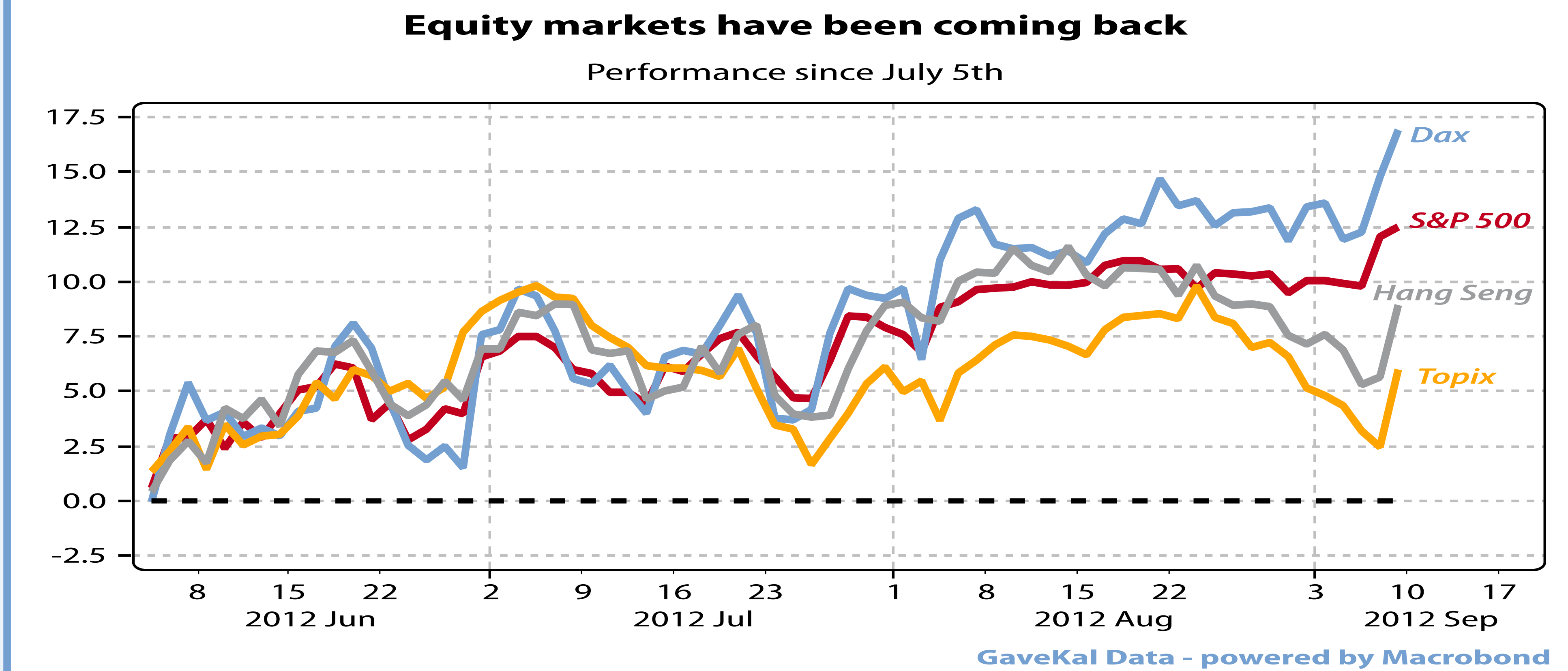
MW GaveKal Quarterly Investor Conference Call

September 2012

Asia's Disappointing Performance



Since our last call, when we tried to make the case that equities were the best asset class to own, equity markets have recovered, especially in the developed world, and the World MCSI is up by +12.3%. Unfortunately, Asia has continued to underperform, partly on the back of weak Chinese demand.

The China Syndrome

How will financial reform affect China's growth and capital flows?

- China has already begun a transition from the capital intensive growth phase of the last decade to a growth model more dependent on capital efficiency.
- This transition is being driven as much from below, by market pressure, as it is from the top, by government policy.
- The key mechanism is financial liberalization – which essentially means interest-rate liberalization or **the replacement of administered pricing of capital by market pricing of capital.**
- An increase in the efficiency of capital allocation will tend to reduce the growth rate of investment , and promote consumption – i.e. "rebalancing".
- More efficient capital allocation will also lead to a substantial slowdown in the trend GDP growth rate, from 11% in 2002-11 to 7% or so over the next decade.
- Under the old growth model, capital controls were required in order to maintain administratively-set interest and exchange rates.
- As a result, outward flows of private capital were tightly restricted; most outward capital flows occurred through official channels (forex reserves held by PBoC) and flowed into safe haven assets.
- Under the new growth model, capital controls will gradually erode, and the private share of outward capital flows will increase.
- At the margin, therefore, China's outward capital flows should increasingly be directed to higher-risk assets over the next decade.

