

24 July 2009

Australian Stock Exchange
Continuous Disclosure Area

Via: E Lodgement

Independent Expert's Report

The Company has commissioned an Independent Expert's report regarding the proposed share buy-back to be considered at the General Meeting on 19 August 2009.

A copy of the report and covering letter from the Chairman is attached. This correspondence will be mailed out to shareholders next week.

Yours faithfully



Reema Ramswarup
Company Secretary



24 July 2009

**Please read the enclosed
important information relating to the upcoming General Meeting**

Dear Shareholder

You will by now have received a Notice of General Meeting to be held in Sydney, at 2pm on Wednesday 19 August. At that meeting, you will be asked to vote on a number of resolutions that will impact the future of your company including Resolution 1, which will ask shareholders to approve "An immediate off-market equal access buy-back of up to 65 per cent of the issued capital at a 1.75 per cent discount to NTA".

Today I enclose an Independent Expert's Report (IER) that provides opinion as to whether the terms of the proposed share buy-back are fair and reasonable to the shareholders of Premium. Your Board has commissioned this report in accordance with the recommendations of the Australian Securities and Investment Committee (ASIC) in its Regulatory Guide 110 Share buy-backs¹.

You will note in the "Summary of opinion" on page 2 of the IER that the independent expert concludes that the proposed share buy back is fair and reasonable to PRV shareholders. I encourage you to consider the information as well as the opinions provided in the IER, as it may be useful in determining how you will vote in August.

If you have any questions about your investment or the recent corporate activities please do not hesitate to contact PRV directly on info@premiuminvestors.com.au or 1800 087 348.

Sincerely



Tom Collins
Chairman

¹ Through Regulatory Guide 110, ASIC recommends that if a company proposes to buy-back a significant percentage of shares it should consider providing an independent expert's report with a valuation of shares as part of a range of information that it considers to be material to a shareholder's decision whether to vote in favour of a resolution or accept a buy-back offer.



Private and confidential

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24 July 2009

Subject: Proposed equal access share buy-back

Dear Sirs

Introduction

- 1 On 8 July 2009 Premium Investors Limited (ASX: PRV) announced a series of capital management initiatives which included a proposed off-market equal access buy-back of up to 65% of the issued capital of PRV (the buy-back).
- 2 The proposed buy-back price is a discount of 1.75% to pre-tax net tangible assets (NTA) per share.¹

Purpose of report

- 3 Australian Securities and Investments Commission (ASIC) Regulatory Guide 110 "Share buy-backs" sets out the information to be disclosed to shareholders by companies seeking shareholder approval for a buy-back.
- 4 In situations where a company proposes to buy-back a significant percentage of its issued shares ASIC Regulatory Guide 110 states that:
 - (a) the company should consider providing an independent expert's report (IER) containing a valuation of the company's shares²
 - (b) it is usually appropriate for shareholders to have the benefit of independent advice on whether to vote for a buy-back.³

¹ NTA per share will be calculated at the buy-back date, which is yet to be determined but will be on or around the date the buy-back is completed.

² RG110.18.

³ RG110.20.

- 5 The directors of PRV have therefore requested that Lonerган Edwards & Associates Limited (LEA) prepare an IER stating whether, in our opinion, the proposed share buy-back price is fair and reasonable to PRV shareholders.
- 6 Our report will be provided to PRV shareholders to assist them in considering the resolution to approve the proposed buy-back.
- 7 LEA is independent of PRV and has no other involvement or interest in the proposed buy-back.

Summary of opinion

- 8 LEA has concluded that the proposed share buy-back price is fair and reasonable to PRV shareholders. We have arrived at this conclusion for the reasons set out in this report.
- 9 Whilst prima facie therefore we would recommend that PRV shareholders vote in favour of the resolution to approve the buy-back, we are not aware of the specific circumstances of individual PRV shareholders. The ultimate decision whether to approve the buy-back should be based on each PRV shareholder's assessment. If PRV shareholders are in doubt about the action they should take in relation to the proposed buy-back or matters dealt with in this report, shareholders should seek independent professional advice. For our full opinion on the proposed buy-back and the reasoning behind our opinion, we recommend that PRV shareholders read the remainder of our report.

Structure of report

- 10 The balance of this report is divided into the following sections:

Section		Paragraph
I	Profile of Premium Investors Limited	11 – 24
II	Share buy-back price	25 – 27
III	Valuation of Premium Investors Limited	28 – 35
IV	Assessment of share buy-back price	36 – 41

Appendices

- A** Financial Services Guide
- B** Qualifications, declarations and consents
- C** Limitations and reliance on information

I Profile of Premium Investors Limited

- 11 Premium Investors Limited (ASX:PRV) is a listed investment company (LIC) whose shares have been listed on the Australian Securities Exchange (ASX) since November 2003.
- 12 PRV operates on the principle of pooled investment and specialises in the management of Australian and overseas marketable securities.
- 13 PRV was founded by Treasury Group Limited in 2003 to give small investors early access to boutique investment managers. PRV's lead portfolio manager, Treasury Group Investment Services Limited (TIS), adopts a "manage the manager" approach to investment. TIS selects and monitors specialist boutique investment managers to achieve diversification across investment styles, countries and industries. PRV does not borrow to invest.

