

QUARTERLY INVESTMENT UPDATE (DECEMBER 2011)

EQUITY MARKET REVIEW

In comparison to the sharp decline of global equity markets in the September quarter, the December quarter showed slightly improved performance. The MSCI All Country Asia ex Japan Index rose by 3.3% in US dollars (USD) and fell by 2.04% in Australian dollars (AUD). It was another volatile quarter dominated by macroeconomic news out of Europe.

Regional markets were buoyed somewhat on signs of easing of inflation and loosening monetary policy amid a worsening situation in Europe. Global markets took heed of the improving national factory activity index of the United States that increased to 53.9 in December (52.7 in November). In Asia, China's official Purchasing Managers' Index (PMI) climbed to 50.3 in December (49.0 in November), expanding at greater rates. The Chinese central bank reduced reserve requirements (RRR) by 50 basis points in November after the pause in tightening over recent months, a move welcomed by concerned investors globally.

PERFORMANCE OF ASIAN SHARE MARKETS IN THE DECEMBER QUARTER

	Local Currency	Australian Dollars
Stock Exchange Thailand (Thailand)	12.53%	5.29%
Hang Seng China Enterprises (China H-Shares)	11.48%	5.97%
Ho Chi Min (Vietnam)	11.42%	6.52%
KLCI (Malaysia)	11.42%	6.52%
PSEi (Philippines)	9.49%	5.09%
JCI (Indonesia)	8.03%	-1.26%
Kospi (Korea)	5.97%	1.15%
Hang Seng (Hong Kong)	5.14%	-0.05%
MSCI Asia ex Japan	3.52%	-2.04%
Straits Times (Singapore)	-0.56%	-5.26%
Taiwan Taiex (Taiwan)	-2.10%	-6.57%
Sensex (India)	-5.98%	-17.79%
Shanghai Composite (China A-Shares)	-6.74%	-10.40%

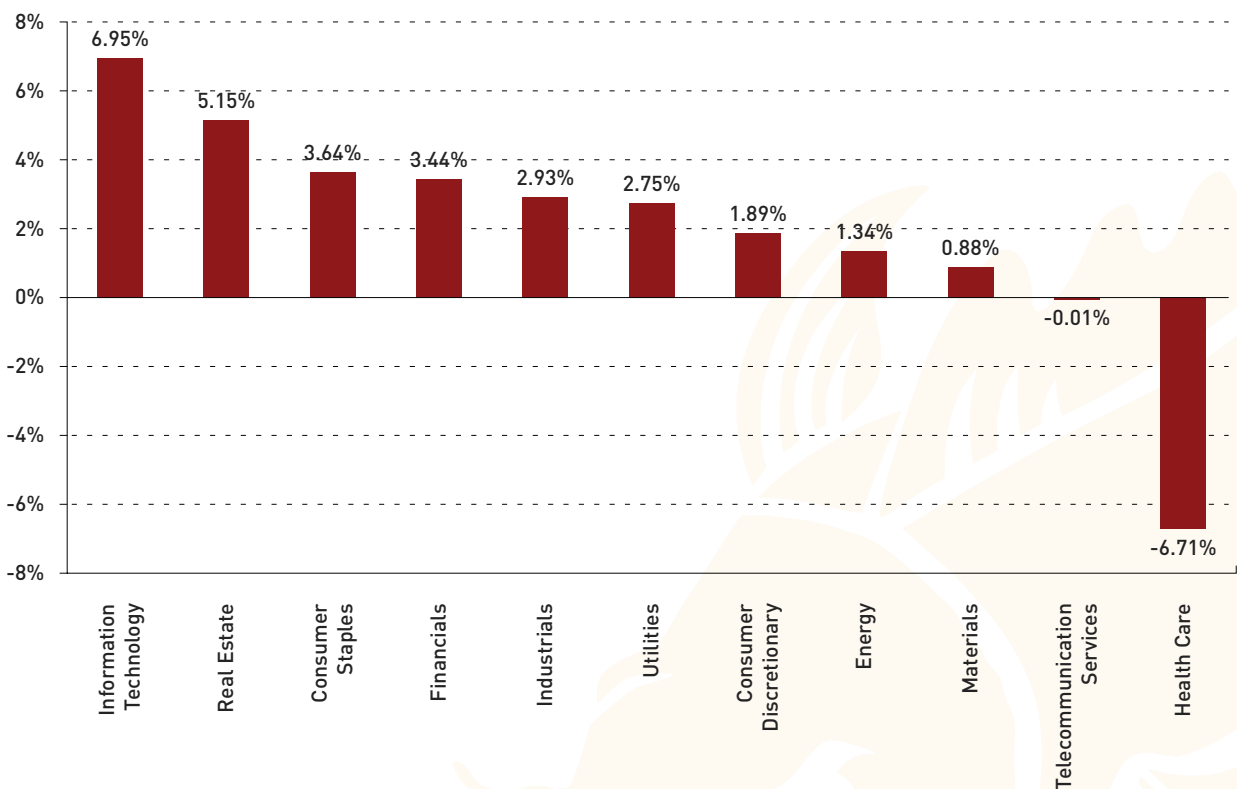
From a country perspective, the worst performing markets in the December quarter were India (-17.79% in AUD) and Chinese A-Shares (-10.40% in AUD). The weak performance in the Chinese equities markets was mostly due to market concerns over slowing Chinese growth and residential property prices in China which continued to fall.

