ASIAN MASTERS FUND

QUARTERLY INVESTMENT UPDATE (MAR 2010)

EQUITY MARKET REVIEW

Asian markets ended the first quarter of 2010 slightly below where they started at the beginning of this year with the MSCI Asia ex Japan index posting a negative 0.9% return in AUD (+1.3% in USD). The marginal negative performance of the quarter does not tell the full story of a period of volatility in which markets had to wade through the beginning of a tightening phase as well as fears of sovereign credit risk contagion surrounding Greece. The early portion of the quarter was characterised by a 12.4% (in USD) correction in the market lasting until 8 February, with the rest of the quarter spent clawing this back.

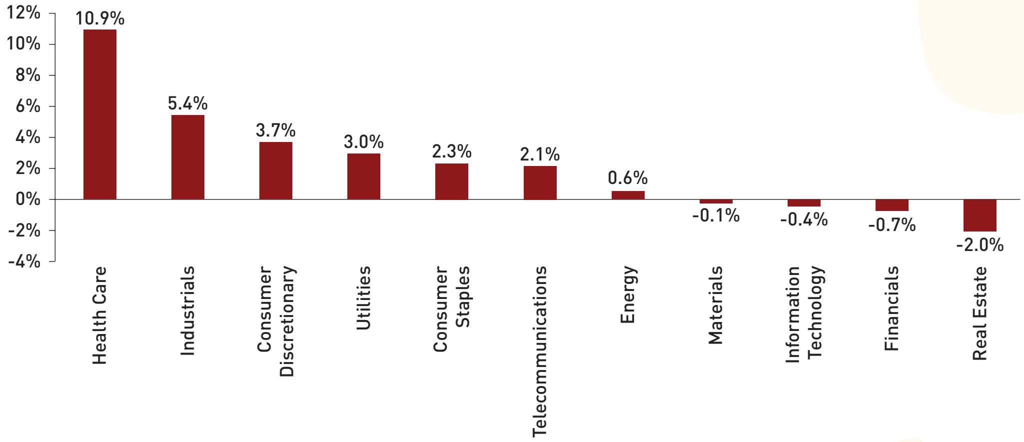
Asia underperformed the developed world as a whole for the quarter, with the MSCI World Index rising by 2.7% over the March quarter. While US stocks outperformed relative to Asia, with the S&P 500 Index rising by 4.9%, Europe struggled amid the debt issues, with the MSCI Europe Index falling by 2.2% (all in USD).

PERFORMANCE OF ASIAN SHARE MARKETS IN THE MARCH QUARTER

	Local Currency	Australian Dollars
Shanghai Composite (China A-Shares)	-5.1%	-7.2%
Taiwan Taiex (Taiwan)	-3.3%	-4.7%
Straits Times (Singapore)	-0.4%	-2.1%
Hang Seng China Enterprises (China H-Shares)	-3.1%	-5.4%
KLCI (Malaysia)	3.8%	7.0%
Hang Seng (Hong Kong)	-2.9%	-5.2%
JCI (Indonesia)	9.6%	10.7%
Stock Exchange Thailand (Thailand)	7.3%	7.9%
Sensex (India)	0.4%	1.6%
Kospi (Korea)	0.6%	1.0%
PSEi (Philippines)	3.3%	3.6%
Ho Chi Min (Vietnam)	0.9%	-4.4%
MSCI Asia Ex Japan	-0.1%	-0.9%

The March quarter was a story of peripheral market dominance with Indonesia, Thailand, Malaysia and the Philippines being the outperformers. These markets have long been under owned by foreign investors, but during the quarter were viewed as safe havens as opposed to the larger markets in the Asian region that are more exposed to external factors emanating from the Western world. Indonesia in particular has been a recent target of investor interest with significant amounts of money flowing into the market. It is also the only country in the region in which its central bank is still expanding money supply by pushing banks to extend credit. Both Chinese A-Shares and H-Shares performed poorly over the quarter as the People's Bank of China (PBoC) began to tighten liquidity conditions. Investors sold down Chinese banks in the expectation of further capital raisings by the sector and real estate stocks in response to the authorities clamping down on lending to developers.

