



Fund Review

Premium China Fund

ISSUE DATE 30-07-2014

About this Review

ASSET CLASS REVIEWED	GLOBAL EQUITIES
SECTOR REVIEWED	REGIONAL
SUB SECTOR REVIEWED	CHINA
TOTAL FUNDS RATED	2

About this Fund

ASIC RG240 CLASSIFIED	YES
FUND REVIEWED	PREMIUM CHINA FUND
APIR CODE	MA00441AU
PDS OBJECTIVE	LONG-TERM CAPITAL GROWTH AIMING TO GENERATE NET RETURNS EXCEEDING THE MSCI CHINA FREE INDEX (INDEX) OVER A THREE TO FIVE YEAR PERIOD (BEFORE CHANGES IN EXCHANGE RATES).
DISTRIBUTION FREQUENCY	BI-ANNUAL
FUND SIZE	\$215,410,818
FUND INCEPTION	OCTOBER 2005
MANAGEMENT FEE	2%
RESPONSIBLE ENTITY	VALUE PARTNERS LIMITED

About the Fund Manager

FUND MANAGER	VALUE PARTNERS LIMITED
OWNERSHIP	LISTED ON HK STOCK EXCHANGE, 30% CHEAH CHENG HYE, 28.5% YEH V-NEE, 17% SENIOR STAFF
ASSETS MANAGED IN THIS SECTOR	US\$10.5BN
YEARS MANAGING THIS ASSET CLASS	21

Investment Team

PORTFOLIO MANAGER	RENEE HUNG (DEPUTY CIO)
INVESTMENT TEAM SIZE	50
INVESTMENT TEAM TURNOVER	MODERATE
STRUCTURE / LOCATION	HONG KONG, SHANGHAI, SINGAPORE, TAIPEI

Investment process

STYLE	VALUE
TARGETED VALUE ADD ABOVE INDEX (P.A.)	NOT TARGETED
TYPICAL TRACKING ERROR (P.A.)	N/A
TYPICAL STOCK NUMBERS	UP TO 100
CURRENCY APPROACH	ACTIVE
STOCK BET LIMITS	± 10%
SECTOR/INDUSTRY BET LIMITS	NIL

Fund rating history

JULY 2014	HIGHLY RECOMMENDED
JUNE 2013	HIGHLY RECOMMENDED
JULY 2012	HIGHLY RECOMMENDED

What this Rating means

The 'Highly Recommended' rating indicates that Lonsec has very strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered a preferred entry point to this asset class or strategy.

Strengths

- A strong and disciplined contrarian value investment approach, underpinned by a strong senior team
- The firm's long heritage as a Chinese equity specialist.
- The firm has a large investment team relative to many Asian investment managers.

Weaknesses

- Lonsec considers the fee load to be considerable
- Lonsec considers the Fund's decision making structure to be more opaque than many other Asian investment managers.

Fund risk characteristics

	LOW	MODERATE	HIGH
CORPORATE RISK			●
CAPITAL VOLATILITY			●
CONCENTRATION RISK		●	
CURRENCY RISK			●

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the product's asset class and the risks relative to other products in the relevant Lonsec sector universe.

What is this Fund?

- The Premium China Fund ('the Fund') is a long-only product that invests in a diversified portfolio of China related companies. It aims to out-perform the MSCI China Free Index over rolling three to five year periods (before changes in exchange rates).
- Value Partners ('the Manager') has a long standing 'contrarian value' philosophy. It's investment approach seeks to uncover under-valued securities that are currently out of favour with the market, based on the proprietary fundamental research of the investment team.
- The Fund is expected to have 80-100 stocks with a significant small and mid cap exposure.
- The Premium China Fund ('the Fund') is a long-only product that invests in a diversified portfolio of China related companies listed in China, Hong Kong and Taiwan. It aims to out-perform the MSCI China Free Index over rolling three to five year periods (before changes in exchange rates).
- Part of the Fund's investment universe includes the China 'A' share market, which is generally unavailable to foreign investors without approval from Chinese authorities (via the Qualified Foreign Institutional Investor or QFII program). The China A-share market has a considerably larger universe than the other China markets (H-Shares, Red Chips,

We strongly recommend that potential investors read the product disclosure statement or investment statement. Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL No. 421445. This information must be read in conjunction with the warning, disclaimer and disclosure at the end of this document. This report supersedes all prior reports.