In November, the People's Bank of China reduced its bank reserve requirement ratio (RRR) by 50 basis points for the first time since December 2008. Chinese fourth quarter GDP eased to 8.9% (compared to 9.1% in the third quarter) and inflation edged down in December (CPI dropped to around 4.1% year on year in December). Growth has now become more of a concern to the authorities than inflation and the effect of the economic slowdown in Europe may spur further loosening of monetary policy.

Throughout Asia, there are similar signs that the interest rate cycle has peaked and a number of countries have begun to cut rates. In November 2011, the Indonesian Central Bank cut its main reference rate by 50bps to 6.0%. The Bank of Thailand also cut its policy rate by 25bps in November. More policy responses are expected in 2012.

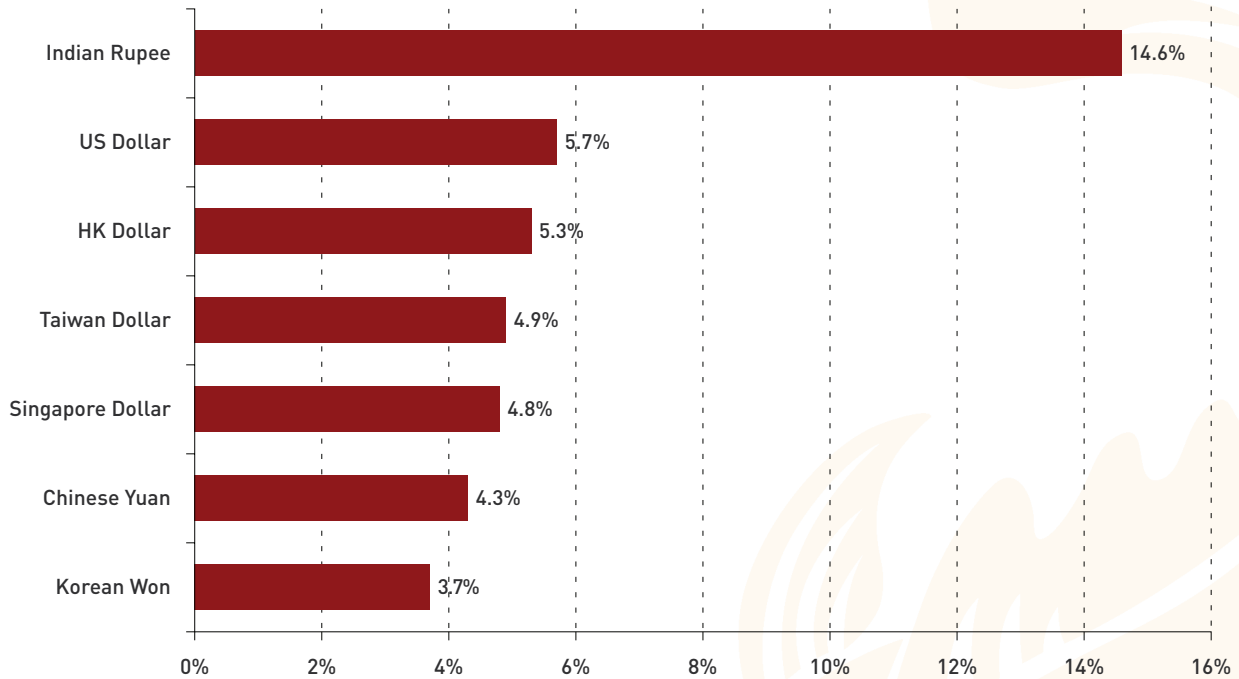
The sagging Indian equity market reflects general concerns over the country's higher than expected inflation rate and weaker than expected growth. In contrast, the smaller South East markets continued to outperform led by Vietnam, Philippines, Thailand and Malaysia.

