0.1%	0.0%	0.1%
Pakistan	0.0%	0.0%	0.2%	-0.2%
Australia	1.3%	1.5%	0.0%	1.5%
Other	0.5%	0.5%	0.0%	0.5%
Gold	2.7%			
Cash	11.3%			

*Includes cash held by underlying investment managers plus cash held directly by AUF.

China, at 24.4% remains the biggest absolute country position in the fund. The bulk of this investment comes from the three China country funds (Invesco PRC Fund, Invesco Greater China Fund and Aberdeen China Opportunities Fund) and the Value Partners High Dividend Fund which has a 48% weighting in China. Greater China, which includes Hong Kong and Taiwan, accounts for 52.7% of the invested portion of the fund, which is a slight overweight to the index position, and reflects the Manager's view that with China's continued sound economic performance – China's latest gross domestic product growth figures show economic growth of 10.3% year on year – fears of a hard landing may be overstated. In any case, the long term secular growth story of China remains in place, with Taiwan and Hong Kong positioned to benefit greatly. In terms of relative positions the biggest country overweights are to Vietnam, which is an ex-benchmark position where AUF has a dedicated country manager – Lion Global. Vietnam tends to be less correlated to other Asian markets and provides another level of diversification to the fund, with investments in stocks that are outside the benchmark which other Asia funds tend to avoid. The other main overweight positions are in India, Thailand and Singapore. Korea remains the largest underweight position in the fund. Korea is one of the markets which is more sensitive to Western economic performance. The prospect of years of slow growth in Europe owing to harsh austerity packages being adopted coupled with the US consumer still deleveraging makes Korea a relatively higher risk investment at current valuation levels.

ASIAN MASTERS FUND

SECTOR ALLOCATION



*Note: Cash & Other includes cash held by underlying investment managers plus cash held directly by AUF and unclassified underlying investments.

TOP 50 HOLDINGS

	Company Name	Weight
1	CHINA MOBILE LTD	2.00%
2	HON HAI PRECISION CO	1.91%
3	SAMSUNG ELECTRONICS	1.49%
4	CNOOC LTD	1.34%
5	TSMC MFG. CO. LTD	1.27%
6	PETROCHINA COMPANY LTD	1.27%
7	CHINA CONSTRUCTION BANK	1.15%
8	BOART LONGYEAR LIMITED	1.08%
9	CAIRN ENERGY	1.07%
10	JARDINE STRATEGIC HLDG	0.97%
11	COMPAL ELECTRONICS. INC	0.90%
12	OVERSEAS CHINESE BANK	0.88%
13	SWIRE PACIFIC (A)	0.79%
14	STANDARD CHARTERED	0.78%
15	ICBC – A	0.78%
16	CHINA LIFE INSURANCE – A	0.74%
17	CHINA SHINEWAY PHARMACEUTICAL	0.72%
18	SINGAPORE TELECOMMUNICATIONS	0.71%
19	UNITED OVERSEAS BANK	0.67%
20	JINDAL STEEL & POWER	0.65%
21	PTT EXPLORATION & PRODUCTION	0.65%
22	SUN HUNG KAI PROPERTIES	0.63%
23	KINGBOARD CHEMICAL	0.63%

TOP 50 HOLDINGS CONT...