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or B-shares), and Lonsec considers this access to be a positive attribute of the Fund. That said, Lonsec also notes that Chinese authorities continue to increase the number of QFII licences, and access to this market is expected to accelerate in line with increasing liberalisation of China's financial markets.

- Value Partners ('the Manager') has a long standing 'contrarian value' philosophy. Its investment approach seeks to uncover under-valued securities that are currently out of favour with the market, based on the proprietary fundamental research of the investment team. The Manager's philosophy is based on the Graham-Dodd value approach, incorporating the concept of 'margin of safety', although tailored to suit Asian markets i.e. with a greater focus on corporate governance and on cash flow analysis.
- The Manager is differentiated from many peers in the region by its portfolio decision making structure, where each sector/industry leader within the investment team has accountability for stock positioning and trading within their respective sectors (as opposed to having a single portfolio decision maker). Turnover within the portfolio is expected to be over 100% p.a., and Lonsec has observed very high level of turnover of individual securities within the Fund.
- The Fund is expected to have 80-100 stocks with a significant small and mid cap exposure compared to the benchmark. The Manager is benchmark unaware in portfolio construction, with senior fund managers encouraged to build high conviction portfolios. The Fund will not typically hold large benchmark stocks for risk management purposes. These characteristics are considered positive features of active management, but investors should note they also introduce greater risk of varying performance outcomes versus the benchmark, and a need for higher risk tolerance compared with more benchmark aware Asian equity peers.
- Historically, the Fund has exhibited some defensive characteristics, outperforming over 60% of months where the market fell over the seven years to March 2014.
- The Fund can hold up to 20% cash. From within this range historically the Manager has periodically held a minor allocation (approximately 5%) to the SPDR Gold ETF as a cash proxy.
- Unlike most competitors the Fund applies an active currency overlay to reduce exposure to foreign currency movements (further explained in the 'Using this Fund' and currency section of this report).
- The Fund charges a 2.00% base fee which is at the high end of the Lonsec Asian equity and Global Emerging Markets peer group universe. A minor proportion of this fee is attributable to the cost of the currency overlay. Additionally, the Manager charges a performance fee of 15% of the out-performance of the Fund in excess of the benchmark subject to a high watermark. Lonsec believes the fees on this product are akin to a hedge fund and high compared to Asian equity competitors and would be encouraged by the Responsible Entity giving consideration to lowering the base fee.

Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- The Fund is a 'long' only emerging markets / regional equities product and as such will generally sit within the growth component of a balanced portfolio. As a regional specific fund, Lonsec considers the Fund suitable for high risk profile investors with a 5+ year investment time horizon. As an active, benchmark unaware, relatively unconstrained manager, investors need to be prepared for portfolio positioning which from time to time will vary markedly from the benchmark.
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- Lonsec believes that investors seeking exposure to global equities should primarily invest in well diversified global equities funds able to take advantage of mispricing opportunities across stocks and regions. Investors should also be mindful of monitoring and maintaining a balance on the overall exposure to developing economies within their global equities allocation. On a look-through basis, it is possible that existing broader global equity fund holdings are already providing meaningful emerging markets exposure (e.g. 10 – 20%).
- Over the long term, emerging markets indices have delivered higher returns than developed global equities, albeit with higher volatility. Lonsec believes there is a compelling case for including emerging markets within a blended global equities allocation however, recommends allocations to stand alone emerging markets / regional equities funds only be made to augment a broader global equities exposure dependent on client risk tolerance. Lonsec believes a (10-20%) allocation to emerging markets from the overall global equities allocation may be appropriate for certain clients.
- Lonsec believes that specialist emerging markets managers with dedicated resourcing and tailored investment approaches may deliver superior performance outcomes in developing markets versus those global equities managers primarily centred on investing in traditional developed markets.
- Lonsec recognises that China is a significant growth market and there is a broad spectrum of investment opportunity for advisers seeking to give clients exposure to the economy (eg. single country funds, regional funds, emerging markets / BRIC funds). Lonsec believes a broader Asia ex-Japan mandate is an attractive initial mechanism for gaining exposure to the greater China region and, in theory at least, allows investment managers the flexibility to position the portfolio in favour or against China depending on the relative strength of their conviction in Chinese stocks. However, those clients wishing to gain a

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deeper exposure to the China theme may prefer a single country approach such as this Fund.

