

# INVESTOR UPDATE MAY 2011

## CHAIRMAN'S UPDATE



### PREMIUM TRACKING WELL – EXPENSES REDUCED – STRONG HIGH YIELD DIVIDEND – INVESTMENT PROCESS AND STRUCTURE STRENGTHENED

Dear Shareholder,

In accord with your Board's desire to keep you more fully informed on developments within your investment in Premium Investors Limited (PRV), we have pleasure in providing this update on the status of the company and issues we have been addressing.

During the past year PRV has successfully achieved a significant reduction in expenses post the 2009 off-market buy-back and initiated measures to create a more efficient and transparent investment process appropriate for a smaller entity. These initiatives were developed to ensure that your investment achieves a well diversified low-risk structure which provides both sound long term growth potential as well as being able to reward shareholders with a sustainable, tax effective high yield dividend return.

### CURRENT SHARE PRICE PROVIDES AN EFFECTIVE DIVIDEND RETURN DOUBLE THAT OF CASH AND TERM DEPOSITS

At present share prices of 73 cents your investment is providing an exceptional yield of 9.6% fully franked which equates to a pre tax return of 13.7% which is more than double the returns currently obtainable from cash and short term deposits.

### WHAT ARE THE COMPANY'S LONG TERM AIMS?

Our focus is concentrated on providing our loyal shareholders with a well managed, high yielding, well diversified, risk adverse investment outcome based on a flexible medium/long term horizon for both small and large investors. Our key aims are to build wealth by providing a competitive growth profile over successive market cycles, but at the same time rewarding investors and retirees with a superior annual income return throughout all stages of the market cycle.

### A JEWEL IN THE CROWN

We thank you for your support and reaffirm our commitment to provide you with a unique blend of growth and an ongoing high level sustainable income. Our aim is to ensure that Premium Investors is a "jewel in the crown" of your portfolio.

### COME AND MEET US

Premium Investors will be presenting at the Trading and Investing Seminars Expo in Sydney on 5 and 6 August at the Sydney Convention and Exhibition Centre and in Melbourne on 7 and 8 October at the Melbourne Exhibition and Convention Centre.

Sincerely  
Tom Collins  
Chairman



# INVESTOR UPDATE MAY 2011

## GLOBAL MARKET OUTLOOK

BY TREASURY GROUP INVESTMENT SERVICES LIMITED<sup>1</sup> (TIS)

**Equities:** The investment cycle is still in favour of equities. The double-digit earnings growth, still-attractive companies valuations and monetary policies remain positive arguments for Equities markets.

**Commodities:** We believe that the price of oil should remain on a rising trend as long as the current turmoil in North Africa and the Middle East persists. The rate tightening taking place in most emerging countries, particularly in China, is likely to weigh on basic metals in the short term. Gold is also benefiting from the rise in risk aversion as well possibly of fears of an upswing in inflation.

**Emerging:** We believe that Emerging economies' assets remain the most attractive, given their long-term robustness and growth prospects. That said, they may encounter some headwinds from stubborn inflationary pressures.

**Currencies:** The US dollar is likely to remain under pressure, particularly vs. Asian currencies (in countries having heavy current-accounts surpluses and inflation under control), the yen being an exception. Emerging currencies have the advantage, particularly in Asia, given their connection to the gradual strengthening expected in the RMB. Commodity-linked currencies will probably remain strong, even though they now looked overvalued (the Brazilian Real, in particular). The euro is linked to the ECB's new line and will likely to remain strong as long as the Fed does not shift its tone, and that could take several more months.

**Japan:** We do not think that the shock undergone in Japan creates a break in the global dynamics. Japan represents only 6% of the world economy, so the dramatic event should not become a real global risk. Past experiences relative to "earthquake" disasters suggest that there is no long-lasting impact on the activity when this shock occurs in an advanced country.

**Australia:** The Australian economy continues to perform well but remains divided between an extremely strong investment cycle in the resources sector, and moderate growth in the rest of the economy. With the unemployment rate low and clear signs of labour shortages in key skill areas for the resource investment cycle, the Reserve Bank is maintaining relatively high (by global standards) level of interest rates. This is encouraging higher than normal savings and weakening activity in the housing market.

The high level of interest rates, and attractive commodity cycle, is also resulting in a strong Australian dollar, making many of the non-resource export sectors less competitive.

The equity market is responding to this environment by seeing good growth in resource profitability but more difficult activity in many industries exposed to offshore competition or rising commodity costs. As a result the total equity market is relatively subdued. TIS remains optimistic: a combination of income oriented investments (where yields are supportive) and some exposure to those areas of growth, should give a strong overall investment result.