	Stock Name	AUF Weight
24	MARUTI UDYOG	0.59%
25	ASUSTEK COMPUTER INC	0.59%
26	DBS GROUP HOLDINGS LTD	0.58%
27	HCL TECHNOLOGIES	0.57%
28	HOTAI MOTOR CO. LTD	0.56%
29	CIMB GROUP HLDG BHD	0.53%
30	BOC HONG KONG	0.53%
31	CATHAY FINANCIAL HLDG	0.51%
32	DONGFENG MOTOR GROUP	0.51%
33	ICICI BANK	0.50%
34	CITY DEVELOPMENTS LTD	0.50%
35	ZHEJIANG EXPRESSWAY CO	0.50%
36	CHOW SANG SANG HOLDING	0.50%
37	E-LIFE MALL CORP	0.49%
38	DR REDDYS LABS	0.47%
39	BHARTI AIRTEL	0.47%
40	SINGAPORE TECHNOLOGIES	0.46%
41	THE LINK REAL ESTATE	0.46%
42	SHINHAN FIN GP CO	0.42%
43	HANG LUNG GROUP LTD	0.41%
44	SHINSEGAE CO. LTD	0.41%
45	SIAM CEMENT CO. THE	0.41%
46	CHINA VANKE – A	0.39%
47	UNI-PRESIDENT CHINA HOLDINGS	0.38%
48	CHICONY ELECTRONICS CO	0.37%
49	DAH SING BANKING GROUP	0.37%
50	UNITECH LIMITED	0.37%
	Top 50 stocks	**35.94%**
	Other 505 stocks	**52.76%**
	Cash	**11.30%**
	TOTAL	**100.00%**

MARKET PERSPECTIVES

Whilst Asian equity market performance has been muted it has been less negative than most other share markets worldwide. Underlying Asian economies continue to perform well albeit at a slightly slower, but more sustainable pace than in previous quarters. We are now well into the cycle of monetary policy stimulus withdrawal in Asia, a sign these economies have returned to pre-crisis activity levels. So far central banks in India, Malaysia, South Korea, Taiwan and Thailand have raised policy rates. As a way to remove excess liquidity policy makers in China, India and the Philippines have raised bank reserve requirements as well as undertaken other measures to drain liquidity from the system. These are smart moves from Asian policymakers which appear to have moderated inflation pressures that were building earlier in the year, though more work is likely required on this front.

Some commentators believe tightening measures in China will lead to a hard landing for the Chinese economy. While China certainly has some challenges in front of it, signs are that a hard landing is unlikely to occur. This is emphasized by the previously mentioned latest June quarter Chinese economic growth number of 10.3% year on year. The days of consistent Chinese economic growth in excess of 10% are probably over, but we still expect China to deliver sound economic growth for several more years. In fact, based on IMF figures, China alone will account for some 34% of global economic growth in the 2008 to 2012 period.

Also in June, Taiwan and China signed the Economic Cooperation Framework Agreement (ECFA). This marked an historic milestone between the two countries with regard to closer cross-strait economic integration. While the full impact of the ECFA on the Taiwan economy will take time to roll out, we believe its long-term impact will be immense and should not be underestimated. This is a sign of things to come for not just Taiwan, but many other Asian countries which stand to benefit greatly from increased economic ties with China.

With most Asian markets having drifted lower so far in 2010 (and with earnings generally higher), valuations on Asian stocks have moved to a level at or slightly below their long-term average, depending on which measure is used, and we believe are very supportive in general.

FUND MANAGER PROFILE: COMGEST

Comgest was founded in 1986 and is 100% employee-owned, with approximately $11 billion in assets under management primarily in Asian and global emerging market equities. The Asia/Emerging Markets team consists of 13 highly experienced fund managers (six based in Paris, five in Hong Kong and two in Mumbai) and is led by Chief Investment Officer Vincent Strauss, who has been managing money since 1975. Operating a team based approach, all fund managers are also financial analysts and take responsibility for researching companies.

The Comgest investment process is designed to identify those few businesses that offer predictable, sustainable earnings growth. They use short-term market inefficiencies as buying opportunities. The resultant portfolio is concentrated in 35-40 stocks with low turnover and a quality growth bias.