- Lonsec notes that Premium China Funds Management (Premium China) incorporates a degree of active currency management (i.e. beyond A\$ hedging) via Macquarie Investment Management Ltd in its management of the Fund. This active currency strategy is designed to dampen the effects of currency movements on the Fund. The Fund's currency hedging strategy is automated based on application of an algorithm (see currency management section of the report). Lonsec observes that, historically, adding consistent alpha from currency management is notoriously difficult, even for currency specialists using sophisticated tools and techniques. Accordingly, the Fund should only be considered for those investors (i) seeking a product which combines the active management of both global equities and currency exposures and (ii) who demonstrate sufficient tolerance for the potential additional volatility arising from active currency management.

Suggested Lonsec risk profile suitability

SECURE DEFENSIVE CONSERVATIVE BALANCED GROWTH HIGH GROWTH



Lonsec recommends advisors consult the Lonsec Risk Profile Review and / or the Lonsec Risk Profile Definitions document(s) for guidance on appropriate asset allocations to Global Emerging Market Equities within a diversified investment portfolio.

Changes Since Previous Lonsec Review

- There has been some turnover in the investment team. Ada Lau who was a senior fund manager and sector lead of the banking sector, left the firm over the past 12 months. The previous deputy banking analyst was promoted to senior manager post her departure.
- There have been no other material changes to the investment process since Lonsec's last meeting.

Lonsec Opinion of this Fund

People and resources

- Cheng Hye Cheah, Chairman and Co-CIO of Value Partners, leads the investment team. He has 25 years of industry experience, including 21 years at Value Partners. Cheah is highly regarded within the Greater China region, and Lonsec has a positive view of his level of experience and investment capabilities.
- Value Partners advises that Cheah continues to exercise control in his ability to veto buy and sell decisions of the senior fund managers, and remains an integral influence on the firm's macro views, which have a bearing on portfolio composition. In addition he maintains some stock research responsibilities. Despite this, Lonsec believes Cheah has significant non-investment responsibilities, and that management of the Fund has been largely transitioned to the senior fund managers.
- Lonsec still considers key person risk in Cheah to be high given he was largely responsible for the development of the investment team and process. That said, it views positively that a succession plan is in place, which primarily involves Louis So (deputy Chairman of Value Partners and co-CIO) and Renee Hung (deputy CIO). Both have been long term employees of Value Partners, having

joined as graduates. Lonsec believes they are capable investment professionals that show strong alignment with the firm's value philosophy, and that they are suitably qualified for these roles.