PERFORMANCE OF THE SECTORS WITHIN THE MSCI ASIA EX JAPAN INDEX OVER THE MARCH QUARTER IN LOCAL CURRENCY

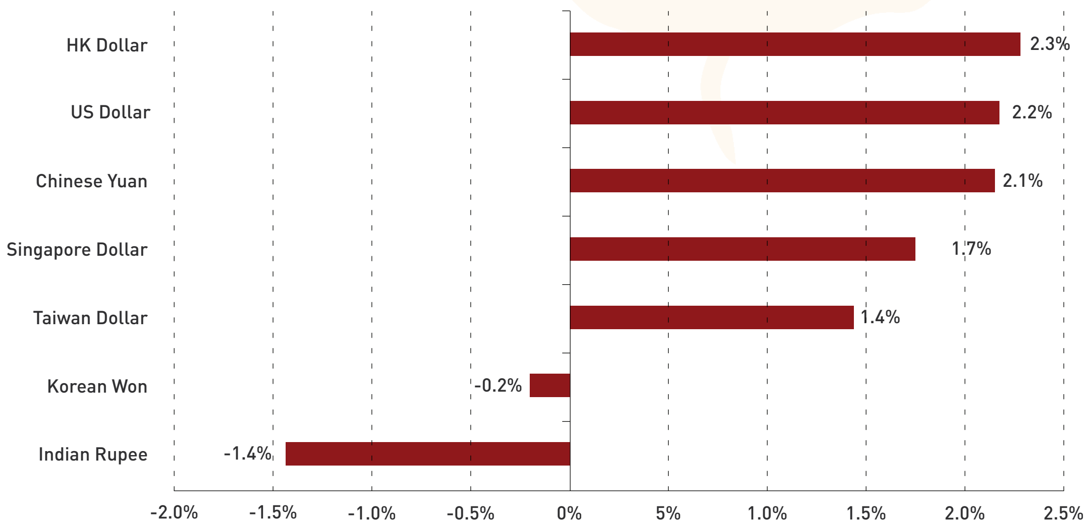


The defensive health care, consumer related, utilities and telecommunications sectors outperformed the cyclical sectors of information technology, materials and energy over the first quarter. Health care stocks in China and India were the standout areas during the quarter as they rose on news of the passing of US President Barack Obama's heath care bill. Information technology stocks in Taiwan struggled on weak exports to the US and EU whilst, as mentioned above, both real estate stocks across the region and Chinese bank stocks dragged the financials sector down.

CURRENCY MARKET REVIEW

The Australian dollar posted gains against Asian currencies tied to the USD as the Reserve Bank of Australia (RBA) again increased interest rates on 3 March, further widening the interest rate differential between Australia and the US. The bulk of attention in currency markets this year has been on the Chinese renminbi and the 'will they or won't they appreciate' debate. Most investment managers we quizzed on this in Asia believe it is a matter of when, not if. In the midst of this, most Asian currencies not tied to the USD have registered positive performances versus the USD in 2010 led by the Malaysian ringgit and Indonesian rupiah and closely followed by the Indian rupee, Thai baht and South Korean won.

PERFORMANCE OF AUSTRALIAN DOLLAR AGAINST SELECT ASIAN CURRENCIES OVER THE MARCH QUARTER



ASIAN MASTERS FUND

ASIAN MASTERS FUND (ASX: AUF) OVERVIEW

AUF Listing Date	4 December 2007
Total Assets ($m)	100.5
NTA per Share (31 March 2010)	$0.990
Number of securities held	565

AUF PERFORMANCE

For the period 31 December 2009 to 31 March 2010, the unaudited pre-tax NTA of the Asian Masters Fund ("AUF") decreased by 3.1%. This represents an underperformance relative to the MSCI Asia ex Japan Index of 2.1%. As shown below, AUF has performed very strongly since inception, generating an outperformance relative to the index of 25.8%.

	Since AUF listing	March quarter
AUF	3.8%	-3.1%
MSCI Asia ex Japan Index	-22.0%	-0.9%
Out (Under) performance	25.8%	-2.1%

UNDERLYING MANAGERS

AUF currently has investments in 14 leading funds that provide exposure across a number of Asian markets.

Manager	Mandate	Weight as at 31/12/2009	Weight as at 31/03/2010
Value Partners High Dividend Yield Fund	Asian Region	15.3%	14.7%
Aberdeen Asian Opportunities Fund	Asian Region	12.1%	11.7%
Value Partners Taiwan Fund	Country specialist	11.1%	10.3%
HSBC India Fund	Country specialist	9.9%	9.5%
Invesco Greater China Fund	Country specialist	8.9%	8.0%
Treasury New Asia Fund	Asian Region	6.5%	6.0%
JF Korea Fund	Country specialist	3.1%	5.1%
Legg Mason Asian Enterprise Fund	Asian Region	5.4%	5.0%
Comgest Growth Asia ex Japan Fund	Asian Region	-	4.8%
Invesco PRC Fund	Country specialist	4.9%	4.5%
Lion Global Singapore Malaysia Fund	Country specialist	5.4%	3.8%
Phillip Capital Thai Fund	Country specialist	3.2%	3.1%
Aberdeen China Opportunities Fund	Country specialist	3.1%	3.0%
Lion Global Vietnam Fund	Country specialist	2.6%	2.4%
Cash*		8.5%	8.1%

*Excludes any cash held by underlying investment managers.