China shifts from capital-intensive to capital-efficient growth

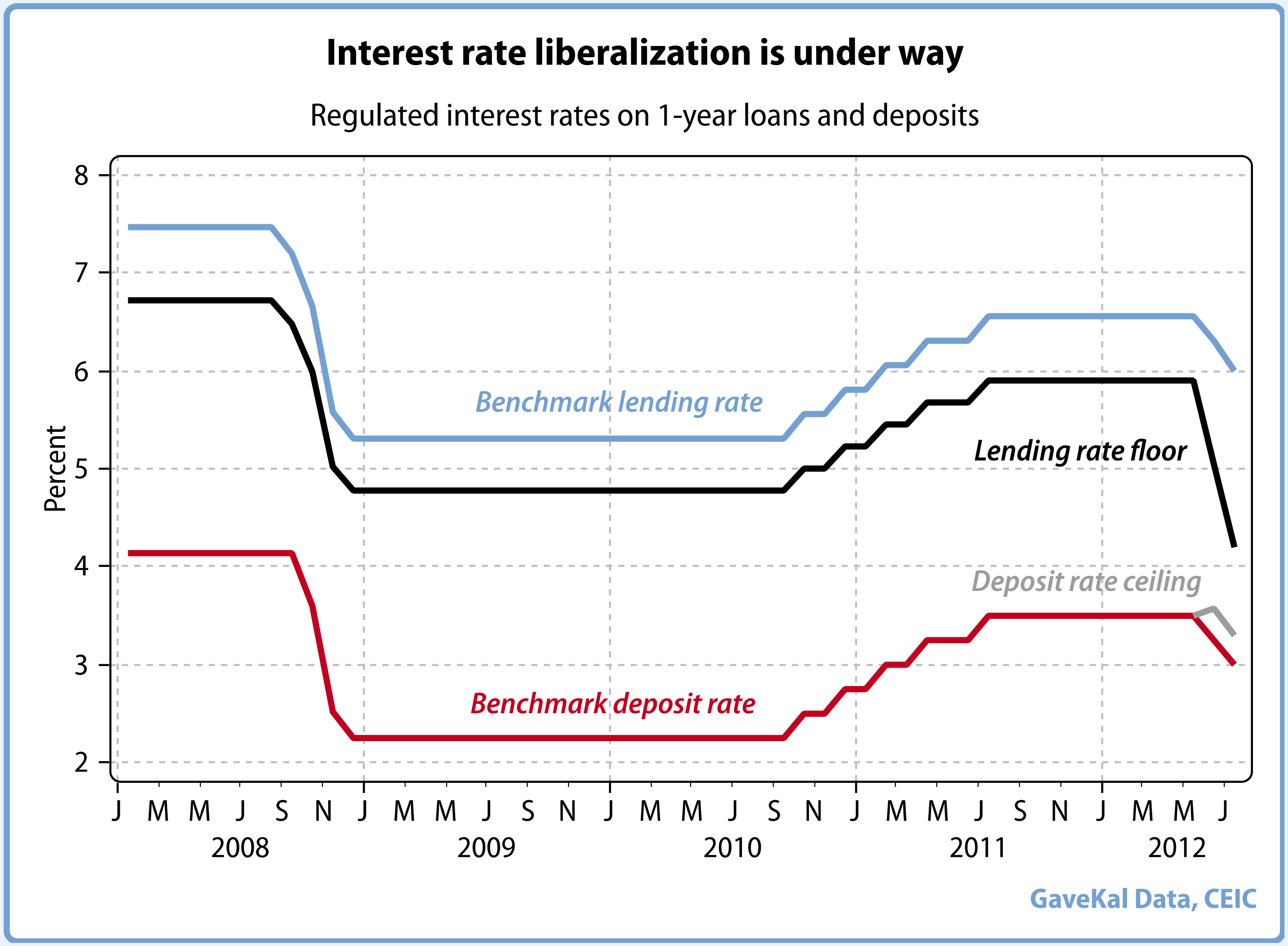
Old, capital-intensive growth model (2002-2011)

Characteristic	Consequence
Financial repression (low interest rates) effectively taxed household depositors to finance massive investments in basic industries and infrastructure.	Fixed capital formation rose from 34% of GDP in 2000 to 46% in 2011.
An undervalued exchange rate (fixed until 2005; gradually converging to purchasing parity 2006-11) promoted exports and capital inflows.	Current account rose from 2.4% of GDP in 2002 to 10.1% in 2007. Forex reserves rose from US$200 bn in 2001 to US$3.3 trn in 2011.
To fix interest and exchange rates at artificially low levels, capital controls were required to limit private outflows of portfolio and direct investment.	Outward capital flows disproportionately went through official channels (PBC reserve holdings) into safe-haven assets.

New, capital-efficient growth model (2012->)

Characteristic	Consequence
Market forces and government policy push interest rates up.	Capital formation share of GDP falls; consumption share rises. Banks face pressure from more volatile funding costs.
Exchange rate, near fair value, fluctuates up and down and no longer subsidizes exporters.	Current account surplus fell to 2.8% of GDP in 2011 and will likely stabilize around 3%. Forex reserves have stabilized around US$3.3 trn since mid-2011.
Capital controls gradually eroded through RMB internationalization program.	RMB more widely used for trade and outward investment; private share of capital outflows increases.

Interest rate liberalization has begun



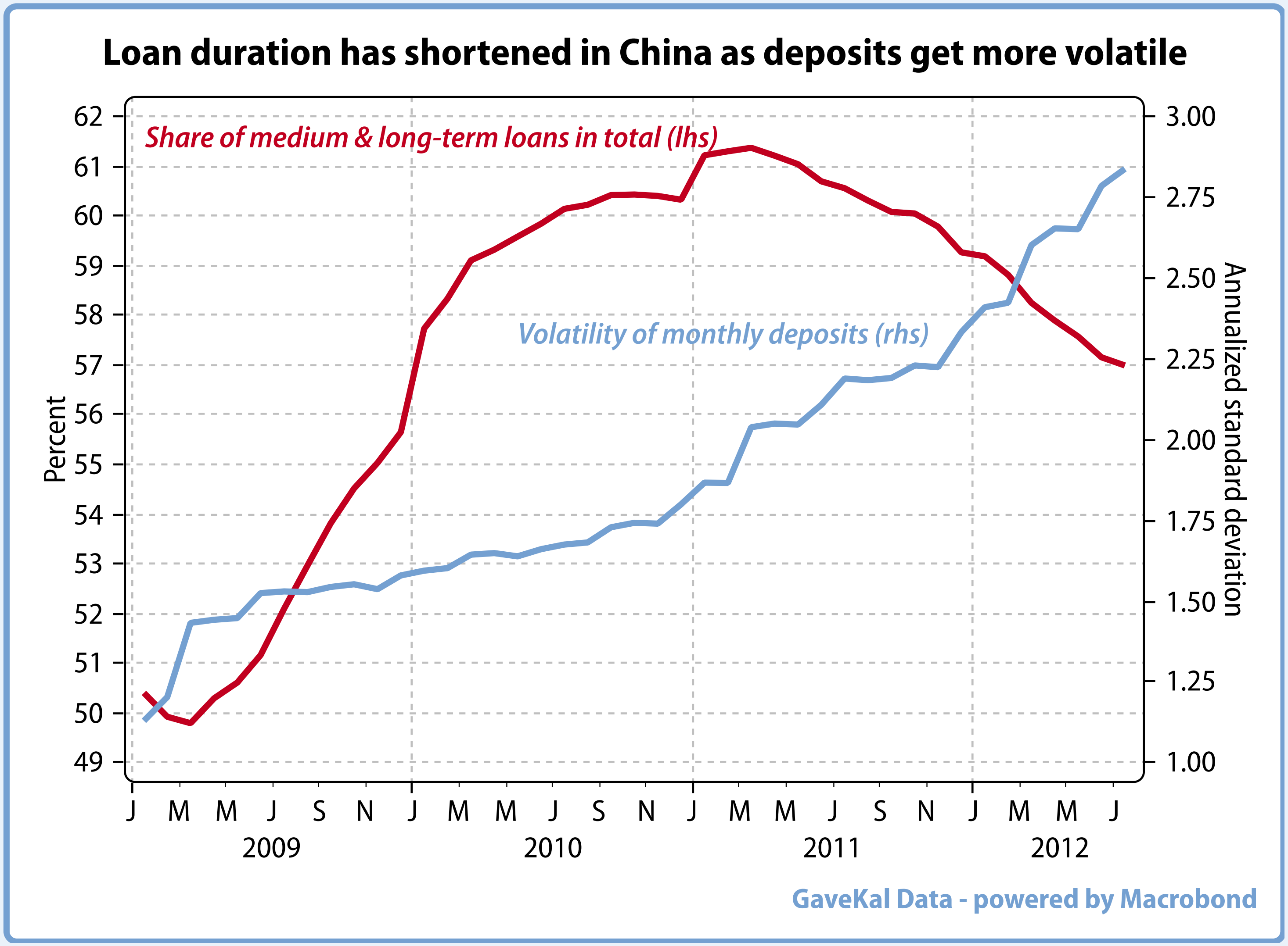
Since 2002 Chinese banks have benefited from a wide spread between PBoC-set minimum lending rates and maximum deposit rates.