- Renee Hung is also the Portfolio Manager of the Fund, a role she has held since 2010. Lonsec notes that portfolio managers at the firm do not make stock selection decisions across all sectors, but instead are mainly responsible for ensuring portfolios align to individual client restrictions and the model portfolios. In total Hung is responsible for eight client portfolios including the Premium Asia Fund (also rated by Lonsec). Lonsec believes she has a key role in providing oversight to the Fund.
- Portfolio construction decisions are driven by sector leads, which can include senior fund managers, fund managers, and assistant fund managers. Lonsec would note that this means a number of investment staff, with differing levels of experience and seniority, are making investment decisions within the Fund.
- The broader investment team is very large, totaling 46 as at March 2014, of which Lonsec considers there to be a senior investment team of eight. While the size of the total team is much higher than the average of the Lonsec Asian equity peer group, Lonsec notes many of the analysts employed are relatively junior. The recruitment model favoured by the Manager is to hire a large number of junior staff and develop them internally, with some eventually becoming senior fund managers, and others ending up leaving the firm. Lonsec views this approach positively in terms of ensuring continuity and consistency of the firm's value philosophy over time, particularly as it is less common within the region. However this method also tends to result in higher team turnover, particularly within the junior analyst team. Lonsec acknowledges this turnover is a natural outcome of the recruitment model, and focuses on stability of senior staff as an indicator of organisational environment. This is considered to have been moderate over time.
- As the product range has expanded, the Manager has moved to import experienced talent, however Lonsec believes there is a higher level of risk in culturally integrating experienced external hires into the existing team framework, which has seen some departures in the past few years.
- Lonsec observes that in recent years the Manager has made efforts to enhance its research effort by adopting practices common to mainstream professional investment firms (e.g. the evolution to sector based analyst research from a generalist research approach). Lonsec is encouraged by this trend.
- While comfortable with the overall experience and scale of resourcing attributable to this product, Lonsec will continue to monitor the overall blend and stability of the investment team in future reviews. Lonsec recognises that historically there has been a degree of analyst turnover at Value Partners given its unique culture and investment approach.
- Overall, Lonsec considers alignment of interests between the investment team and investors to be reasonably high through significant staff ownership of the company, a modest level of co-investment

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in the Fund and the existence of a performance fee which is relatively rare in the Asian equities peer group.

Research and portfolio construction

- Lonsec believes the Manager's contrarian value investment philosophy is robust and applied with discipline and consistency through the investment process.
- In Lonsec's view the structure and transparency of the investment process has significantly improved over time. In 2011, Value Partners restructured its research effort to adopt a sector based approach. Lonsec notes that many Asian equities managers and more broadly global equity managers currently manage their investment research along sector lines in order to bring more rigor and structure to the process. In practice the Manager operates clusters of 3 or 4 analysts in each sector working with a senior fund manager responsible for overseeing research quality and ensuring adequate coverage. Lonsec believes this structure is functioning successfully.
- Lonsec believes the quality and rigor of the Manager's bottom up active company research process remains impressive and stable. The manager adopts an 'audit' type approach, which Lonsec considers sound given the limited transparency and corporate governance issues that are prevalent within the region.
- Each industry/sector leader within the team is accountable for making stock selection and portfolio weighting decisions within their respective sectors. This contrasts to many firms that have a single decision maker across all sectors in the form of a portfolio manager. While Lonsec views positively that there is clear accountability for decisions within each sector, it notes that this process results in a large number of investment staff, with with different levels of seniority, making investment decisions within the portfolio. The large number of decision makers, and the large turnover of securities being bought and sold within the portfolio, make effective oversight of the portfolio more difficult, in Lonsec's view.
- Value Partners adopts a hierarchical approach with junior analysts working closely under the supervision of the senior members. Value Partners employs a demarcation of investment decision making within its portfolios. Co-CIOs (Cheah and So) oversee the integrity of the research process and apply a tactical overlay including macro input and determination of the desired mix between cash and equity holdings. Senior Fund Managers are responsible for overseeing research within their sectors and that client portfolios conform with models and . The entire investment team (CIOs, fund managers and analysts) are responsible for sector based stock research. Lonsec believes this structure provides for a tiered responsibility which is appropriate given the large investment team with different levels of experience.

Risk management

- The manager takes a benchmark unaware approach and accordingly, the risk constraints of the Fund are sufficiently broad to allow the portfolio management team flexibility to position the portfolio in line with the team's views. As a predominately bottom up, stock selection driven manager, not surprisingly, stock selection is the major risk component in the portfolio. In the stock research process, aspects of risk management are more formally engaged such as the requirement to meet company management and consider issues in corporate governance. The manager also uses Risk Metrics to enhance its portfolio risk management monitoring.

