

INVESTOR UPDATE: MARCH 2010



Dear Shareholder,

We are pleased to provide you with your March 2010 Premium Investors Limited Quarterly Investment Update as provided by the Premium's lead portfolio manager, Treasury Group Investment Services Limited¹ (TIS).

Tom Collins
Chairman

¹ AFSL 227326



INVESTOR UPDATE: MARCH 2010



Investment markets performed strongly over the quarter and half year to March. The rally continued in April as investors focus on improving economic activity globally, but particularly in the US.

Your company has seen a steady rise in its Net Asset Value as the fund remains exposed to equity markets through the Treasury Group boutique managers. Over the 5 months to March 2010 your companies growth in after tax NTA is well ahead of competitor Listed Investment Companies. This was achieved while our managers continue to manage your fund with a close eye on risk management and control. For example, at the end of March your fund continued to hold a cash weighting of 17% - protection against a market correction.

In addition the company has also been in a position to declare two dividends in this financial year – a strong recovery from 2008/09 when, under existing accounting rules – we were unable to offer a dividend to our shareholders.

Despite the sharp recovery in financial markets, we would suggest that many investors remain cautious on the investment outlook and even professional investors remain divided over the long term health of the global financial system, the sustainability of the economic recovery and whether equity markets are entering into a period of a least short term excess. In this quarter's Premium Investors Update, we would like to provide you with our interpretation of the current economic environment and outlook for markets as well as an update on each of the underlying boutique fund managers.



OUTLOOK FOR GLOBAL AND AUSTRALIAN EQUITY MARKETS:



At TIS we have a dedicated investment committee which manages the allocation of the Premium Investor funds between our suite of investment managers.

Importantly we have a variety of investment styles and approaches to choose from, all managed by outstanding investment professionals who are the majority owners of their investment business.

Our current outlook for investment markets remains positive although we recognize that much of this improvement is priced into equity markets. We are also cautious on some key outstanding imbalances in the global economy; the potential for a bubble in Chinese growth and local assets; imbalances in the European monetary system with risk of default by a number of European states, especially those which over-expanded during the investment boom as well as with the high levels of government debt in the developed markets. So while we see economic recovery continuing during 2010, the underlying strength of the world economy remains at some risk. We would make the following observations:

- Global economic growth continues to improve as the stimulus measures taken during 2009 and into this year, continue to influence underlying economic activity.
- An inventory rebuilding cycle is now well under way – companies have kept inventories too low and have underestimated the improvement in demand. As they rebuild stocks, employment will improve allowing for further growth in consumer spending.
- This period of growth will however not be synchronized globally. In the previous bull market, much of the world grew in unison with low interest rates, rising debt, growth in asset prices and shift in production to emerging markets. In the next period, growth will be less consistent. For example, currently, as the US improves, other countries such as China will look to moderate growth to prevent the development of a bubble in asset prices and rising domestic inflation. This mixed economic environment means selection between regions will be critical.
- Many of the underlying factors which led to the Global Financial Crisis have not been fully resolved. In our opinion growth will be moderate due to the high levels of debt that has built up and selective domestic government debt problems requiring a period of tightening of government spending with the high possibility of increasing taxes. At the first sign of strong economic growth, governments will use the opportunity to reduce their own spending.
- Levels of personal consumption in the developed market, while improving in 2010, will remain moderate as consumers look to control their balance sheets and are reluctant to take on additional debt.
- In those countries where growth does improve, authorities will take the opportunity to increase interest rates from very low levels.

The net result of this environment will be periods of growth improvement – such as the outlook we see for the next 9-12 months, followed by periods of moderation. This rolling cycle of economic acceleration, followed by moderation, will warrant an active approach to allocating assets.