Investment Management Agreement

- 14 Under the prevailing investment management arrangements TIS is engaged by PRV to manage the investment portfolio and provide the day to day management of the company. The arrangements are in place until 2028 (subject to early termination rights) and services are provided pursuant to two contracts:
 - (a) Investment Management Agreement – the key provisions of which are:
 - (i) investment performance benchmark of 7% per annum after fees and income taxes
 - (ii) base management fee of 0.9% per annum on monthly assets
 - (iii) performance fees of 10% of the out performance of the portfolio against the benchmark for TIS and each of the underlying investment managers, capped at 11/9ths of the base management fee
 - (iv) termination fee to TIS (in prescribed circumstances) of one year's base fee
 - (b) Management Services Agreement - under which TIS provides PRV with selected business support services.

Financial position

- 15 The financial position of PRV as at 30 June 2008 and 2009 (which is subject to audit) is set out below:

	2008	2009
	\$000	\$000
Assets		
Cash and cash equivalents	43,147	32,903
Trade and other receivables ⁽¹⁾	4,656	1,289
Other	101	118
Investment assets	186,463	146,807
Future income tax benefit	-	14,414
Deferred tax asset (on unrealised losses)	9,794	6,968
Total assets	244,161	202,499
Liabilities		
Trade and other payables ⁽²⁾	4,562	1,255
Current tax liabilities	7,191	-
Total liabilities	11,753	1,255
Net assets	232,408	201,244
Equity		
Contributed equity	219,520	220,808
Retained earnings / (accumulated losses)	12,888	(19,564)
Total equity	232,408	201,244

Note:

1 Comprises dividends, interest and outstanding settlements receivable.

2 Comprises outstanding settlements payable and other creditors and accruals.

- 16 The reduction of \$31.2 million in net assets in FY09 principally reflects realised losses (net of associated tax benefits) on the underlying investment portfolios during the year.

Investment assets

17 Investment assets are stated at fair value and comprise:

	Fair value ⁽¹⁾ 2008 \$000	Fair value ⁽¹⁾ 2009 \$000
Equity	171,465	139,659
Stapled securities	11,269	5,085
Equity trusts	3,605	2,134
Convertible notes	70	-
Derivatives	54	(71)
Total	186,463	146,807

Note:

1 Fair value is defined as the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Shares and options are presented at fair value using "bid" prices on long positions, and "offer" prices on short positions.

2 All securities are listed other than securities stated at a value of \$698,000.

Tax assets

18 As at 30 June 2009 PRV had aggregate future income tax benefits (arising from losses) of \$21.4 million. These comprised:

- (a) a future income tax benefit of \$14.4 million attributable to realised tax losses
- (b) a deferred tax asset of \$7.0 million representing the future income tax benefit attributable to unrealised tax losses based on mark-to-market investment portfolio security values adopted for financial reporting purposes.

Share capital

19 PRV currently has 224,346,583 shares on issue.⁴ No options or other equity securities have been issued by PRV.

⁴ Following completion of the recent equal access share buy-back on 15 June 2009, pursuant to which 2.86 million shares were bought back and cancelled.

Share price performance

- 20 The price of PRV shares from 1 July 2007 to 30 June 2009 is summarised in the table below:

