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Australian Stock Exchange
Continuous Disclosure Area

Via: E Lodgement

Investment Update

Please find attached an investment update that will be posted to shareholders this week.

Yours faithfully



Reema Ramswarup
Company Secretary



As shareholders you will currently be considering the merits of the off market buy-back. A number of shareholders have requested further information on how your fund is currently positioned and how Treasury Group and its boutiques manage the fund on your behalf.

We have divided this update into two parts:

- How your fund is managed
- An investment outlook – what caused the financial crisis and where to from here?

How your fund is managed:

Premium Investors offers the opportunity to invest in both Australian and International equities, while utilizing a conservative approach to investment management. Over time as equity markets rise, the expectation is that Premium Investors will also return to paying attractive fully franked dividends.

Unlike many Listed Investment companies, your company has the opportunity to:

- Investment in both Australian and International markets
- Access boutique investment managers – where the fund manager is a direct owner of his business and hence is highly motivated to perform well
- Access a variety of boutique investment managers – this enables diversification between managers and access to different investment styles
- Active asset allocation – Treasury Group¹ manages the allocation between investment managers, asset classes and weighting to domestic vs international assets, according to the expected investment environment
- All done with a conservative approach to investing.

The boutique managers:

Treasury Group led the way in Australia in the development of boutique fund managers. The principle is simple – in large organizations fund managers can be distracted by other objectives than managing money and the motivations of the organization can become more important than the focus on investment returns, and managing risk. In addition in large organisations, the way in which the investment manager is paid and compensated can often be a long way from where it should be – focused on client returns.

In helping talented fund managers to set up their own businesses, Treasury Group has ensured that:

- The boutique is owned and managed by investment personnel – with support from Treasury so that the key staff can focus on achieving investment results
- The owners are highly motivated to achieve client goals
- The investment manager is not distracted by the issues of working for a large organization
- The boutique is structured such that they are able to attract the highest quality investment staff.

Premium Investors was developed to enable shareholders to gain access to these boutiques and the benefits of having talented fund managers working in boutiques.

¹ Through Treasury Investment Services

The boutiques managing your funds:

- **IML** – under the leadership of Anton Tagliaferro and his team of 12 investment staff, IML has delivered consistent, conservatively invested Australian equity returns. Anton and team have a focus on high quality companies with strong dividend paying potential. Their funds have delivered consistent dividend payouts throughout the 10 years of IML’s history and Premium utilizes the IML teams expertise particularly during difficult periods of market return where risk is at its highest
- **Orion** – Under the leadership of Tim Ryan, Orion is an outstanding boutique manager, investing over \$4bn of funds into Australian equities. The three leading fund managers at Orion have a shared approach to constructing portfolios, and expect to perform through all stages of the economic cycle. Premium access Orion for their consistency of return and active investment style.
- **Cannae** – this is a new boutique set up in late 2007 but Hugh Giddy and a team of 5 investment staff. Hugh was previously senior portfolio manager at Perennial and has an outstanding investment history. His team focuses on high quality, undervalued investment opportunities in Australian equities. During late March, Premium Investors increased its allocation to Cannae, recognizing that Hugh’s investment style should deliver excess returns during any rally in the equity markets.
- **Global Value Investors**. Under the leadership of Roy Chen, GVI focuses on high quality dividend paying global equity opportunities. They have a conservative investment style, looking for only the highest quality companies internationally. GVI is an independent boutique staffed by 6 experienced global investors based in Sydney. They travel extensively preferring to meet management and “kick the tyres” before making an investment on your behalf. They have an outstanding track record, and Premium utilises their skill when we believe that global stocks are likely to outperform and where markets will reward undervalued investment opportunities
- **Treasury Asia Asset Management** – Peter Sartori and Eng Tek Tan set up TAAM 4 years ago. Both have over 15 years investment experience focused solely on Asian equity investments. Their investment style expects to perform throughout the investment cycle, focusing on stock selection while also allowing for the macro economic and regulatory factors which can be so important across Asia. Through investing with TAAM Premium Investors is able to gain exposure directly to Asia – a region which we believe will be a long term leader of economic growth.
- **RARE – global listed infrastructure**. Nick Langley and Richard Elmslie set up RARE in 2006, to focus on investing in the growing asset class of listed infrastructure companies. As governments globally recognize that there has been a shortage of investment into infrastructure, there is likely to be continued growth in the number of available investments. Listed infrastructure also offers diversification, particularly during most equity market downturns. While listed companies did decline during the most recent correction, the highest quality investments outperformed broader equity markets. RARE have an investment team of 8, travelling extensively in both developed and emerging markets. Premium Investors allocates to RARE particularly during periods of market turbulence – offering a way of protecting returns. We also believe that listed infrastructure has a long term place in the Premium portfolio with solid dividend yield support.