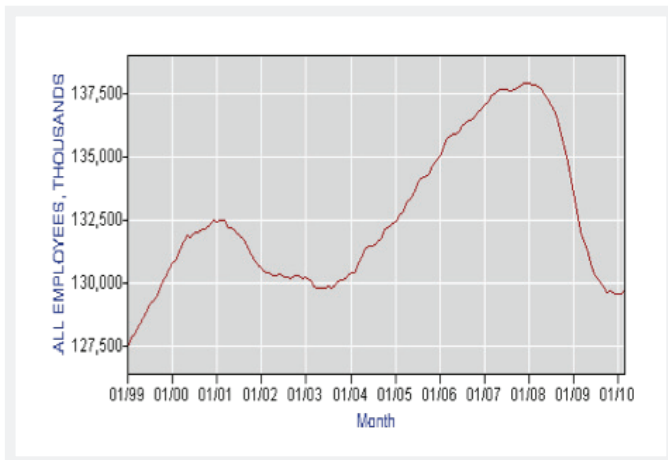


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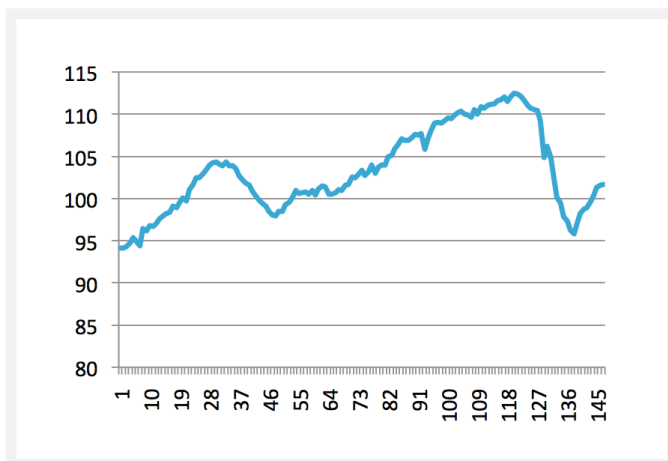
SIGN OF IMPROVEMENT IN THE US:

Signs of employment bottoming

US Non-Farm Payrolls



US industrial Production



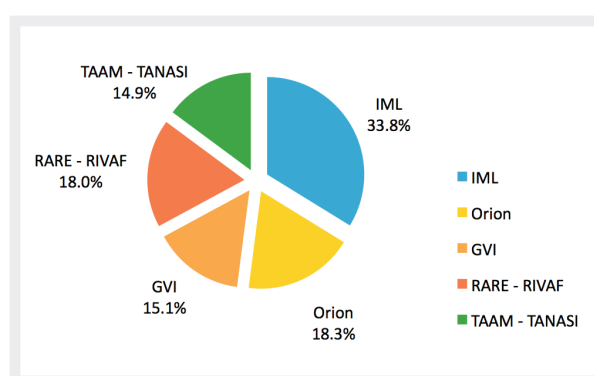
CURRENT POSITIONING OF THE PREMIUM INVESTORS LTD PORTFOLIO



During the quarter we changed the portfolio positioning to reflect a change in our manager lineup. In January we announced that the Cannae business – in which Premium previously held 17.5% of its fund – would effectively merge with the IML business.

This was undertaken to deepen the level of experience in the IML team and to assure the long term succession planning for the IML business.

While both IML and Cannae have similar investment styles – both searching for undervalued, high quality Australian equity investments – they had offered diversification to the Premium fund during different phases of the economic and investment cycle. To capture some of that style we decided to initially increase our holding in the IML fund which would be run by the team now made up of the key principals of Cannae (Hugh Giddy) and IML (Anton Tagliaferro). This combined holding is currently 34% of the Premium fund although we will progressively reduce this holding as we identify changing opportunities in the investment cycle.



Our holdings between Australian and International equity assets remains largely unchanged over the quarter (at 52.2% Australian equities –through the management of IML and Orion) and 48% offshore.

The moderate bias to Australian equities reflects our view that Australian assets will continue to perform well as Australia remains in the fortunate position of being exposed to both positive domestic growth and the strong growth in Asia. While we do see China continuing to apply brakes to the recent period of strong growth, we believe that this can be managed through the cycle and not cause any significant set back in either Australian or Asian growth. Importantly the region does benefit from improving US growth.