Funds Under Management

- Value Partners has experienced strong support for its Asian equities funds over recent years driven by performance and an increased appetite for specialist emerging market exposure. Funds under management (FUM) has risen since Lonsec's previous review to US\$10.5 billion as at March 2014, which represents an increase of approximately US\$1 billion in assets managed on a year earlier. Over 80% of the Manager's FUM is in China or Greater China equities with around 15% in broader Asia ex Japan equities.
- Value Partners has historically sought to identify small and mid cap companies for investment. The ability to exploit this opportunity can be hampered by growing funds under management. Nevertheless, the proportion of small and mid cap stocks remains significant. Capacity is an area Lonsec will continue to monitor in future reviews.

Performance

- The Fund targets long term capital growth aiming to generate net returns exceeding the MSCI China Free Index over a three to five year period (before changes in exchange rates).
- Performance over the 3 years to 30 June 2014 has been disappointing, with the Fund returning 1.33% p.a., under-performing the MSCI China (AUD) by 3.77% p.a.. Lonsec notes that over this time period the was less defensive than it has typically been historically, out-performing around 40% of the months where the market delivered a negative return. The Fund's five year relative return is stronger, outperforming by 2.32%, and generating a total return of 4.09%.
- Performance over the year to 30 June 2014 has also been disappointing, under-performing the benchmark by 1.02%. Positive contributors to return include investments in the consumer discretionary and health care sectors, while the financials and energy sectors detracted.
- Being benchmark unaware, the Fund does not have a Tracking Error target (or constraint), and as such advisers should note that returns may differ significantly from that produced by both the index and more 'benchmark aware' Greater China funds. Lonsec notes that risk within the Fund (as measured by standard deviation) has been higher than the benchmark over the three years to 30 June 2014.
- This Fund is differentiated from its competitors in China or Asian equities through an active currency hedging overlay which can impact positively or negatively on fund performance. The level of hedging employed in the Fund has ranged from

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35% to 55% over the year to 30 June 2014, with an average level of 46%. Over the past year it has added 1.4% to the Fund's return. Lonsec reiterates that currency management is a difficult investment skill to consistently add value and investors need to be aware and comfortable with the impact currency can have on the Fund's performance.

Overall

- Lonsec has maintained the Fund's 'Highly Recommended' rating following the latest review. Lonsec believes the Fund benefits from a strong senior investment team with long experience in China markets, and strong adherence to an investment approach based on a long held value philosophy. While the Manager continues to broaden its product suite it remains true to its heritage as a Chinese equity specialist offering access to aspects of the China investment opportunity not readily replicated in the retail market.
- That said, Lonsec notes that the fee load of the product is considerable. The decision making structure within the Fund also makes the Fund more opaque relative to many other Asian investment managers.

People and Resources

Corporate overview

Premium China Funds Management is a Sydney based financial services firm established in 2005, to bring specialist Asian focused funds, particularly China, to the Australian market. Responsibility for the management of the Fund has been outsourced to Hong Kong-based manager, Value Partners. Value Partners was founded in February 1993 by Cheah Cheng Hye and V-Nee Yeh. Value Partners listed on the Hong Kong Stock Exchange in November 2007 although the founder Cheah and investment staff retain significant ownership of the firm (49%). Prior to co-founding Value Partners, Cheah was the Head of Morgan Grenfell's Hong Kong equities research department, where he also acted as a proprietary trader.

Macquarie Investment Management is the Responsible Entity for this Fund. Custody has been outsourced to Citibank.

Team structure

A hierarchical approach exists, with Cheah and So sitting above the team of fund managers and analysts. The team structure has evolved towards sector specialisation among fund managers and analysts. All members of the investment team undertake stock research.

Size and experience

NAME	POSITION	EXPERIENCE
		INDUSTRY / FIRM
LOUIS SO	CO-CIO	15 / 15
CHEAH CHENG HYE	CO-CIO	25 / 21
NORMAN HO	PORTFOLIO MANAGER	25 / 18
ERIC CHOW	PORTFOLIO MANAGER	12 / 12
ALAN WANG	PORTFOLIO MANAGER	14 / 11
DORIS HO	PORTFOLIO MANAGER	11 / 8
MICHELLE YU	PORTFOLIO MANAGER	9 / 9
RENEE HUNG	DEPUTY CIO	16 / 16
30	EQUITY ANALYSTS	5 / 5

Structure

- Combined Analyst/PM.