PERFORMANCE OF THE SECTORS WITHIN THE MSCI ASIA EX JAPAN INDEX OVER THE DECEMBER QUARTER (IN US DOLLARS)



CURRENCY MARKET REVIEW

PERFORMANCE OF AUSTRALIAN DOLLAR AGAINST VARIOUS CURRENCIES OVER THE DECEMBER QUARTER



It was another quarter of strength in the Australian dollar (AUD). The AUD gained 5.7% against the USD and finished the year at 102.09 US cents. Over the fourth quarter 2011, the AUD appreciated against all major Asian currencies, most notably by 14.6% against the Indian rupee. The Indian rupee has been Asia's worst performing currency in 2011, having depreciated by nearly 18% since July 2011. The rupee hit its new low against the dollar in December, after the release of data revealing that India's industrial production had contracted a staggering 5.1% in October. The Korean won fell 3.7% against the AUD over the quarter. Similarly, the Singapore dollar fell by 4.8%, the Taiwan dollar fell by 4.9%, the HK dollar fell by 5.3% and the Chinese yuan fell by 4.3%.

ASIAN MASTERS FUND (ASX: AUF) OVERVIEW

AUF Listing Date	December 2007
Total Assets (\$m)	\$119.6
NTA per Share (31 December 2011)	\$0.812
Number of securities held	524

AUF PERFORMANCE

For the period 30 September to 31 December 2011, the unaudited pre-tax NTA of the Asian Masters Fund ("AUF") decreased by 4.18%. This represents an underperformance relative to the MSCI Asia ex Japan Index of 2.12%. For the calendar year AUF outperformed the Index by 0.25% and as shown below, AUF has performed very strongly since inception, generating an outperformance relative to the index of 19.87%.

	Since AUF listing	December Quarter
AUF	-11.96%	-4.18%
MSCI Asia ex Japan Index	-31.83%	-2.06%
Out (Under) performance	19.87%	-2.12%

UNDERLYING MANAGERS

AUF currently has investments in 12 leading funds that provide exposure across a number of Asian markets.

During the quarter AUF made one new investment into the JF China Pioneer A-Shares Fund. Chinese A-Shares are stocks of Chinese companies which are listed on the domestic Shanghai and Shenzhen stock exchanges. The ability of foreigners to own these stocks is tightly controlled by the Chinese authorities. As a result any capacity to invest in these stocks is highly sought after by institutional investors in Asia. AUF's investment in Chinese A-Shares represents a unique off benchmark position. JF Asset Management is owned by JP Morgan and is one of the longest serving institutional investors in Asian equities.

AUF also added to its investments in the Arisiag Asian Consumer Fund, the Aberdeen Asian Opportunities Fund, the Prusik Asian and Prusik Asian Smaller Companies Funds as well as the Invesco PRC Fund, JF Taiwan and JF Korea Funds.

Manager	Mandate	Weight as at 30/09/2011	Weight as at 31/12/2011
Aberdeen Asian Opportunities Fund	Asian Region	14.2%	15.3%
Arisaig Asian Consumer Fund	Asian Consumer Specialist	9.4%	15.3%
Invesco PRC Fund	Country specialist	11.1%	12.4%
JF Taiwan Fund	Country specialist	7.5%	9.2%
JF Korea Fund	Country specialist	7.7%	7.2%
Treasury New Asia Fund	Asian Region	7.2%	6.4%
Invesco Greater China Fund	Country specialist	7.0%	6.3%
Prusik Asia Fund	Asian Region	3.4%	6.2%
JF China Pioneer A Shares Fund	Country specialist	-	6.2%
Prusik Asian Smaller Companies Fund	Asian Small Cap Specialist	3.5%	6.1%
HSBC India Fund	Country specialist	6.5%	4.6%
Phillip Capital Thai Fund	Country specialist	3.5%	3.3%
Cash*	-	4.7%	1.6%

*Excludes any cash held by underlying investment managers.