Our international exposure remains well spread – 15% managed by Treasury Asia Asset Management – who invest in the Asian region, 15% by Global Value Investors – who search globally for high quality investments, and 18% by RARE – the global infrastructure investment group. The international exposure reflects our view that growth will continue to pick up globally but will also move in broad rotating cycles. To protect against any possible period of weakness, the global infrastructure should diversify against equity downturns, while the Asian and Global equity component will participate in moves upwards in global equities.

Our managers are also able to hold cash when they believe investment opportunities are difficult to find. We will be increasingly moving this cash investment decision to the Investment Committee, although for now we agree that a moderate amount of cash holding (currently at 17%) is warranted following the strong movement up in equity markets.



A REVIEW OF INDIVIDUAL MANAGER POSITIONING:



Although the fund recovered sharply in March the gain for the quarter was modest.

The holdings in healthcare stocks – CSL, Ansell and Ramsay Health Care were positive contributors together with large cap stocks – Westpac and Amcor. Performance was held back however by the defensives – Telstra, Metcash and Transurban. IML remains supportive of these stocks as they believe they offer outstanding value and underlying quality in what IML sees as a more difficult investment environment which should develop later in 2010. As outstanding value investors, it remains IML’s view that stocks no longer offer outstanding value and therefore some cash should be held in the portfolio as a protection against any market correction.

PORTFOLIO BREAKDOWN	
Telstra	8.76%
CSL	5.85%
Metcash	5.83%
Ramsay Health Care	4.94%
Origin Energy	4.87%
Tatts Group	4.83%
IAG	4.76%
Orica	4.04%
Goodman Fielder	3.67%
Westpac	3.63%
Top Ten Stocks	51.18%
Other Stocks	27.82%
Cash	21.00%
Total	100.00%



A REVIEW OF INDIVIDUAL MANAGER POSITIONING:



Orion also saw a strong month of performance in March although the fund was up modestly for the quarter.

Generally Orion has a more positive outlook for the Australian market and believes that US economic activity will continue to pickup through 2010. The largest contributors to performance during the quarter were in energy and resource related companies such as Antares Energy, Lihir Gold, Oil Search and Rio Tinto. While US growth picks up, Orion has also been positive on the outlook for China and Asian growth. While China will put in place policies to moderate growth, Orion believes that underlying economic activity will remain strong. The environment may be more volatile however and Orion has used options to protect against capital loss should markets reverse their current course.



Performance has lagged global benchmarks but outperformed other international managers (who have not hedged against a rise in the Australian dollar).

The GVI portfolio offers offshore exposure but with a protection against a rising Australian dollar through hedging the portfolio against the rise in the currency.

In allocating to GVI, the investment committee have the view that global economies will recover supporting international equities returns, but this could be offset by strength in the Australian dollar (as the Australian dollar rises, returns invested offshore can decline). GVI's hedging of the Australian dollar offers protection against this rise.

GVI remains focused on the highest quality offshore companies such as Daimler (the manufacturer behind Mercedes), Linde (a producer of specialist gases used in a variety of areas such as industry and medicine), Clorox (a US consumer staple) and Singapore Telecom (the Singapore based telecoms company). During the last 6 months, GVI has progressively increased its exposure to US equity market as they have identified improving underlying value in that market. At all times only the highest quality companies are invested in with the target of achieving outstanding long term returns, strong underlying cash flow and good dividend streams.