Organisation

- Sector specialist.

Turnover

- Moderate.

Remuneration

- CIO determines the variable remuneration paid to members of the investment team.
- The variable remuneration pool is calculated as a % of Value Partners' pre-tax profit.

Research Approach

Overview

RESEARCH PHILOSOPHY	FUNDAMENTAL, BOTTOM UP, WITH MACRO OVERLAY
NO. STOCKS IN UNIVERSE	ALL STOCKS LISTED ON THE GREATER CHINA STOCK EXCHANGES (BEING TAIWAN, HONG KONG AND CHINA), > 2,000 COMPANIES
NO. STOCKS FULLY MODELED / RESEARCHED	70-150 ON BUY LIST
UNIVERSE FILTERING	SOME METRIC BASED SCREENING EG. P/E, P/B, ROE, AND DIVIDEND YIELD.
RESEARCH INPUTS	FREQUENT CONTACT WITH COMPANY MANAGEMENT BLOOMBERG DATA.
BROKER RESEARCH	RARELY USED.

The Value Partners research process seeks to identify stocks that possess the following three key characteristics, being 'the right business', 'run by the right people', at 'the right price'. The research process seeks to identify the following opportunities:

- Under-researched value stocks with growth prospects
- solid businesses underpinned by good management track record
- attractive valuations

Whilst all stocks are not required to meet certain pre-determined parameters, the manager's general definition of value includes stocks that possess the following quantitative characteristics: PE<10, PBR<2, Div Yield>4%, ROE>10%, strong cash flow and strong balance sheet.

Fundamental analysis

- 'Audit' type approach – companies required to meet minimum capital adequacy, profitability / valuation and forecast yield to warrant further analysis.
- Company management – 70% of research generated internally by analyst having spent time on the ground meeting with company management (with approximately 2,500 company meetings per annum)

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and with relevant industry participants including suppliers, customers, industry experts, competitors and government authorities.

- Porter analysis.
- Investment Grade companies are added to buy list and a price limit is set.

Valuation

Valuations based on 1 or 2 year forecast data using valuation metrics such as, PE, EV / EBITDA, ROE, ROA, PBR and dividend yield. The Manager's general definition of value includes stocks that possess the following quantitative characteristics: PE<10, PBR<2, Div yield>4%, ROE>10%.

Profitability ratios, activity ratios, solvency ratios and liquidity ratios are also commonly utilised depending on company and at analyst discretion.

All valuation models/tools used are proprietary with external broker research generally not utilised.

The output of this process generally results in a stock being categorised into one of three 'buckets' being, 'undervalued', 'fair-valued' or 'overvalued'.

Portfolio Construction

Overview

INVESTMENT APPROACH	BENCHMARK UNAWARE
FUND BENCHMARK	MSCI CHINA AUD
TRACKING ERROR	NOT TARGETED
INVESTMENT STYLE	VALUE
MARKET CAPITALISATION BIAS	ALL CAP
PORTFOLIO CONSTRUCTION	STRONG TEAM BASED ELEMENT. SECTOR LEADS RESPONSIBLE FOR MAKING DECISIONS WITHIN THEIR SECTORS, THOUGH CHEAH HAS A VETO POWER OVER THE PORTFOLIO MANAGER INVESTMENT DECISIONS.
STOCK SELECTION	BOTTOM-UP
TOP-DOWN	CO-CIOS PROVIDE STRATEGIC INPUT REGARDING MACRO VIEWS, CASH LEVELS AND WHETHER THERE SHOULD BE A DEFENSIVE OR AGGRESSIVE STANCE IN THE PORTFOLIO.
TYPICAL NO. OF HOLDINGS	UP TO 100
EXPECTED PORTFOLIO TURNOVER (P.A.)	APPROX. 80-100%
SELL DECISION	LOSS OF CONVICTION DETERIORATION IN COMPANY MANAGEMENT STOCK REACHES "FAIR VALUE" MORE ATTRACTIVE IDEAS
% OF PORTFOLIO IN TOP 10 HOLDINGS (AS AT MARCH 2014)	32%

Borrowing or stock lending is not permitted and foreign exchange can only be utilised to execute the settlement of securities (counter parties must have an S&P rating of at least A1 or a Moody's rating of at least P-1).