Allocation between the boutiques:

In addition to having access to high quality investment boutiques, Treasury Group also actively manages the allocation between the boutiques according to our investment outlook. For example, if we believe that Asia is likely to lead global growth (which we do), we will allocate a higher weight to Treasury Asia Asset management. If we anticipate that the equity markets offers good value and growth prospects, we may allocate to a manager likely to fully participate in the equity recovery (as we did in late March by increasing the allocation to Cannae). During periods where we expect market turbulence we will allocate move weight to managers such as IML. As an example, IML offered outstanding protection of capital during the recent downturn and this was a key driver of good relative returns in the past 12 months.

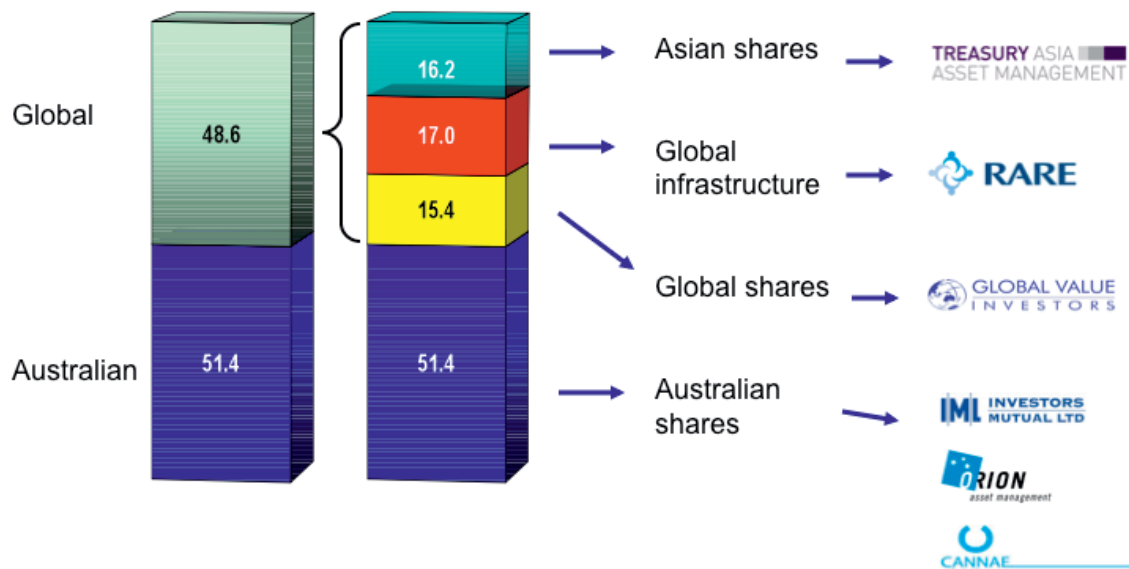
The allocation process is undertaken by:

- Researching and determining our outlook for both the domestic and global economies
- Determining our outlook for key assets classes including the direction of the Australian currency
- Deciding if certain investment styles are more or less likely to benefit the portfolio

The allocation process is lead by David Cooper and Mark Burgess of Treasury Group. Between them, David and Mark have a long history in the investment markets working both here in Australia and offshore.

In this way, Premium offers both access to investment boutiques and an active allocation between the boutiques and assets classes, according to our investment outlook.

Current weight by region and manager:



Investment outlook – what caused the financial crisis and where to from here?

The global economy continues to stabilize following one of the most aggressive shocks to the global system in 80 years. With governments spending sums which could only have been considered unimaginable a short period ago, and with central banks reducing interest rates and flooding the banking system with cash, it is no surprise that economic activity is stabilizing. As growth recovers, it is receiving additional support from increased manufacturing, as suppliers have had to rebuild inventories. Government spending is also set to remain firm over the short term as programs of spending are yet to be completed in many countries.

In response, equity markets have rallied sharply. This partly reflects the investment markets recognizing the economic growth will recover, but it also reflects the depressed levels to which prices fell in the early part of this year.

Before looking forward, we believe it is important to look back, to understand the drivers behind the global financial crisis (GFC) and determine if any of those drivers will hamper future growth. The key to markets now is not the short term recovery – we believe that is now largely priced into equity markets. The issue is: “what will be the medium term growth rate for global economic activity?”

The GFC was largely a factor of 3 broad drivers:

- Excessive speculation and investment, particularly in areas such as the housing and property sectors of the US, UK, southern Europe and select emerging markets
- Excessive use of debt by consumers globally and in some corporate sectors
- And most importantly, an aggressive form of financial speculation which led to the development of an extremely complex banking and finance sector. When investors and speculators lost confidence (and tried to raise cash) the financial system came very close to complete collapse.