A REVIEW OF INDIVIDUAL MANAGER POSITIONING:



REGIONAL EXPOSURE	
Europe	32.4%
Asia	26.0%
North America	23.5%
Others	9.4%
Cash	8.5%

TOP 10 HOLDINGS AT 31 MARCH 2010			
Daimler	Germany	Discretionary – Autos	4.23%
Linde	Germany	Chemicals–Industrial Gases	3.18%
CNOOC	Hong Kong	Oil exploration & Production	2.93%
Clorox	US	Consumer Staples	2.91%
Singapore Telecom	Singapore	Telecommunications	2.88%
PTT Public	Thailand	Integrated Energy	2.79%
Edison	US	Integrated Utilities	2.76%
Methanex	Canada	Material-Methanol	2.75%
Kazmunaigaz	Kazakhstan	Energy – E&P	2.75%
GDF Suez	France	Integrated Utility	2.73%



A REVIEW OF INDIVIDUAL MANAGER POSITIONING:



The TAAM team based in Singapore and Sydney, are focused on investing in the Asian region.

Having outperformed over the previous 12 months, the Asian markets paused during the quarter as the developed markets outperformed. There remains fierce debate among economists over the outlook for the Chinese market, with some expecting a more severe set back in economic activity as the Chinese try to slow the economy from its recent break neck speed. Debate is also raging around the direction of the Chinese currency which many economists believe is artificially low – making it difficult for the world to adjust to the high level of trade deficits experienced between China and many economies. While the Chinese do not wish to be forced into a change in policy, it is TAAM's view that the currency will be adjusted later in 2010, which will ease tension between China and the major economies. In addition, TAAM believes that the direction of Chinese economic growth will be carefully managed – a positive develop for all markets including the Asian region.

During the quarter stock selection in China, Taiwan and Hong Kong all added value. Stock selection in Korea was more mixed during the period.

Our country selection remains largely unchanged although TAAM increased it holdings in Taiwan during the quarter. We would also note our concern that the Indonesian markets is overvalued and while our underweighting of Indonesia negatively impacted returns during the quarter, we stand by that position and would caution against increased exposure.

Overall the TAAM team remain positive on the Asian region, in line with the Investment Committees view and allocation to the TAAM fund.



A REVIEW OF INDIVIDUAL MANAGER POSITIONING:



RARE invest in globally listed infrastructure companies.

This is a unique area of exposure for Premium Investors – offering an important source of expected diversification. While listed infrastructure companies are likely to participate in rising equity markets, we also believe that they will typically offer some protection against market falls as their long term assets and ongoing dividend streams tend to reduce the downside risk. The only time that we would be particularly concerned would be during a period of significant rises in interest rates – an environment that we do not expect in the foreseeable future.

The RARE holdings performed well against Premium's benchmark over the quarter as rising equity markets, increased corporate activity in the sector and positive developments in the infrastructure companies ability to raise capital, took hold. RARE looks for companies that offer fundamental long term value in this asset class, strong balance sheets and strong management and regulatory environments. We see long term positives in the sector as governments globally continue to focus on increasing infrastructure spending . During the quarter the Mexican government for example, announced plans to tender US\$50bn of projects for 2010.

Some of the strong performers over the quarter included – Vinci – a French toll road, Union Pacific (US rail), Beijing Airport and Grupo Aero del Pacifico (Mexican airport). The two holdings in water companies under performed modestly.

IMPORTANT INFORMATION:

Premium Investors Limited ("Premium") has appointed TIS to manage its portfolio of assets. In turn, TIS has appointed the investment managers referred to in this document as investment managers for the Premium portfolio. TIS and the investment managers receive a management fee in return for managing the Premium portfolio. The management fee is a percentage of the value of the portfolio's assets. The performance fee is a percentage of the out-performance of the benchmark.

While the information contained in this presentation has been prepared with all reasonable care, neither Premium, TIS, Treasury Group Limited nor any investment manager referred to in this presentation accepts any liability for any errors, omissions or misstatements however caused. This information is not personal advice. This information has been prepared without taking account of your objectives, financial situations or needs.

Investors should be aware that past performance is not indicative of future performance. Returns can be volatile, reflecting rises and falls in the value of underlying investments. Potential investors should seek independent advice as to the suitability of the Fund to their investment needs.

The fact that shares in a particular company may have been mentioned should not be interpreted as a recommendation to buy, sell or hold that stock.