During the quarter, AUF made an investment in one new fund – the Comgest Growth Asia ex Japan Fund. The investment was funded by cash and a partial sell-down of the Lion Global Singapore Malaysia Fund. The investment brings another Asian regional specialist into the manager line-up whose long term, non-cyclical growth oriented style adds another level of diversification. AUF also added to its position in the JF Korea Fund run by David Choi, a portfolio manager who we have a high level of confidence in. Korea is a country highly leveraged to an upturn in global demand, and the manager therefore sought to decrease AUF's underweight position in Korea.

COUNTRY ALLOCATION

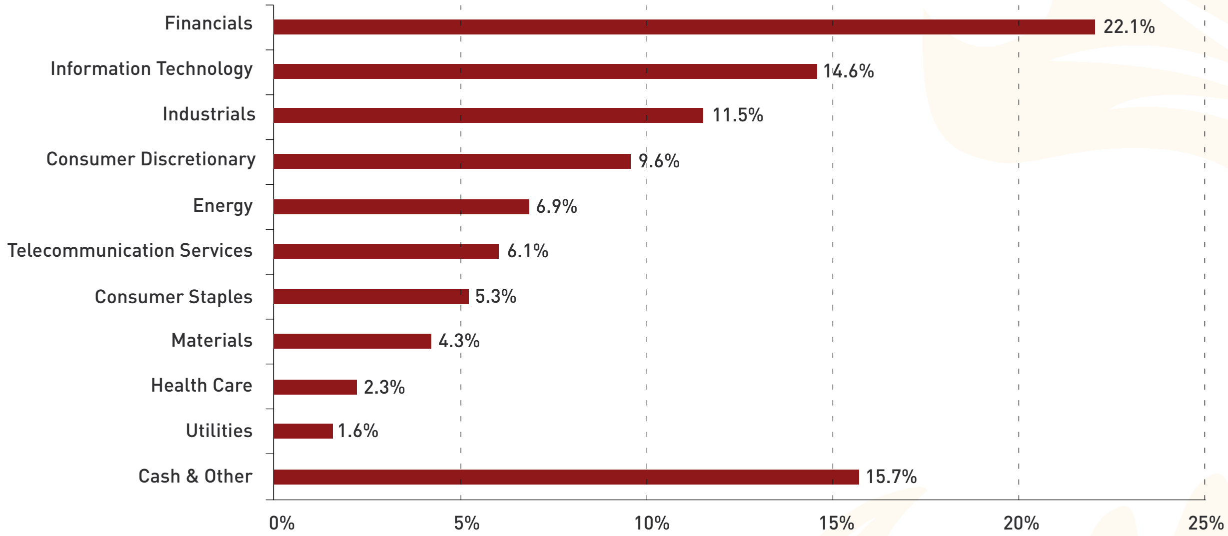
The table below reflects the indicative look through country allocation mix as at 31 March 2010.

	Gross invested position	Invested position net of cash		
	AUF Weight	**AUF Invested**	**Index Weight**	**Active Weight**
China	23.2%	27.4%	25.4%	1.9%
Taiwan	13.9%	16.4%	15.8%	0.6%
India	11.6%	13.7%	11.3%	2.4%
Hong Kong	8.9%	10.4%	11.3%	-0.9%
Korea	8.3%	9.8%	19.2%	-9.4%
Singapore	7.3%	8.6%	6.9%	1.7%
Thailand	3.8%	4.5%	2.0%	2.5%
Malaysia	3.1%	3.7%	4.2%	-0.5%
Vietnam	2.4%	2.8%	0.0%	2.8%
Indonesia	0.9%	1.0%	3.0%	-1.9%
Philippines	0.6%	0.7%	0.6%	0.0%
Australia	0.4%	0.4%	0.0%	0.4%
Sri Lanka	0.1%	0.1%	0.0%	0.1%
Pakistan	0.1%	0.1%	0.2%	-0.2%
Other	0.4%	0.5%	0.0%	0.5%
Gold	2.9%			
Cash*	12.2%			

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

There have been some relatively modest changes to the country allocation of AUF owing to the new investment in the Comgest Growth Asia ex Japan Fund, the increase in weighting towards the JF Korea Fund, and the partial sale of the Lion Global Singapore Malaysia Fund. The result is an increase in weighting towards Korea, reducing the underweight in a country that is a leading exporter and stands to benefit from strengthening intra-Asian trade as well as any recovery in Western economies. AUF remains overweight the smaller, under-researched countries like Thailand and Vietnam where the manager feels the specialist country managers can add value, as well as Greater China, driven by mainland China's strong economic performance and outlook.