Macquarie Investment Management monitors compliance with mandate guidelines, which serves as a secondary check to the Value Partners internal compliance function.

Risk Management

Risk limits

INDEPENDENT RISK MONITORING	RISK MANAGEMENT COMMITTEE
STOCK	10% OF TOTAL PORTFOLIO VALUE (20% OF INDEX WEIGHT IF THE STOCK REPRESENTS >10% OF THE MSCI CHINA FREE INDEX). TYPICALLY INDIVIDUAL STOCK WEIGHTS ARE GENERALLY NOT EXPECTED TO REPRESENT >2%-3% OF PORTFOLIO VALUE (WITH 5% CONSIDERED A SIGNIFICANT HOLDING).
SECTOR	NO LIMIT
A-SHARES	MAX 35%
CASH	0% - 20%

Borrowing or stock lending is not permitted and foreign exchange can only be utilised to execute the settlement of securities (counter parties must have an S&P rating of at least A1 or a Moody's rating of at least P-1).

Macquarie Investment Management monitors compliance with mandate guidelines, which serves as a secondary check to the Value Partners internal compliance function.

Currency management

Product options

Variable hedging: MAQ0441AU

Currency hedging

Prior to January 2009, the Premium China Fund was managed on a fully unhedged basis. As such, investors were exposed to the impact of currency fluctuations. From January 2009, the fund manager incorporated a degree of active currency hedging into the Fund. According to Premium China, the change was made to reduce the level of volatility of the fund's capital values. The Fund's Dynamic Currency Hedging Strategy operated by Macquarie Investment Management Limited allows Macquarie to hedge a varying proportion of the Fund's international exposure (0% to 100%) back to Australian dollars. The hedging strategy is highly automated based on application of an algorithm. As the Australian currency appreciates, the hedge will increase to offset the gains and conversely, as the dollar weakens the hedge can be reduced. The Fund's currency exposure was 42.6% hedged at 30 April 2013.

Value Partners does not manage currency as a separate asset class and does not engage in cross currency hedging.

Risk monitoring

- The manager takes a benchmark unaware approach and accordingly, the risk constraints of the Fund are sufficiently broad to allow the portfolio management team flexibility to position the portfolio in line with the team's views. In the stock research process, aspects of risk management are more formally engaged such as the requirement to meet company management and consider issues in corporate governance. The manager also uses Risk Metrics to enhance its portfolio risk management monitoring.

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Risks

An investment in the Fund carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers major risks to be:

Currency risk

Funds in the Global Equities – Regional Equities sector, such as this one, predominantly invest in assets that are denominated in non-A\$ currencies. A rise in the relative value of the A\$ vis-à-vis the currencies in which the assets are denominated will negatively impact the market value of the assets (and vice versa) from an Australian investor's perspective. In this instance the currency risk is influenced by an active currency approach (outlined in previous section).

Liquidity risk

Exposures to emerging market countries can potentially give rise to heightened liquidity risk. Stocks domiciled in emerging markets are generally considered to be less liquid than those domiciled in developed markets, particularly during times of extreme market dislocation. Lonsec notes this Fund also makes an allocation to smaller companies which have greater liquidity challenges versus larger companies.

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Quantitative performance analysis — annualised after-fee % returns (at 30-6-2014)