The excessive speculation in housing and property was not dissimilar to many cycles of the past, which could have been corrected through a more moderate recession and fall in interest rates. The size of the build up in consumer debt and the development of an extremely complex financial system ensured that this cycle would be much more treacherous. The complexity of the financial system - through the use of computing power, development of complex financial instruments and a merry-go-round of debt ownership - to the point where it was not clear who owned what – was the most damaging element. In a very short period of time bankers and speculators discovered that this complexity had weak foundations and that very few understood the true nature of the new financial system. Trading stopped, governments were forced to intervene and much of the financial system was crippled.

Australia however, was in a far more advantageous position. The wise build up of government budget surpluses during the boom period has enabled Australia to use government spending to support the economy during the downturn, with little fear that Australia’s credit standing would hurt. In addition Australia is somewhat unique in that we have not developed excess supply in key areas of the market. Housing supply remains relatively tight and key property sectors such as office buildings have not seen excessive building during the boom periods. This contrasts with regions like the US, UK and southern Europe where excessive building of housing and commercial buildings has created a flood of supply and a consequent fall in prices which has undermined the debt mountain on which many of those assets have been built.

Looking forward

With the build up in excessive debt and complexity governments have been forced to aggressively stabilize the financial system and support economic growth. In the next 6-9 months the economies will begin growth again, corporate profits will rise (also helped by cost cutting in the downturn) and unemployment will stabilize. Much of this has now been anticipated by investors as they have moved to increase their holdings of equities again, pushing up equity prices.

The outlook however remains relatively subdued. We are of the opinion that economic growth will need to be subdued for a sustained period due to:

- Governments and policy makers globally will need to begin the process of rebalancing the books. Government spending will be reined in, taxes may need to rise and interest rates will be increased (although moderately at first). This rebalancing will occur across most economies, including areas such as China which has been so supportive to the Australian economy
- The stabilization in consumer debt: As noted, the growth in consumer debt was a significant driver of global economy during the boom period, particularly in the developed markets. With high debt levels, high levels of unemployment and a still impaired banking system, consumers will no longer use debt to support growth. This will reduce the overall economic growth rate.
- Banking system - while much has been done to stabilize the banking and financial system, the foundations remain fragile. Many banks are now under state control or receiving state funds. These need to be repaid and the banks restructured. In Europe some of the write downs of bad debts are not yet recognized and in Asia (particularly China) we see some pickup in bad loans following an aggressive expansion of lending in the past 12 months. Investment banks and other developers of exotic financial instruments are also under pressure, so the whole debt creation process is likely to be very subdued for a number of years. Again a cap on economic growth.

But we do not believe that now is the time to be too negative.

We believe the medium term outlook is for a period of more moderate growth where, how you allocate your investments will be a significant driver of your investment returns.

For Australia, we have been in a fortunate position during this downturn, avoiding a severe correction, and only seeing moderate economic volatility. With the support of growth in Asia, and an economy that entered the downturn in relatively few excesses, we have seen very little domestic distress. In the most recent recovery in equity prices, Australian assets have again outperformed their global peers. Looking forward however, we believe that Australian assets are less likely to consistently outperform. The benefit of being attached to Chinese economic growth and the lower volatility of the Australian economy is largely priced into Australian assets. In addition, some commodity prices will come under pressure as new supply enters the market, and the global economies go through periods of recovery but then modest set back. We remain positive on the outlook for China, a key driver of our commodities, but they too need to adjust to a more domestic driven economic model. It is therefore likely that instead of a long period of outperformance (as Australian assets saw in the last decade), the medium outlook is for rotating periods of out and under performance.

Your fund is uniquely positioned to take advantage of moving weights between domestic and offshore assets. Switching between Australian and international assets will be an important source of value added over the next period.

Your fund:

We are therefore more balanced in our view. Much of the initial recovery in global economies is now priced into equity assets, but medium term returns remain attractive. Economic growth will be relatively subdued when compared with the recent boom, but with emerging markets continuing to drive growth the world economy will expand over the medium term.

We are targeting a balance between Australian and international assets but also highlighting areas for medium term growth. Asia remains a favourite (where you have exposure through Treasury Asia Asset Management), and global infrastructure will also offer stability of returns (held by RARE). We increased the holdings in Cannae to reflect the expected upturn in Australian assets and we are likely to switch between our domestic funds managers and those managing offshore assets, if and when Australian assets become more fully valued.

Our cash weights will also be actively used. We are currently relatively conservatively positioned, as equity markets have exceeded our short term expectations. But with a moderate growth view we will look for opportunities to reinvest this cash. Growth style investing is also likely to benefit as any companies with the ability to grow in a more moderate economic environment will be rewarded with higher valuations (Orion and Cannae offer exposure there).

As markets recover we would also plan to be in a position to pay dividends as our high quality investment holdings have built up franking credits in your fund.

Premium offers a unique exposure

Given our outlook we see Premium as offering a unique exposure to domestic and offshore assets. We will continue to actively manage your portfolio and seek to deliver strong investment performance that results in your company being in a position to pay dividends.

Your Investment Manager
Treasury Group Investment Services

The Board Members of Premium