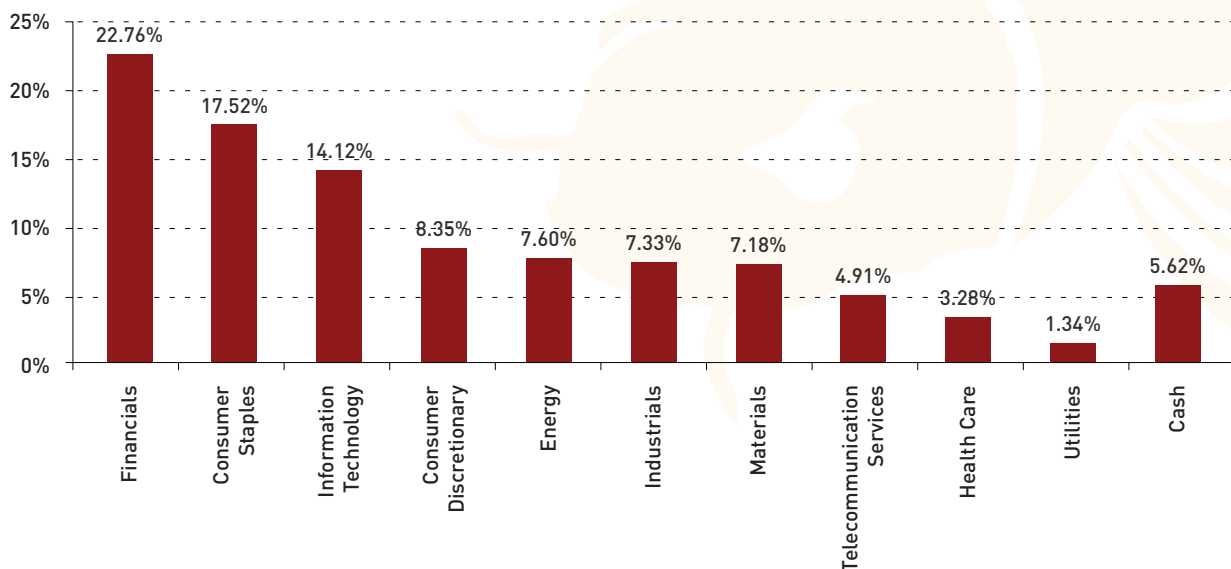
COUNTRY ALLOCATION

The table below reflects the indicative look through country allocation mix as at 31 December 2011.

	Fund Weight	Index Weight	Active Weight
China Int'l	20.30%	23.86%	-3.56%
Taiwan	15.27%	14.96%	0.31%
India	12.58%	9.07%	3.51%
Korea	11.51%	20.49%	-8.98%
Hong Kong	7.60%	12.01%	-4.41%
China Dom	7.12%	0.23%	6.89%
Singapore	6.46%	6.88%	-0.42%
Thailand	5.57%	2.6%	2.97%
Malaysia	2.78%	4.79%	-2.01%
Indonesia	2.35%	4.07%	-1.72%
Phillipines	1.18%	1.04%	0.14%
Pakistan	0.42%	-	0.42%
Australia	0.55%	-	0.55%
Other	0.36%	-	-
Cash	5.63%	-	-