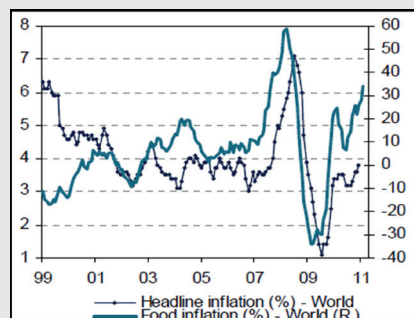
"Global inflation is picking up, but growth is holding back"

Year 2010 was one year of transition. The slowing down of the activity in China and in the United States made the markets fear a relapse in the world economy and the budgetary imbalance revived the anxieties of financial markets.

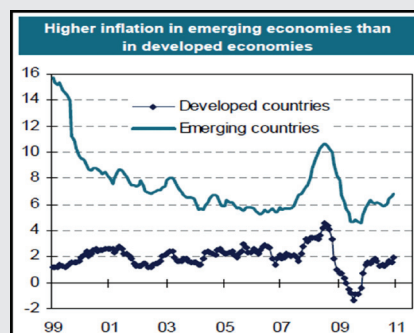
2011 has opened on projections of economic recovery carried by monetary policies in developed countries, good and solid fundamental of companies and a financial sector still in constant improvement.

However, some risks are present in the markets, which should not be ignored. This includes high oil and food prices, European debt, high US public, US housing and Japan crisis.

The Food prices are raising (Datastream)



Inflation in Developed and emerging countries (Datastream) - Scale: horizontal (years), vertical (inflation %)



# INVESTOR UPDATE MAY 2011

## INVESTMENT MANAGER'S UPDATE



YOUR INVESTMENT IN PREMIUM INVESTORS IS MANAGED BY TIS, A WHOLLY OWNED SUBSIDIARY OF TREASURY GROUP LIMITED, A WELL DIVERSIFIED BOUTIQUE SPECIALIST INCUBATOR, WITH INVESTMENT ASSETS OF IN EXCESS OF \$16 BILLION (AS AT 31 MARCH 2011).

This relationship provides significant strength and diversity in the quality of managed assets which are spread across seven core managers. It also provides superior administrative efficiencies, greater quality of corporate governance and compliance support from a more structured base and removes the single manager risk evident in all peer group Australian Listed Investment Companies.

### NEW TIS INVESTMENT COMMITTEE TEAM APPOINTMENT

The Treasury Group team has been recently expanded with the appointment of Eva Riou as Manager - Business Strategy. Eva has joined the TIS Investment Advisory Group as well as the TIS Investment Committee. She has 10 years experience in domestic and global funds management and previously managed the \$1.4 billion of Global fund of funds assets for one of France's leading investment teams, Societe General Asset Management. She moved to Australia in 2009 where she was Head of Global Research for an advisory company. Her specialist skills in global fund of funds management further strengthens the team and she will also be spokesperson for PRV's investment strategies.

### HOW DOES THE PRV INVESTMENT PROCESS OPERATE?

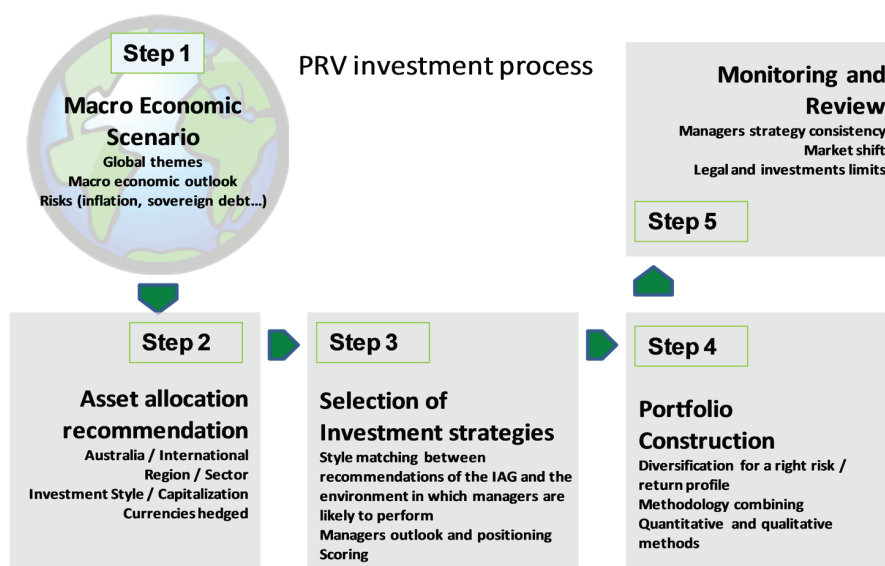
The TIS Investment Committee (the manager of the assets) utilizes the input of its newly formed Investment Advisory Group (IAG) in determining an appropriate weight between Australian and offshore equities, between investment styles (growth and value) and between specific investment opportunities/ thematic (commodities, specific sector or country).