In 2010-2011 market pressures eroded this system of financial repression, as banks competed for deposits via off-balance sheet "wealth management products" offered at market rates.

In June 2012 PBoC began to recognize this *de facto* interest rate liberalization by raising the deposit rate ceiling and cutting the lending rate floor.

Banks now face narrowing margins and trickier balance sheets, since their funding costs and volumes are much more volatile.

Deposit volatility reduces long-term lending

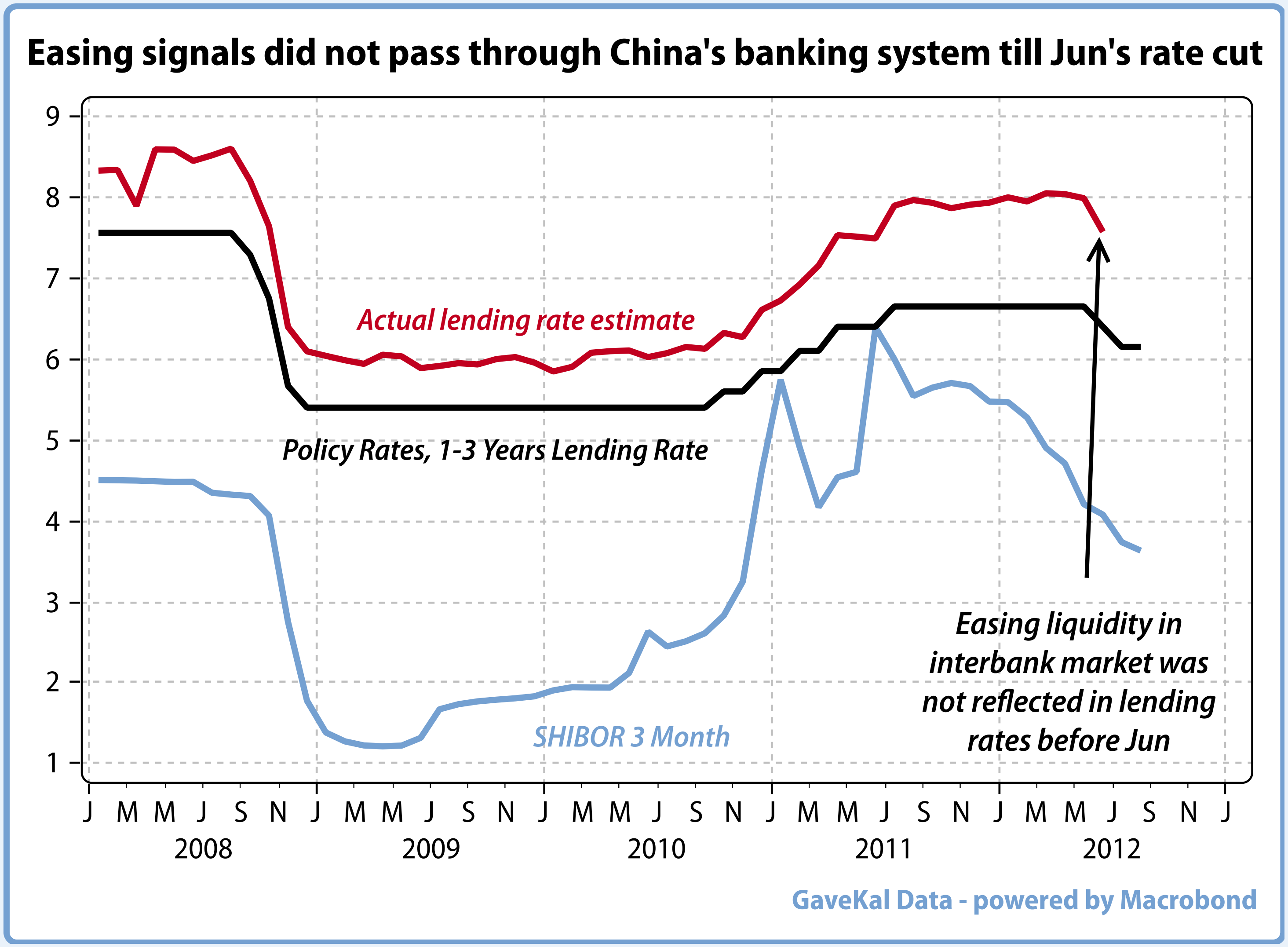


One effect of the increased volatility of banks' funding base is a reduced willingness to extend longer-term loans. Instead they have relied on short-term working capital loans to meet loan targets.

One implication is that big corporates will increasingly move to the bond market for long-term finance.