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

SECTOR ALLOCATION



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

TOP 50 HOLDINGS

	Company Name	Weight
1	SAMSUNG	1.98%
2	TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY	1.88%
3	NESTLE INDIA LTD	1.42%
4	WUMART STORES	1.13%
5	OVERSEAS CHINESE BANKING CORPORATION	1.13%
6	CHINA MOBILE LTD	1.08%
7	PETROCHINA CO LTD-H	1.05%
8	INDUSTRIAL & COMMERCIAL BANK OF CHINA-H	1.05%
9	CHINA CONSTRUCTION BANK-A	0.95%
10	UNI-PRESIDENT CHINA HOLDINGS	0.94%
11	GLAXOSMITHKLINE CONSUMER	0.93%
12	MARICO LTD	0.89%
13	PRESIDENT CHAIN STORE CORP	0.85%
14	COLGATE PALMOLIVE (INDIA)	0.84%
15	SUMBER ALFARIA TRIJAYA	0.84%
16	SIAM CEMENT	0.82%
17	CHINA SHENHUA ENERGY	0.80%
18	LG HOUSEHOLD & HEALTH CARE	0.77%
19	TENCENT HOLDINGS LTD	0.77%
20	LIANHUA SUPERMARKET	0.76%
21	MEDIATEK INC	0.74%
22	BRITANNIA INDUSTRIES LTD	0.74%
23	VIETNAM DAIRY PRODUCTS JSC	0.74%
24	GODREJ CONSUMER PRODUCTS LTD	0.73%
25	UNILEVER INDONESIA	0.72%
26	JARDINE STRATEGIC HLDGS LTD	0.69%
27	CHINA PETROCHEMICAL DEVELOPMENT CORP	0.68%
28	SWIRE PACIFIC LTD	0.66%
29	WANT WANT CHINA HOLDINGS LTD	0.64%
30	CHINA TELECOM CORP LTD	0.63%
31	KB FINANCIAL GROUP INC	0.63%

TOP 50 HOLDINGS CONT.

	Company Name	Weight
32	STANDARD CHARTERED PLC	0.61%
33	HTC CORP	0.60%
34	UNITED BREWERIES LTD	0.58%
35	CHINA LIFE INSURANCE CO LTD	0.57%
36	PTT EXPLORATION & PRODUCTION	0.55%
37	JOLLIBEE FOODS CORPORATION	0.55%
38	CITY DEVELOPMENTS LTD	0.54%
39	CHINA UNICOM HONG KONG LTD	0.54%
40	BANGKOK DUSIT MEDICAL SERVICE	0.53%
41	JUBILANT FOODWORKS LTD	0.51%
42	UNITED OVERSEAS BANK LTD	0.51%
43	BANK OF CHINA LTD-H	0.50%
44	ICICI BANK LTD	0.50%
45	SUN HUNG KAI PROPERTIES	0.50%
46	CNOOC LTD	0.49%
47	BANGKOK BANK PCL-FOREIGN REG	0.48%
48	ASUSTEK COMPUTER INC	0.48%
49	ANHUI CONCH CEMENT CO LTD-A	0.48%
50	HYUNDAI HEAVY INDUSTRIES	0.48%
	Top 50	38.5%
	Other 474	55.9%
	Cash	5.6%
	Total	100%

MARKET PERSPECTIVES

The past calendar year has been one in which macroeconomic themes emanating from outside Asia (in particular from Europe) have dominated the investment markets. It seems the European authorities have finally received the message and have been spurred to act. The European Central Bank conducted an unprecedented 490 billion euro operation to extend emergency liquidity to several hundred banks in the EU. While the action managed to reduce the FRA/OIS spread, it remains above the pre-crisis norm of 30 basis points. Other indicators of EU financial distress also remained elevated, including the spread between the German bunds and the sovereign bonds of Portugal, Greece, Italy and Spain. Thus, the first half of 2012 could remain volatile as investors weigh the risk of recession in Europe and its flow-on effect on Asia. Europe as a whole is Asia's largest export destination and European banks provide a large amount of funding to Asian banks.

In Asia, however, we expect the region to grow at an average of 7% between 2012 and 2013, mainly driven by internal demand (consumption and investment). In addition, most of the regional economies (except India) have sound fiscal balance sheets with room for fiscal and monetary stimulus in the event of external shocks.

Commodity prices as a whole have declined sharply in recent weeks which should provide relief to regional companies as well as further relief for Asian governments looking to control inflation which has shown signs of peaking in recent months. Sentiment has also improved, with net foreign purchases of Asian equities amounting to \$4.5 billion in December.

The price-earnings ratio of Asian markets is currently around 10.3 times based on 2012 earnings and this is 39% lower than the historical average of 17 times over the past two decades. Moreover, the gap between the Asian equity yield (12-month forward-looking) and the current US 10-year treasury yield is 7.6%, as compared with an average of about 2.0% for the past twenty years. In this light, Asian equity as an asset class remains attractive from an absolute and relative valuation standpoint. These valuations are also supported by stronger economic fundamentals, sound economic and corporate earnings growth, strong corporate balance sheets, and healthy sovereign finances with room for interest rate easing.

INVESTMENT COMMITTEE



Max Walsh



Kevin Smith



Alex MacLachlan



John Holland

IMPORTANT INFORMATION

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