The TIS Investment Committee (working with the IAGs advice) also forms an opinion on the likely direction of the Australian dollar in determining how much of the offshore equity exposure should be hedged back into the Australian dollar (by allocating to hedged versions of our managers global funds).

The IAG shares views on the markets on a regular basis (every quarter) and more frequently if required. (In case of a special event).

The members of the IAG offer global and local economic and investment experience. They are:

- **Eva Riou:** Manager - Business strategy at Treasury Group; Former Funds of Funds Manager for Societe Generale Asset Management in France.
- **Simon Milne:** Fund Manager at Aubrey Capital Management; Former Chief Investment Officer at Murray Beith ; Murray Asset Management
- **David Bassanese:** Economics columnist at AFR; Former Treasury, senior economist at Bankers Trust and Macquarie Bank



This process provides active asset allocation between countries, currencies, sectors and managers. It is a five step process reflecting an active asset allocation based on the teams' view on the opportunities and risks in global financial markets (see chart above).



# INVESTOR UPDATE MAY 2011

## CURRENT ALLOCATION CHOICES



### FULLY INVESTED - DOMESTIC VS INTERNATIONAL 49/51% - GROWTH STYLE FAVOURED

**Asset Allocation:** Fully invested

Whilst commodity prices are buoyant, the prospect of inflation pressures and some isolated sovereign debt concerns, the broader World economies are recovering from the Global Financial Crisis with improved corporate earnings and stronger Balance Sheets indicating a return of confidence. In these conditions we remain fully invested.

**Domestic versus International Exposure:** 49/51 split

The near-term outlook Australian and global equity markets remain positive. Whilst Australian interest rates may rise modestly and energy cost are rising creating inflationary pressures, earnings expectations remain positive for the remainder of 2011.

**Growth versus Value Exposure:** 53/47% split

At this stage of the recovery cycle we favour a growth bias in our investment allocation mix.

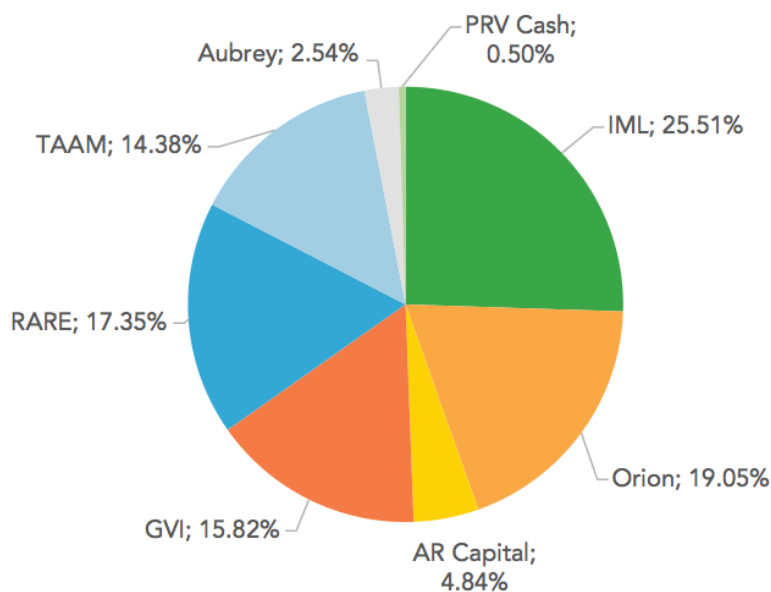
### YOUR MANAGER PANEL

A quality Blend of domestic and global investment specialist

#### Style



### YOUR PORTFOLIO POSITION



DISCLAIMER: Premium Investors Limited ("Premium") has appointed Treasury Group Investment Services Limited ("TIS") (AFSL 227326) to manage its portfolio of assets. In turn, TIS has appointed the investment managers referred to in this document as investment managers of 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 investment to their needs.