A second implication is that the government's traditional ability to conduct monetary policy through quantitative measures is greatly reduced.

Traditional monetary policy instruments are broken

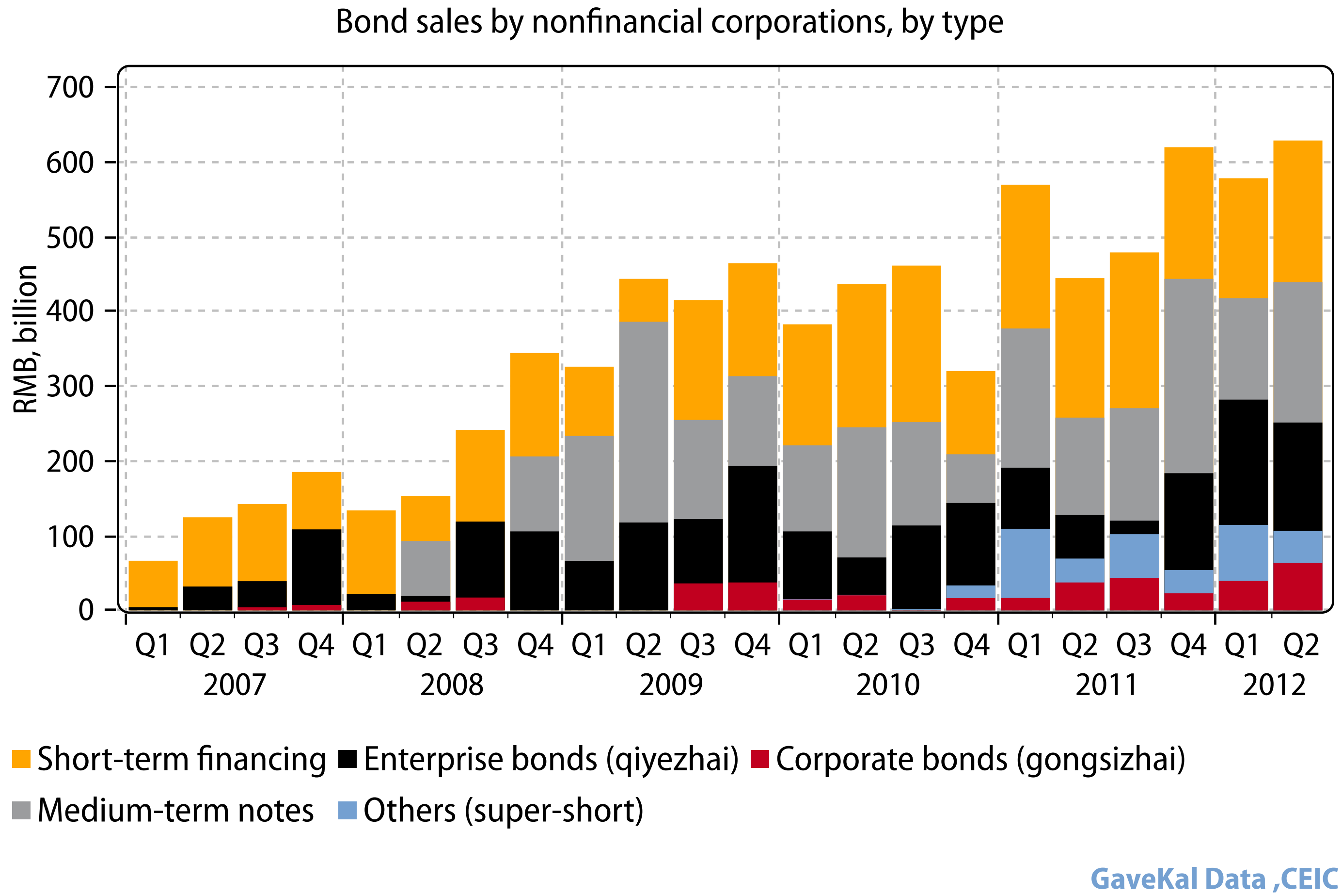


Evidence of the failure of Beijing's traditional monetary tools: cuts in PBoC RRR and falling interbank lending rates did not translate into cuts in effective rates for corporate loans. The reason is that banks are cautious about cutting lending rates when they fear their funding costs may spike up.

The solution is for the PBoC to let formal bank deposit rates float toward wealth management product rates. With a more consistent and stable cost of funds, banks will be better able to manage their loan portfolios.

The rising cost of bank loans drives big firms to debt markets

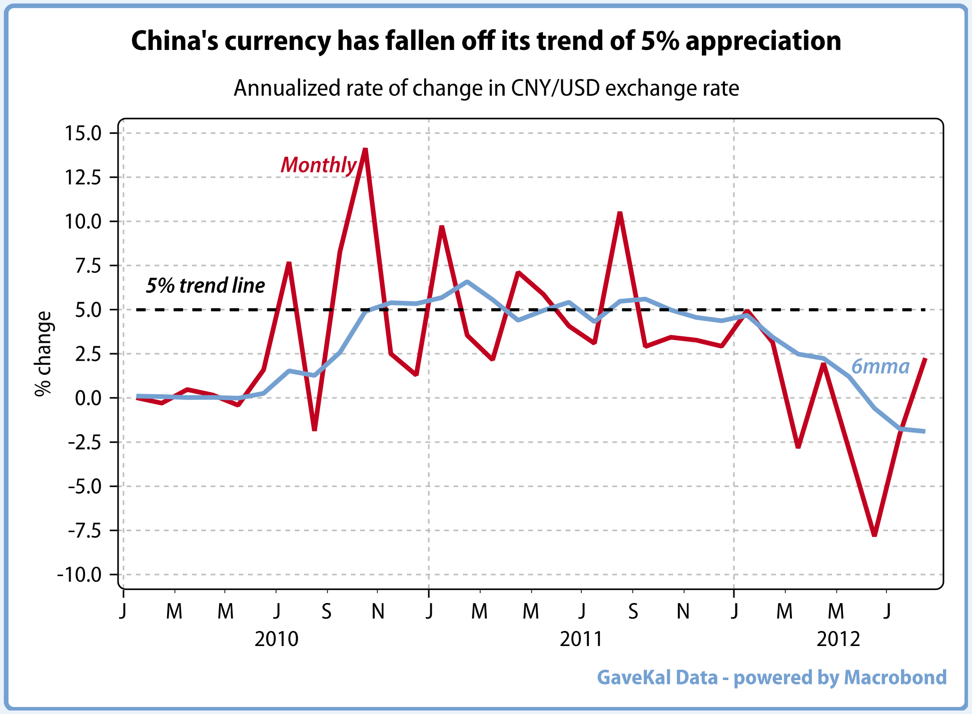
Bond market fundraising has increased, led by local government firms