SECTOR ALLOCATION



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

TOP 50 HOLDINGS

Stock Name	AUF Weight
CHINA MOBILE	2.2%
HON HAI PRECISION	2.0%
SAMSUNG ELECTRONICS	1.6%
TSMC MANUFACTURING	1.5%
CNOOC	1.3%
PETROCHINA COMPANY	1.2%
CHINA CONSTRUCTION BANK	1.1%
CHINA LIFE INSURANCE	1.0%
CAIRN ENERGY	0.9%
ICBC	0.9%
JARDINE STRATEGIC	0.8%
OVERSEAS CHINESE BANK	0.8%
SWIRE PACIFIC	0.8%
GZI TRANSPORT	0.7%
JINDAL STEEL & POWER	0.7%
STANDARD CHARTERED	0.7%
CIMB GROUP	0.7%
CHINA SHINEWAY PHARMACEUTICAL	0.7%
SINGAPORE TELECOMMUNICATIONS	0.7%
KINGBOARD CHEMICAL	0.6%
PTT EXPLORATION & PRODUCTION	0.6%
UNITED OVERSEAS BANK	0.6%
CATHAY FINANCIAL	0.6%

TOP 50 HOLDINGS CONT...

Stock Name	AUF Weight
CHUNGHWA TELECOM	0.6%
MARUTI UDYOG	0.6%
SUN HUNG KAI PROPERTIES	0.6%
HOTAI MOTOR CO.	0.5%
BHARTI AIRTEL	0.5%
HCL TECHNOLOGIES	0.5%
CHINA PETROLEUM & CHEMICAL	0.5%
GREAT WALL MOTOR COMPANY	0.5%
ICICI BANK	0.5%
E-LIFE MALL CORP	0.5%
INFOSYS TECHNOLOGIES	0.5%
COMPAL ELECTRONICS	0.5%
DBS GROUP HOLDINGS	0.5%
CHINA VANKE	0.4%
CITY DEVELOPMENTS	0.4%
CHEUNG KONG	0.4%
COUNTRY GARDEN	0.4%
SILITECH TECHNOLOGY	0.4%
SINGAPORE TECHNOLOGIES	0.4%
CHINA SHENHUA ENERGY	0.4%
SHINSEGAE	0.4%
SHINHAN FINANCIAL GROUP	0.4%
DR REDDYS LABS	0.4%
UNI-PRESIDENT CHINA	0.4%
BANK OF CHINA	0.4%
HIGH TECH COMPUTER	0.4%
TATA STEEL	0.4%
TOP 50	**35.1%**
OTHER STOCKS & CASH	**64.9%**

MARKET PERSPECTIVES

The first quarter of 2010 was a period where a contrast emerged between sharemarket performance and underlying economic performance. Whilst Asian sharemarkets have been largely range-bound since October 2009, Asian economic growth continues to push forward, outperforming both the developed world as well as consensus expectations. Chinese first quarter GDP expanded by 11.9% (year on year), up from 10.7% in the December 2009 quarter, whilst Singapore's estimated first quarter GDP growth came in at 13.1% (year on year). The sharemarket seems to be focusing more on the perceived risks of inflation and local government and bank debt in China than fundamental economic performance.

In the previous market perspectives from December 2009, we highlighted that 2010 would be the year that the PBoC begins to tighten monetary policy. This has indeed begun to play out, with the PBoC raising the

Reserve Requirement twice during the quarter and the Indian and Malaysian authorities also taking tightening measures. On our recent research visit to Asia, Invesco's China fund manager Samantha Ho provided her view that Chinese authorities were sacrificing short term performance of the Chinese sharemarket for the longer term health of the Chinese economy – a wise move in her opinion, given that historically, once investors come through the initial anxiety of tightening monetary policy, it tends to signal the beginning of another bullish phase in equities.

Another source of concern for investors in Asia which has been given sizable airtime over the quarter is the spectre of escalating non-performing loans (NPLs) for Chinese banks. This issue has come about because a primary mode of implementing the 4 trillion renminbi stimulus program in 2009 was to use local government agencies as conduits of development, and some of these local government agencies appear to be experiencing pressures in servicing loans. The question is whether this could lead to a credit contraction that slows growth. Whilst Chinese banks might experience an increase in NPLs, it must be remembered that China's overall debt level is still very low by international standards, Chinese banks are relatively very well capitalised, and while some regional governments may have cash constraints, the central government still has very significant financial capacity; hence in the manager's view while the NPL issue is one to monitor, the issues are manageable.