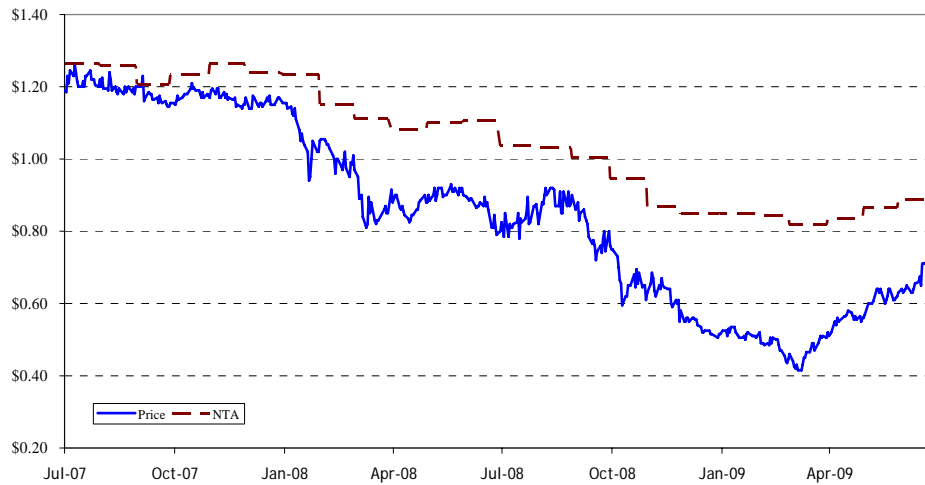
	High \$	Low \$	Close \$	Monthly volume ⁽¹⁾ 000
Quarter ended				
September 2007	1.26	1.12	1.16	3,480
December 2007	1.21	1.12	1.16	2,378
March 2008	1.17	0.79	0.92	2,584
June 2008	0.94	0.78	0.80	2,821
Month				
July 2008	0.90	0.78	0.85	2,232
August 2008	0.94	0.82	0.90	2,145
September 2008	0.90	0.70	0.76	1,945
October 2008	0.80	0.58	0.63	4,449
November 2008	0.69	0.55	0.58	2,214
December 2008	0.60	0.50	0.52	3,235
January 2009	0.54	0.49	0.51	2,772
February 2009	0.53	0.43	0.46	2,724
March 2009	0.53	0.41	0.52	4,669
April 2009	0.59	0.50	0.56	3,034
May 2009	0.64	0.56	0.63	1,812
June 2009	0.73	0.62	0.72	4,293

Note:

- 1 Monthly volumes for the quarter ended represents average monthly volumes.

- 21 The following graph illustrates the movement in the PRV share price from 1 July 2007 to 30 June 2009, as compared to the reported after tax NTA per share for the period:

Premium Investors Limited
Share price history compared to NTA (after tax): 1 July 2007 to 30 June 2009



- 22 As noted above the PRV share price has consistently traded at a significant discount to the reported NTA after tax, particularly since the onset of the global financial crisis.

Reported NTA

- 23 Consistent with its obligations as a listed investment company PRV reports monthly NTA per share data to the ASX. The latest reported NTA per share, as at 30 June 2009, and the calculation thereof is summarised below:

	Before tax \$000	After tax \$000
Net assets (refer paragraph 15)	201,244	201,244
Less:		
Investment portfolio realisation costs	(144)	(144)
Deferred tax asset	(6,968)	-
Adjusted net assets	194,132	201,100
Shares on issue (000)	224,347	224,347
NTA per share	86.5 cents	89.6 cents

- 24 Based on the above, we note that the reported before tax NTA per share has been calculated after including the future income tax benefit of \$14.4 million attributable to realised tax losses as at 30 June 2009. This benefit is equivalent to 6.4 cents per PRV share.

II Share buy-back price

- 25 As noted above, the proposed share buy-back price is to be set at a discount of 1.75% to the pre-tax NTA per share. This calculation will be performed at the buy-back date, which is yet to be determined but will be on or around the date the buy-back is completed.
- 26 For illustrative purposes for this report we have adopted the reported pre-tax NTA as at 30 June 2009 of 86.5 cents per share.
- 27 As at 30 June 2009 therefore the buy-back price would be 85.0 cents per share, calculated as follows:

	Cents per share
Reported NTA before tax	86.5
Discount 1.75%	(1.5)
Share buy-back price	<u>85.0</u>

III Valuation of PRV

- 28 PRV is an investment company with the management of its portfolio contracted out to third parties. For the purpose of our report we have therefore assessed the value of 100% of the equity in PRV adopting the orderly realisation of assets approach. Using this methodology the value of the net assets of the company is adjusted for the time, cost and taxation consequences of realising the company's assets.
- 29 The valuation of the PRV investment portfolio has been made by reference to the respective quoted market prices of listed securities (consistent with the approach adopted by PRV for financial reporting purposes).

Tax assets

- 30 As noted above, the reported net assets of PRV as at 30 June 2009 include an aggregate future income tax benefit of \$21.4 million in respect of realised and unrealised losses on the investment portfolio at the reporting date.
- 31 The potential recoupment of these losses in future periods will implicitly be dependent on future gains on the investment portfolio, which in turn will be a function of factors including:
- (a) the investment performance of the underlying portfolio managers; and
 - (b) positive (upward) movements in security markets generally, both in Australia and overseas.
- 32 In assessing what value a "willing but not anxious" purchaser of the equity in PRV might be prepared to attribute to the tax losses we have adopted a "virtual certainty of recoupment" scenario and have assumed:
- (a) the notional realisation of the investment portfolio; and
 - (b) the re-investment of the proceeds together with available cash on hand in long-term Government bonds.
- 33 Based on the above we have adopted a value for the tax losses in the range of \$5.0 million to \$7.0 million.⁵

⁵ We note that under the scenario assumed it would take up to 10 years to fully recoup the tax losses. PRV shareholders should also note that, subsequent to the proposed share buy-back, the size of PRV's investment portfolio will be significantly reduced which is likely to extend the period over which PRV is able to recoup the tax losses.