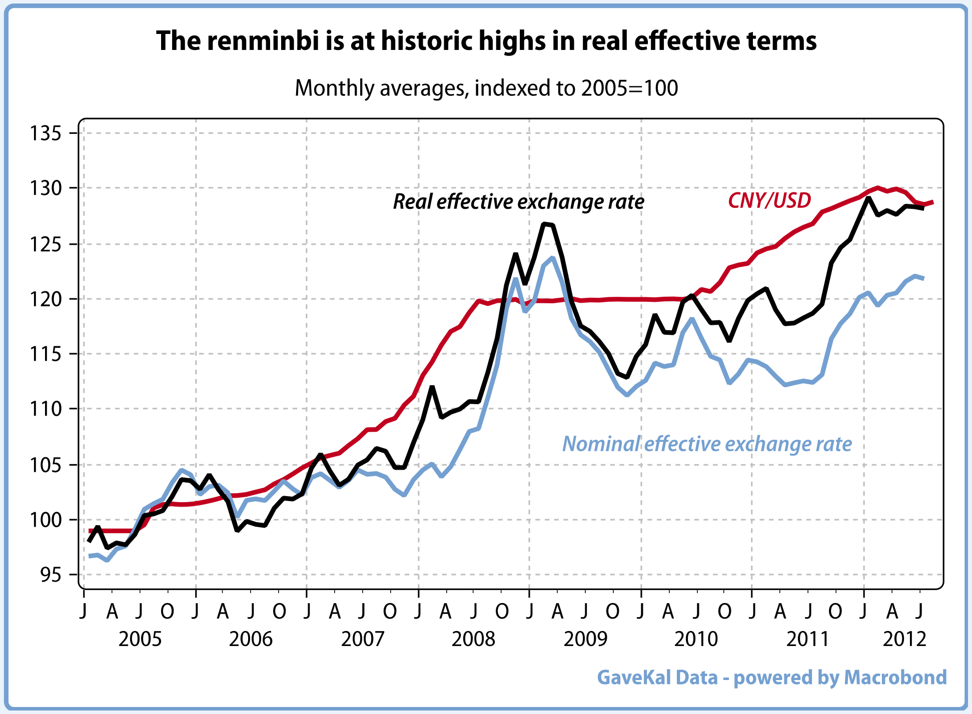


Another result of the shifts in the bank loan system is the increased reliance of corporations on the bond market for financing.

As bank loans become increasingly rationed by price, at market rates, top-rated corporates will have more incentives to migrate to the bond market.

RMB exchange rate: no longer a one-way bet





The RMB depreciated against the USD in May-July 2012, showing that its once-steady trend of appreciation is broken. China's official position is that the currency is now "roughly in equilibrium" so rapid appreciation is not appropriate. But the government is unlikely to encourage sustained depreciation as this would have negative effects on confidence and its ability to further RMB internationalization.

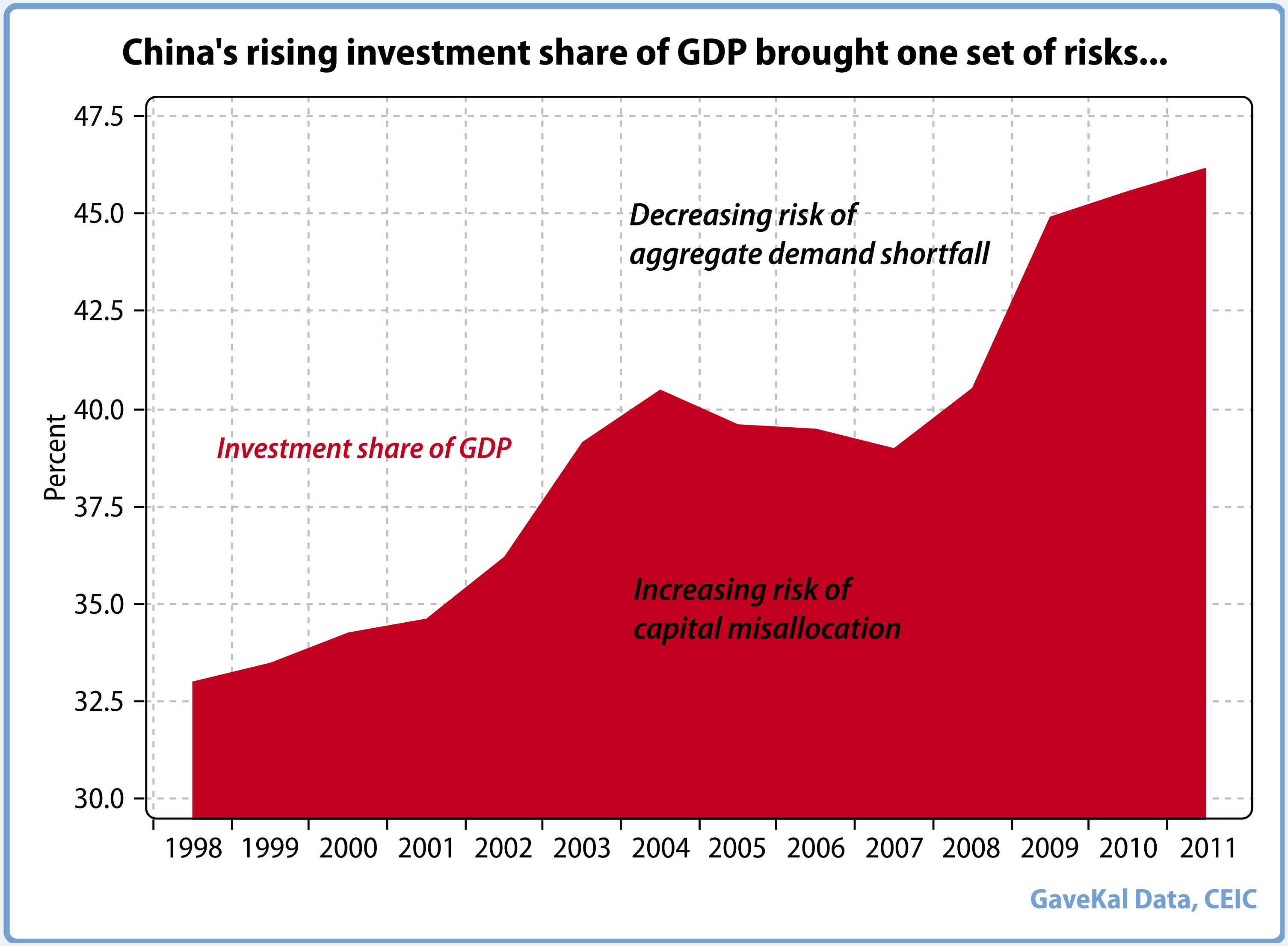
Given the substantial accumulated appreciation since 2005, and more balanced capital flows, it is clear China's currency is now less of a one-way bet. We think fundamentals support continued appreciation over the long-term, but two-way movements will be more pronounced and the trend rate of appreciation slower.

