

ASX Announcement

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AMP Capital China Growth Fund (ASX: AGF) – Results of the 2016 Strategic Review

Outcomes of the 2016 Strategic Review and confirmation of Fit for Purpose

On 8 April 2016, AMP Capital Funds Management Limited (AFSL 426455), the responsible entity (“RE”) of the AMP Capital China Growth Fund (the “Fund”), announced an evaluation of the Fund and its strategy (“2016 Strategic Review”) following the implementation of certain enhancements.

The RE has now completed this evaluation and the results of the 2016 Strategic Review are set out below with further detail set out in the Appendix to this announcement, which will be distributed to all unitholders via email or post.

In addition, the RE, with the assistance of the Fund’s independent Advisory Committee (“AC”), analysed whether the Fund remains fit for purpose. This analysis was performed in the context of criteria developed by the AC as well as the Fund’s purpose, which is to provide Australian retail investors with access to the China A-share market to generate long-term capital growth. Based on this process, the RE concluded that the Fund remains fit for purpose. Further details about the analysis are also contained in the Appendix.

Overview

As part of the 2016 Strategic Review, the RE undertook:

- > A detailed internal review of the Fund;
- > A comparison with peers; and
- > Comprehensive consultation with unitholders and investment professionals.

This confirmed that:

- > The China A-share exposure provided by the Fund is very attractive to unitholders;
- > Unitholders recognise the benefits of liquidity achieved through the current Fund structure; and
- > Unitholders have a strong preference for the Fund to continue in substantially the same form and to remain listed.

The 2016 Strategic Review also carefully considered more than 40 possible options for the Fund. Informed by feedback from unitholders, the RE proposes that, certain enhancements to the current Fund should be considered by unitholders together with a change to the management arrangements of the Fund. See below for further details.

Enhancements and change to management arrangements

The enhancements selected by the RE are as follows:

1. Increase the flexibility of the Fund's investment mandate to further improve its investment return generation potential.
2. Reduce the Fund's base management fees.
3. Remove the Fund's current performance fee entirely via a fee waiver.
4. Provide unitholders with the option to receive 100 per cent of their annual distribution in cash through an adjustment to the existing dividend reinvestment plan rules.
5. Offer unitholders holding less than \$500 worth of units (less than a marketable parcel) a brokerage-free option to exit their holdings, which is expected to also improve the cost and operational efficiency of the Fund.
6. Maintain the increased investment in marketing announced as part the 2015 Strategic Review and increase communications with current and prospective unitholders of the Fund.
7. Subject to regulatory requirements, consider the implementation of a one-off capital management opportunity which may involve an off-market redemption and/or an on-market buy-back opportunity.
8. Consider capital management opportunities for unitholders as part of the annual fit for purpose review.

The RE has decided to simplify the management arrangements as they apply to the Fund. Accordingly, the RE will not seek unitholder approval to continue the existing investment management agreement between its subsidiary and AMP Capital Investors Limited ("AMP Capital") for a further fixed term. Instead, that investment management agreement will be terminated. As previously disclosed, this investment management agreement comes to the end of its fixed 10-year term in November 2016. However, it could be extended for another fixed 10-year term (with unitholder approval) or continue indefinitely, subject to termination by an ordinary resolution of unitholders.

On termination of this agreement, AMP Capital will instead provide required investment management services to the RE for the Fund under the existing umbrella investment management agreement in place between the parties. This agreement will remain operative whilst the RE is the responsible entity of the Fund but will cease to apply to the Fund if the RE is replaced.¹ The umbrella agreement is terminable by the RE on 20 days' notice.

Development of enhancements and July EGM

The detail, nature and implementation requirements associated with the potential enhancements and change to management arrangements are currently being finalised. The RE will update the market promptly once it makes further material decisions in relation to any of them.

The RE intends to seek unitholders' endorsement of the full suite of enhancements described above at an Extraordinary General Meeting to be held in July 2016 ("July EGM"). A Notice of Meeting and accompanying Explanatory Memorandum in relation to the July EGM is intended to be released at the end of June 2016.

If unitholders' do not endorse the full suite of enhancements at the EGM, the RE will need to give further consideration to whether any of these enhancements should be pursued.² The RE has determined to implement the change to the management arrangements even if unitholders do not endorse all the enhancements at the July EGM.

The RE may also decide to implement additional enhancements in the future (even if they are not endorsed by unitholders at the July EGM) if it believes that doing so is in the best interests of unitholders.

Next steps

Unitholders should refer to the Notice of Meeting and accompanying Explanatory Memorandum when it is released.

In addition to a detailed overview of the proposed enhancements and change to management arrangements, the Explanatory Memorandum will provide instructions on how to vote on any enhancement proposals put to unitholders as well as location details of the July EGM for those unitholders wishing to attend in person.

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¹ Unitholders have a statutory right to remove the responsible entity by passing an extraordinary resolution.

² A number of the enhancements are able to be implemented without unitholder approval.