In order to be included on their buy list, a company must show three key attributes:

1. **Pricing Power –** The best businesses have the power to establish prices at levels that consistently provide good profit margins and strong return on invested capital. This is often associated with a strong franchise, a proprietary position, a low-cost position or a powerful brand. In an increasingly competitive global environment, these companies tend to be more profitable and gain market share.
2. **Repeat Revenues –** Comgest looks for companies whose products and services are used frequently and need to be replaced regularly. It is easier for a company to grow if it begins each year with a core constituency of loyal customers already in the habit of buying its products and services. These companies are more predictable and less vulnerable to fluctuations in economic activity, and many have demonstrated an ability to grow earnings through all economic cycles.
3. **Global Reach –** Companies with global reach are not limited to one particular region for growth. They have the ability to expand operations across borders because the products and services they provide have no inherent geographic or cultural limitations. Their long-term growth prospects are more sustainable because of the global scope of their market opportunity.

Comgest has provided a brief outline of three stocks they hold in their portfolio and why they find them attractive investments:

NHN (KOREA – INFORMATION TECHNOLOGY)

The company dominates the internet advertising and search markets in Korea. It also controls one of the largest online gaming (casual social games) sites which brings in stable revenues as well. Valuations have come down to attractive levels as the market is concerned about the slower rate of growth and the expansion into China and Japan. Comgest believe it was natural for growth to slow down with the market somewhat at a more mature phase. The development outside of Korea is not unexpected and remains manageable in size. NHN enjoys a high net-cash position and generates substantial free-cash flow.

HTC (TAIWAN – INFORMATION TECHNOLOGY)

HTC in Taiwan, one of the main independent producers of mobile handsets, announced an excellent set of results for the first semester, up 20% from the same period last year. The company is probably the best positioned to take advantage of the expected development of Google's Android. This operating system is available for free to all the handset makers who wish to use it: this is a good way for several operators in the world to promote a smartphone that can really compete with Apple's iPhone on which operators' margins are thin.

TSMC (TAIWAN – INFORMATION TECHNOLOGY)

TSMC is the No.1 foundry in the world, making semiconductors designed by third parties. It is at the cutting edge in technology with more than 70% global market share in 65nm, the smallest geometry. The huge capital expenditure required to remain in this industry acts as a barrier to entry, allowing higher capacity utilisation, more stable margins and rational competition. Valuations for this world-class franchise have become increasingly attractive.

AUF BOARD ENHANCEMENT

At quarter end, the Company announced the strengthening of its board with the appointment a new Independent Director, Mr. John Holland, who has more than 24 years of experience in international finance and equities at UBS AG. Mr. Holland commenced his career in 1985 at SG Warburg & Co (now UBS AG) as an Asian equities specialist, where he led UBS' early expansion into Korea, Taiwan, Thailand, and India, before rising to become Global Head of Asian Equities at UBS. During Mr. Holland's tenure as Global Head of Asian Equities, UBS achieved the #1 ranking for primary Asian equities distribution and held #1 non-local market share positions in all key Asian equity markets, including Hong Kong, Korea, and Taiwan. Mr. Holland was also instrumental in UBS' successful drive to become the first foreign investor into and foreign distributor of China A-shares. Most recently, Mr. Holland served as Joint Head of European Prime Broking and was a member of UBS Investment Bank's board.

In addition to his notable achievements at UBS, Mr. Holland has had substantial regulatory experience, including as a member of the European Securities Markets Expert Group advising the European Commission where he was Rapporteur (Chair) for the Subcommittees on Non-Equities Market Transparency and Credit Rating Agencies. Furthermore, Mr. Holland has worked closely over many years with the central banks and regulatory authorities of many Asian countries, such as Korea, Taiwan, India and China, particularly in relation to the opening of their markets to direct foreign investment.

Mr. Holland's appointment will be casual until a formal appointment is sought at the Annual General Meeting to be held later this year.

INVESTMENT COMMITTEE


Max Walsh


Daryl Dixon


Alan Dixon


Alex MacLachlan


John Holland

IMPORTANT INFORMATION

This information is not intended to be financial advice or take the place of a financial adviser. This information is general information only, and has been prepared without taking into account your objectives, financial situation or needs. Because of this, you should, before acting on this information, consider the appropriateness of it, having regard to your personal objectives, financial situation or needs. For more information you may contact us on (02) 6162 5555.