So far this year, capital inflows into Asian equity markets have been much stronger than 2009, albeit after a rocky start to the year when flows dried up due to rising risk aversion. From a valuation perspective, Asian markets are still quite a distance away from their pre-GFC highs. The MSCI Asia ex Japan Index would need to rise by another 28.7% in USD or 28.5% in AUD from its current level to match its pre-GFC high on 29 October 2007. In the manager's view, valuations do not look stretched, with the Asia ex Japan region trading at 13.5x 2010 earnings and 11.7x 2011 earnings. A likely upwards revaluation in the Chinese yuan could also help to fuel further Asian currency upside, and this would benefit overseas holders of Asian equities such as AUF.

FUND MANAGER PROFILE: CONGRUIX

Congruix is an Asian regional specialist investment manager that was added to AUF in December 2009. Congruix is wholly owned by US-based Legg Mason Asset Management but operates like an independent boutique, with the advantage of being backed by a strong, global parent. Congruix is led by Patrick Tan and Josef Tern, both of whom have over 20 years of experience managing Asian equity funds. They lead a small team of four analysts on the ground in Singapore focused on finding the highest expected return situations across Asia.

The Congruix team are thematic, 'high alpha' investors. They combine thematic idea generation and bottom up stock level research. They believe thematic investing is now reaping rewards, as both convergence (global supply chain, sovereign interest, transport, communication) and divergence (regulatory, culture, behaviour, analytical attitude) factors are creating excellent investment opportunities in Asia. Their themes are wide ranging and can be top-down or bottom-up based. They look to profit from informational and behavioural inefficiencies and benefit from cross border informational arbitrage. The key for them is to be very early into the idea, well before other market participants have noticed.

A few of the main alpha sources or forms of arbitrage with which Congruix looks to profit from include:

1. **Cost curve –** exploiting the different performance of players along the cost curve as the experience acquired from investing in winning candidates from one generation gets replicated in investing in emerging candidates from another generation.
2. **Value chain –** extracting alpha along the different components of the supply chain, as information tends not to be immediately and fully manifested throughout the entire chain. For example, Congruix believes that the original product manufacturer tends to be conservative and less transparent in their sales and earnings guidance, so Congruix often looks for insights from component manufacturers, which might be located in another country, that tend to offer more insights and transparency because of the more commoditised and generic nature of their output.

3. **Parent/subsidiary –** arbitrating valuation differentials between parent companies and their subsidiaries.
4. **Strategic interests –** strategic and national imperatives of certain countries are being translated into mergers and acquisitions. With appropriate knowledge of and understanding of these strategic intents they try to capture outperformance.
5. **Arbitraging special situations –** taking advantage of value opportunities arising from events such as mergers and acquisitions, recapitalisations, or restructurings.

Many of Congruix's stock selections are quite unique. Whilst they do hold some large cap stocks, the bulk of their portfolio will be in the mid cap and lower mid/small cap areas. They do not use cash as a defensive strategy as they usually aim to stay fully invested at all times.

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

BYD CO LTD (CHINA – INFORMATION TECHNOLOGY)

BYD is a stock in the hybrid car battery space. Congruix identified BYD to be a market share leader in the hybrid car battery industry with potential high growth, due to their lower cost product and comparable technology to that of the Japanese. They initiated their purchase back in September 2008 and the stock has played out well. They feel this is a long term structural opportunity which has transformed the mobile battery player.

ASTRA INTERNATIONAL (INDONESIA – CONSUMER DISCRETIONARY)

Astra is a stock which plays into the strong consumption growth theme as a result of a structural transformation in Indonesia with rising incomes and lower borrowing rates. Astra is one of the largest manufacturers of automobiles in Indonesia, with exclusive rights to manufacture and sell Honda motorcycles and Toyota cars.

TATA MOTORS LTD (INDIA – INDUSTRIALS)

Tata Motors is one of the largest manufacturers of cars and commercial vehicles in India. The thesis behind this holding is the strong recovery in domestic commercial vehicle demand in India as well as the successful restructuring of their international businesses (in Japan) that is now breaking even.

INVESTMENT COMMITTEE

Max Walsh

Daryl Dixon

Alan Dixon

Alex MacLachlan

IMPORTANT INFORMATION

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