Structural shift means a slowdown in trend GDP growth

One scenario for slowdown and rebalancing

Period	Average annual real growth rates			Investment ratio at end of period
	Investment	Consumption	GDP	
2001-2005	14.6%	8.6%	9.8%	40%
2006-2010	16.4%	11.1%	11.2%	46%
2011-2015e	6.5%	10.4%	7.8%	44%
2016-2020e	3.2%	9.8%	6.7%	39%

Under the old model, the big risk was capital misallocation



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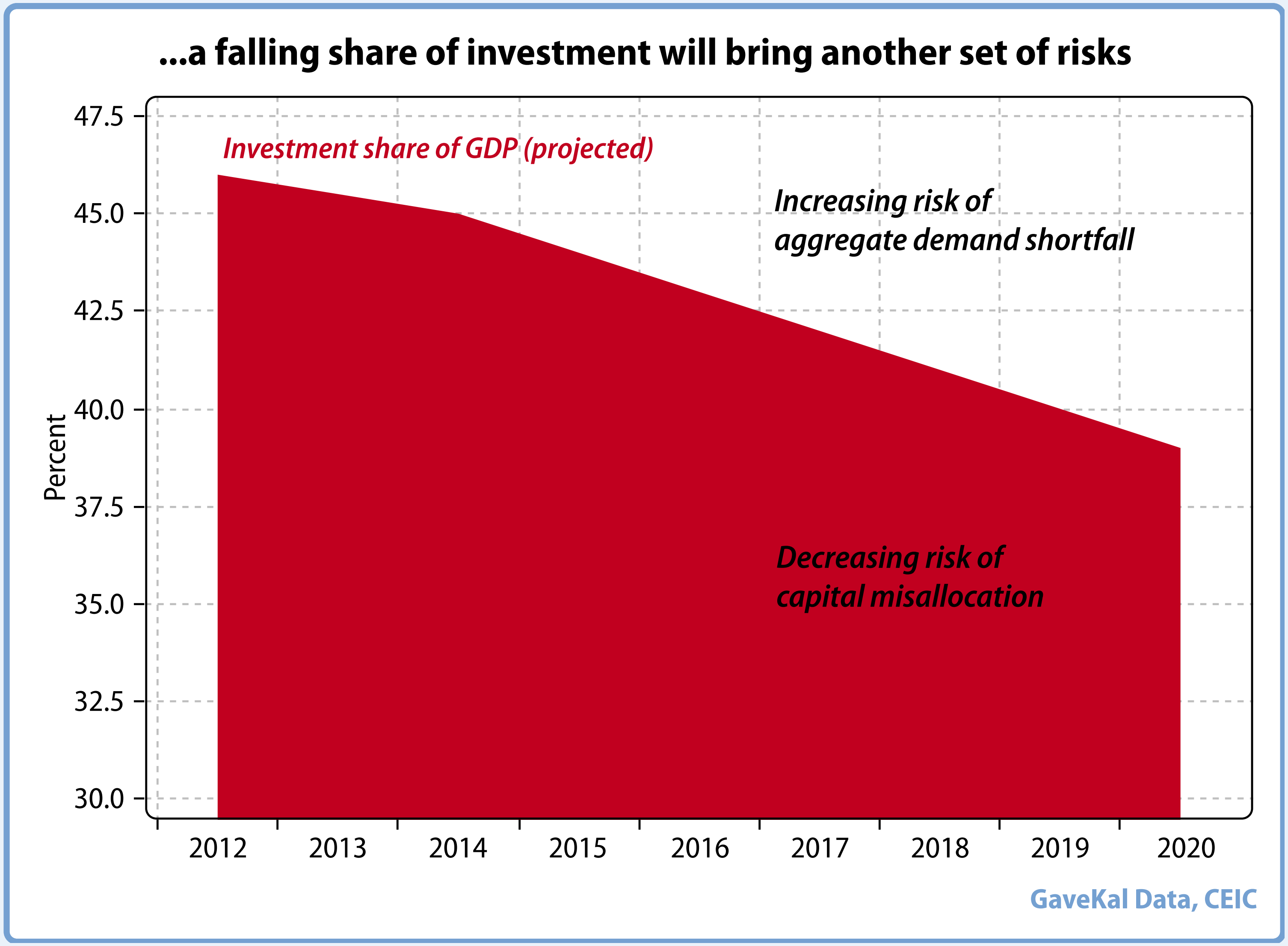
Under the new model, the big risk is weak aggregate demand