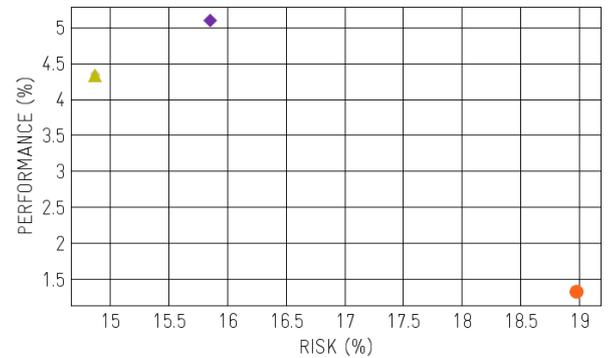
	1 YR		3 YR		5 YR		7 YR	
	FUND	PEER GROUP	FUND	PEER GROUP	FUND	PEER GROUP	FUND	PEER GROUP
PERFORMANCE (% PA)	10.92	12.9	1.33	4.34	4.09	2.44	2.75	1.54
STANDARD DEVIATION (% PA)	12.37	13.96	18.97	14.87	17.1	14.45	18.71	19.27
EXCESS RETURN (% PA)	-1.02	0.96	-3.77	-0.76	2.32	0.67	1.89	0.68
OUTPERFORMANCE RATIO (% PA)	50	66.67	47.22	52.78	60	60	58.33	58.33
WORST DRAWDOWN (%)	-9.26	-12.69	-25.41	-17.83	-30.41	-27.51	-39.2	-44.99
TIME TO RECOVERY (MTHS)	-	-	13	5	16	14	23	-
SHARPE RATIO	0.67	0.73	-0.12	0.05	0.01	-0.1	-0.1	-0.16
INFORMATION RATIO	-0.16	0.25	-0.45	-0.14	0.27	0.14	0.16	0.11
TRACKING ERROR (% PA)	6.26	3.8	8.46	5.33	8.58	4.9	11.95	6.07

FUND: PREMIUM CHINA FUND
 LONSEC PEER GROUP: CHINA
 LONSEC SECTOR BENCHMARK: MSCI CHINA NR AUD
 CASH BENCHMARK: UBS BANK BILL INDEX

Growth of \$10,000 over seven years

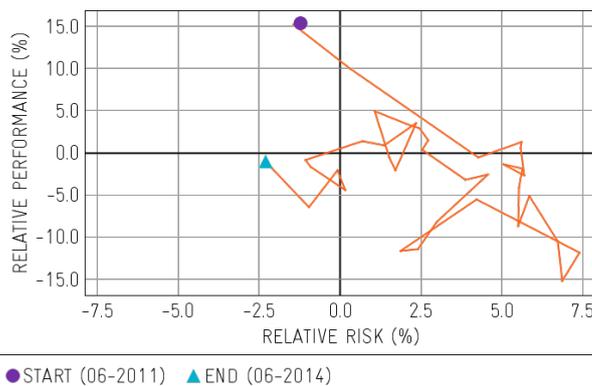


Risk-return chart over three years



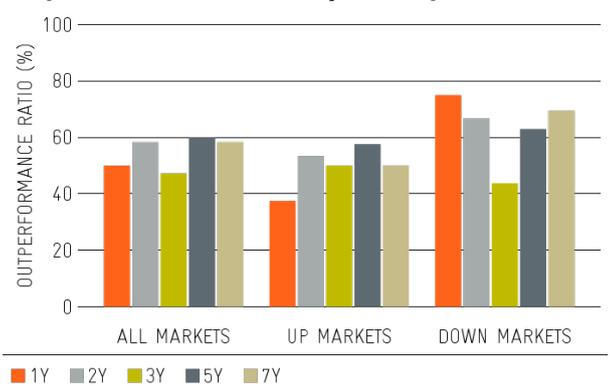
● PREMIUM CHINA FUND
 ◆ MSCI CHINA NR AUD
 ▲ PEER AVERAGE
 ● PEERS

Snail trail



BENCHMARK: MSCI CHINA NR AUD

Outperformance consistency across periods



BENCHMARK: MSCI CHINA NR AUD

ANALYST: NICK THOMAS | APPROVED BY: STEVEN SWEENEY

Premium China Fund

Glossary

Absolute return 'Top line' actual return, after fees

Excess return Return in excess of the benchmark return

Standard deviation Volatility of monthly Absolute Returns

Tracking error Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)

Sharpe ratio Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)

Information ratio Relative reward for relative risk taken (Excess Returns / Tracking Error)

Worst drawdown The worst cumulative loss ('peak to trough') experienced over the period assessed

Time to recovery The number of months taken to recover the Worst Drawdown

Snail Trail A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

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