Realisation costs

- 34 In assessing the value of 100% of the equity in PRV we have also allowed for:
- (a) transaction costs incurred on the (notional) realisation of the investment portfolio of 0.1% or \$147,000
 - (b) the termination fee that would be payable under the Investment Management Agreement, estimated at \$1.8 million.⁶

Value of PRV equity

- 35 We have therefore assessed the value of 100% of the equity in PRV in the range of 81.5 cents to 82.4 cents per share, as follows:

	Low \$000	High \$000
Reported net assets (refer paragraph 15)	201,244	201,244
Less:		
Future income tax benefit	(14,414)	(14,414)
Deferred tax asset	(6,968)	(6,968)
Net assets excluding tax assets	179,862	179,862
Assessed value of tax losses	5,000	7,000
	184,862	186,862
Less:		
Portfolio realisation costs	(147)	(147)
Investment Management Agreement termination fee	(1,800)	(1,800)
Value of 100% of PRV equity	182,915	184,915
Shares on issue (000)	224,347	224,347
Assessed value per share	81.5 cents	82.4 cents

⁶ A purchaser of 100% of the equity in PRV would allow for this liability. In the alternative scenario where the existing agreement was retained the liability in respect of capitalised future portfolio management costs would be greater.

IV Assessment of share buy-back price

- 36 LEA has concluded that the proposed share buy-back price is fair and reasonable to PRV shareholders. We have arrived at this conclusion for the reasons set out below.

Assessment of fairness

- 37 Pursuant to Australian Securities and Investments Commission (ASIC) Regulatory Guide 111, an offer is “fair” if:

“The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.”

- 38 This comparison as it applies to the proposed share buy-back is shown below:

	Low cents	High cents
Assessed value per PRV share	81.5	82.4
Share buy-back price	85.0	85.0
Extent to which share buy-back price exceeds assessed value (cents per share)	3.5	2.6

- 39 As the proposed buy-back price per share is greater than our assessed value of PRV per share, in our opinion, the buy-back is fair when assessed based on the guidelines set out in Regulatory Guide 111.

Assessment of reasonableness

- 40 Pursuant to Regulatory Guide 111, a transaction is reasonable if it is fair. Consequently, in our opinion, the buy-back is also reasonable to PRV shareholders.
- 41 In considering whether the buy-back is reasonable to PRV shareholders we also note that:
- (a) the proposed share buy-back price exceeds the price at which PRV shares have traded in the period October 2008 to June 2009
 - (b) no transaction costs will be incurred by PRV shareholders pursuant to the buy-back

- (c) the buy-back provides PRV shareholders with the opportunity to sell a significant volume of PRV shares without depressing the market price thereof
- (d) the level of discount to NTA on which the share buy-back price is determined is at the low end of observed discounts based on the prices at which recent buy-backs of significant percentages of issued shares have been undertaken by listed investment companies.

General

42 The ultimate decision whether to approve the buy-back should be based on each PRV shareholder's assessment. If PRV shareholders are in doubt about the action they should take in relation to the proposed buy-back or matters dealt with in this report, shareholders should seek independent professional advice.

Yours faithfully



Craig Edwards
Authorised Representative



Martin Holt
Authorised Representative

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and Independent Expert's Reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to be sent to PRV shareholders in connection with the proposed share buy-back.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian financial services licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Appendix A

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this IER our fees are based on a time cost basis using agreed hourly rates.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.
- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared more than 100 Independent Expert's Reports to shareholders.
- 2 This report was prepared by Mr Craig Edwards and Mr Martin Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 16 years and 20 years experience respectively in the provision of valuation advice.

Declarations

- 3 This report has been prepared at the request of the Directors of PRV to be sent to PRV shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the proposed share buy-back price is fair and reasonable to PRV shareholders.

Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the proposed share buy-back. LEA is entitled to receive a fee estimated at \$35,000 plus GST for the preparation of this report. With the exception of the above fee, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

Indemnification

- 5 As a condition of LEA's agreement to prepare this report, PRV agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of PRV which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 6 LEA consents to the inclusion of this report in the form and context in which it is provided to PRV shareholders.

Appendix C

Limitations and reliance on information

- 1 Our opinions are based on the economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.⁷
- 2 Our report is also based upon financial and other information provided by PRV. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld. The information provided was evaluated through analysis, enquiry and review for the purpose of forming an opinion on the proposed share buy-back price from the perspective of the PRV shareholders. However, in assignments such as this, time is limited and we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. None of these additional tasks have been undertaken.
- 3 We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS).
- 4 An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 5 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

⁷ This has been particularly the case throughout 2008 and 2009, although market conditions appear more stable at the date of this report.