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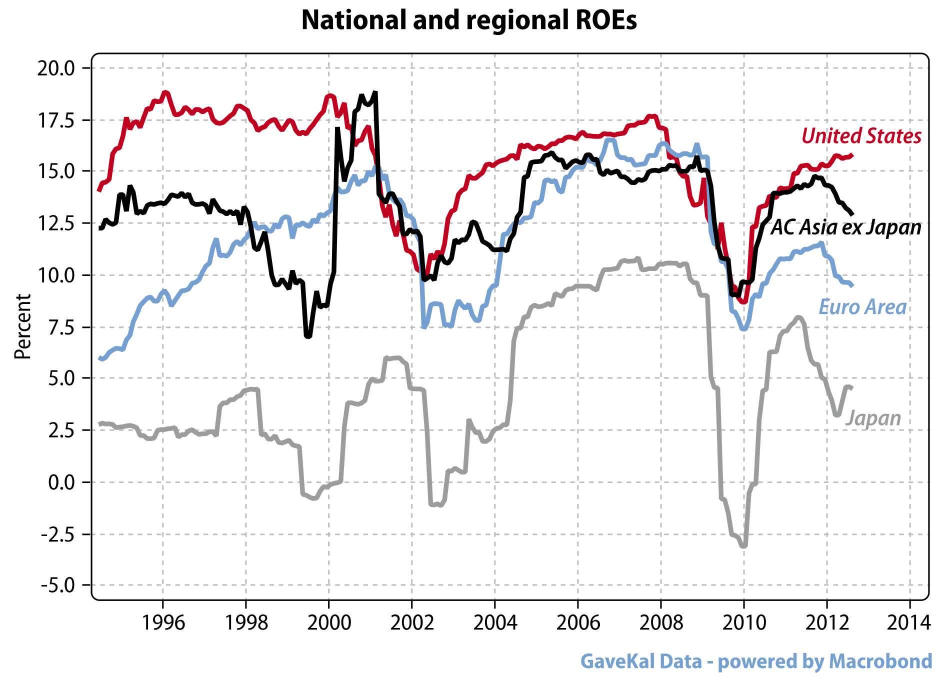
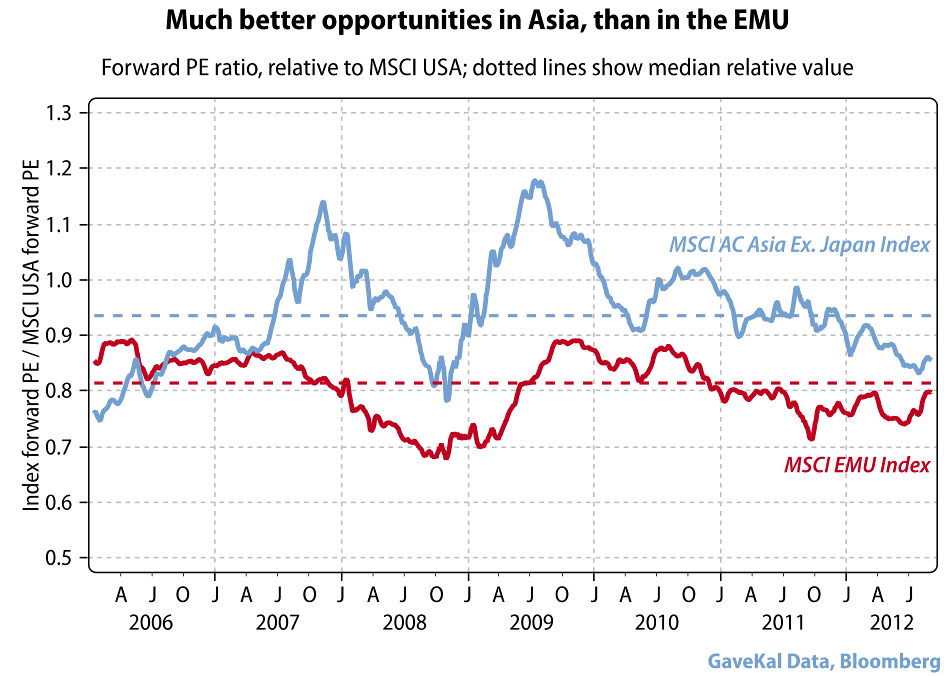
How much is priced in? Asia ex Japan now the best value region





US equities have structurally higher returns on equity. This allows them to grow faster and/or use less capital to do so, both of which enhance returns to equity holders.

Japanese returns are very low, and do not meet cost of capital hurdles for USD-based investors. Absent a structural change in corporate governance and/or a much lower Yen, the Japanese market should only be used for short term trades.

US equities trade on 14x forward earnings, Asia ex Japan on 12x, EMU on 11x, and Japan on 13x. Outside of the US (which is our preferred region) we prefer Asia ex Japan:

- Absolute value is not demanding
- Value is lower relative to recent history than in EMU, and with much less political & monetary uncertainty
- Japanese equities are not attractive