Background to the 2016 Strategic Review

On 26 October 2015, the RE announced the manner and timing for monitoring the impact of enhancements on the Fund that were formulated as part of the Strategic Review completed in September 2015. The enhancements, set out in the RE's announcements of 17 September 2015 and 23 September 2015, were to be implemented by 1 January 2016, the effectiveness of the enhancements was to be monitored up until 31 March 2016 ("the Monitoring Period") and then the RE was to conduct an evaluation of whether the Fund remains fit for purpose and undertake a unitholder consultation process.

In undertaking the 2016 Strategic Review:

- > The Steering Group ("SG"), comprised of senior management of AMP Capital, continued to operate with a mandate to consider and review alternatives and enhancements to the Fund, and advise and make recommendations to the RE.
- > The RE reviewed performance during the Monitoring Period to evaluate the effectiveness of the enhancements enacted to date.
- > The RE continued to consult and solicit the advice of the AC which is comprised of external members in line with the AC's established Committee Charter. As previously announced, the AC was expanded to include Mr Roger Watson who has a deep understanding of investing in Asia and extensive experience of the Fund's operating environment.

Overview of the monitoring of the enhancements to date

As described in the RE's announcement on 12 February 2016, the Fund implemented a number of enhancements in 2015 which were considered to be in the best interests of all unitholders. These enhancements were originally described as part of the 17 September 2015 announcement detailing the results of the Fund's initial Strategic Review and included:

- > Implementing the Shanghai-Hong Kong Stock Connect trading platform
- > Altering the default distribution reinvestment plan election for new investors
- > Improving marketing of the Fund including appointing a dedicated Head of Investor Relations
- > Establishing an ongoing Advisory Committee composed of external members
- > Enhancing the Fund's disclosure by providing daily Net Asset Value ("NAV") estimates.

The RE committed to monitor the effectiveness of these enhancements from 1 January 2016 to 31 March 2016 and published an update detailing performance over this period. Key observations included:

- > The Fund's total unitholder return has generally performed in line with tier-1 peers over the monitoring period, although total NAV return modestly underperformed tier-1 peers over the three month monitoring period.
- > When considered on an Australian dollar basis, the Fund's total unitholder return and total NAV return have been generally in line with tier-1 peers over the three month monitoring period.
- > The Fund's recently observed discount is in line with its average since IPO and at 31 March 2016 was below that of its tier-1 peers.
- > The exact causes of the discount remain uncertain and cannot be quantified.

During the unitholder consultation process (further described below) many unitholders provided the view that while they saw the enhancements as additive, concerns remained about the discount and there was a desire for further action by the RE.

Unitholder consultation

As part of the 2016 Strategic Review, the RE consulted comprehensively with unitholders including large institutional unitholders, brokers, high net worth unitholders and a survey of retail unitholders.

Overview of the fit for purpose review

The RE in consultation with the AC and unitholders analysed whether the Fund remains fit for purpose. This analysis was performed in the context of the Fund's purpose as described in the Product Disclosure Statement dated 20 November 2006 ("PDS"). In particular the purpose of the Fund is:

- > To provide unitholders with access to the China A-share market via a liquid investment structure through continuing to be listed on ASX enabling trading of units on ASX.
- > The Fund continuing to achieve its investment objectives including achieving long-term capital growth (as opposed to regular income) with a focus on exposure to the China A-share market.

As set out in the PDS, the Fund's investment objective is:

- > To achieve long-term capital growth, with a focus on investing in China A-shares
- > To outperform the S&P/CITIC 300 Total Return index (expressed in Australian dollars)

The objectives do not include the payment of regular income to unitholders.

The RE, with the assistance of the AC, also considered whether the Fund remained fit for purpose in the context of the 15% Discount Reference Point.

Based on this process, the RE concluded that the Fund remains fit for purpose, noting that unitholders also have a strong desire for further strategic options/enhancements, particularly capital management.

Overview of strategic options considered

In order to assess the potential strategic alternatives available for the Fund, a comprehensive and consultative process was undertaken including:

- > Broad consultation with the SG, the AC, retail unitholders, institutional unitholders and investment professionals
- > As a result of the wide-ranging consultation, a list of possible strategic options for the Fund was developed that included over 40 options
- > Each option was then assessed using the following criteria:
 - NAV performance – What impact would the implementation of this option have on the NAV of the Fund?
 - Unit price performance (including discount) – What impact would the implementation of this option have on the traded unit price of the Fund?
 - Governance – What impact would the implementation of this option have on the governance of the Fund?
 - Consistency with original offering – How is this option aligned to the original offering of the Fund in the PDS?
- > Based on the identified criteria and unitholder engagement, a short-list of options was selected for further analysis. The short-list included:
 - Converting to an open-ended fund structure
 - De-listing the Fund
 - Converting to an actively-managed exchange-traded product
 - Winding up the Fund
 - Certain enhancements to the current Fund

Ultimately, the RE decided that certain enhancements to the current Fund were in the best interests of all unitholders. The other options were rejected on the basis of costs, operational difficulty and the lack of unitholder demand, among other reasons.