Even within the Chinese markets, there are strong performers

Source: Bloomberg, data as of 19 Sept 2012 in USD terms

Key Personnel of the MW GaveKal

- Alfred Ho: Chief Investment Officer, Portfolio Manager
  Alfred Ho has over sixteen years of experience in investing in Asian markets. Before joining MW-GaveKal in July 2008, Alfred Ho managed the GaveKal Asian Absolute Return Funds and was GaveKal CIO from 2006 to 2008. Before that, Alfred Ho was the Chief Investment Officer for INVESCO Asia and was responsible for managing large retail and institutional portfolios. Alfred was the lead manager for the INVESCO GT Asia Enterprise Fund which received best performing fund awards by SCMP/Micropal in 1992, 1995, 1998 and 2001. Alfred Ho initiated the launch of the first absolute-return driven product for the company - INVESCO Asia Alpha Fund in 1999. Prior to joining INVESCO, Alfred worked as an analyst with W.I. Carr in Hong Kong. Alfred graduated from the University of Wisconsin-Madison with a Bachelor of Science degree in Economics, and a Master of Science degree in Finance where he was enrolled in the Applied Security Analysis Program at the School of Business. He is a holder of the Chartered Financial Analyst designation.
- Louis-Vincent Gave: Chief Executive Officer, Portfolio Manager
  Louis-Vincent Gave joined MW-GaveKal at its inception in July 2008. Prior to this, Louis-Vincent Gave worked for GaveKal, an independent research firm which he co-founded in 1999. Before GaveKal, Louis-Vincent Gave worked for Paribas Capital Markets where he was an equity research analyst from 1997 to 1999. In 1996 and 1997, Louis-Vincent served in the French Mountain Infantry Division as a second lieutenant. Louis-Vincent Gave studied Economics, History and Chinese at Duke University and Nanjing University. Louis-Vincent Gave has written three books (Our Brave New World, The End is Not Nigh and A Roadmap for Troubling Times).
- Christine Cheung: Portfolio Manager
  Christine joined MW GaveKal in June 2012 as a Fixed Income Portfolio Manager. Before joining the firm, Christine worked for Hong Kong Monetary Authority as a Portfolio Manager for the credit portfolio of the Direct Investment Team under the Reserves Management Department. Prior to that, Christine worked for RimAsia Private Equity, focusing on acquisitions in the Pan-Asia region. Before joining the buy side, she worked in the Investment Banking Divisions of Credit Suisse and Citigroup. Christine graduated from Wharton School, University of Pennsylvania, majoring in Finance and Accounting. Christine speaks English, Cantonese and Mandarin.
- Eric Wong: Senior Analyst
  Eric graduated from Queen's University, Canada, with a Bachelor of Commerce (Honours) in 2004 and spent a year studying Mandarin at Beijing Normal University. Moving back to his native Hong Kong in 2005, he joined AIG Global Investments as an investment analyst and became an assistant portfolio manager, managing a HK/China fund with AUM of US$120m. He then left to join the equity team at Income Partners Asset Management in 2009, where he was responsible for performing fundamental analysis and generating long-short ideas within the Asia Ex-Japan Industrials space. Eric speaks English, Cantonese and Mandarin.
- Daniel Fields: Analyst
  Dan graduated from the University of Idaho in 2006 with a Bachelor's degree in Finance where he was a member of a student led trading and asset allocation group. After graduation he went to work for Fisher Investments in the trading department, later joining the research team where he was responsible for providing both industry and stock specific analysis. In 2009 he moved to Hong Kong and joined GaveKal Research as an analyst responsible for macroeconomic research of commodity producing countries. Dan joined MW GaveKal in May 2010.
- Stephanie Woo: Analyst
  Stephanie graduated from the University of Toronto in 2004 with a Bachelor's degree in Commerce and Finance. After graduation, she worked for consulting company Intercedent Asia as a Research Associate. There she was responsible for doing field research to provide strategic market analysis, industry and competitive intelligence to corporate clients. Stephanie joined GaveKal in March 2008 and has contributed in the team's macroeconomic and stock specific research with focus on Asia. In November 2010 she joined MW GaveKal.
- Victor Luk: Quant Analyst
  Victor graduated from the Chinese University of Hong Kong in 2005 with a Bachelor of Science. He joined GaveKal immediately afterwards (Victor had been working at GaveKal part time for a year before that).

Source: MW GaveKal

Investment Risks

Investments are not guaranteed by any entity and investment losses may occur. Investment in the Funds carries substantial risk. There can be no assurance that the investment objectives of the Funds will be achieved and investment results may vary substantially over time. Investment in the Funds are not intended to be a complete investment programme for any investor. Investment in the Funds are intended for experienced investors who are able to understand and accept the risks involved.

The value of all investments and the income derived there from can decrease as well as increase. This may be due, in part, to exchange rate fluctuations in investments that have an exposure to currencies other than the base currency of the Funds. Past performance is no guide to or guarantee of future performance. The value of commodity and derivative investments such as options and futures can be extremely volatile. The Funds may invest in securities of distressed companies, illiquid securities and non-publicly traded securities. Persons considering investing in the Funds should read the risk disclosure in the Prospectus.

MW Gavekal Asia Limited has in place internal policies and controls designed to prevent market abuse.

Risk Framework

The Investment Manager has prepared a Risk Framework Document summarising the framework it employs to manage risk. Furthermore, the Investment Manager has provided the Directors with a Risk Policy Document which sets out, inter alia: (i) guidelines for the setting and changing of risk limits; (ii) routines for risk monitoring, reporting, exceptions reporting and escalation procedures; (iii) routines for reviewing and testing the risk measurement framework; (iv) guidelines for risk monitoring and risk measurement during normal and stressed periods; and (v) routines for communicating the above information to all relevant persons within the Investment Manager.

Portfolio Risk

The Investment Manager has apportioned risk management responsibilities among its partners and senior managers. Moreover, the governance arrangements of the Investment Manager functionally separate risk management from portfolio management.

In this context, and in addition to the specific investment restrictions applicable to the Fund, the Investment Manager applies internal risk limits which are reviewed on at least a quarterly basis. Currently, two risk engines are used to generate raw data output from two models; a principal components factor model and a fundamental factor model. The output generated is adapted and analysed by proprietary models to produce information that is used both in portfolio construction and risk monitoring. The Investment Manager assesses market risk through an analysis of volatility measures and portfolio concentration measures. Furthermore, a series of stresses are applied to its base analysis to estimate their impact on the portfolios. These stresses, which are applied on a daily basis, include large equity market, commodity, currency, macroeconomic and technical factor shocks. Internal exposure levels are set for each type of risk and if a level is reached, the system generates an automated alert that is sent to the portfolio fund manager and the risk manager, who will assess the level or exposure and take such corrective action as may be required. Nonetheless, the Chief Risk Officer has authority to override decisions made by portfolio managers, if he deems this appropriate.

The Investment Manager monitors the Funds' liquidity profile to ensure it is aligned with the Funds' redemption obligations to Shareholders.

Operational and Outsourcing Risk

Operational and outsourcing risks identified by the Investment Manager are managed separately from investment risk management. For operational matters, it is noteworthy that an Operations Control function has been created which is separated not only from the Investment Manager's portfolio management activities but also from the Investment Manager's Operations activities and which reports directly to the firm's Chief Operating Officer.

The Investment Manager's operational risk framework includes risks faced in relation to people and governance (including key-man risk), trading and execution procedures (to limit trading and execution failures), fraud and anti-financial crime risk, disaster recovery (so that the Investment Manager can continue to function in the event of an unforeseen interruption), IT security (to protect integrity of data and systems), legal and regulatory risk and third party service providers.

Source: MW GaveKal

Responsibility for matters related to valuation lies with the Administrator, which is wholly independent of the Investment Manager. However, the Fund has established a Valuation Committee and one of its three members is a representative of the Investment Manager (its Chief Financial Officer, who has no portfolio management responsibilities) along with a representative from the Administrator and a Director.

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