

**Fund objective**  
The Fund is designed for long-term investors who wish to build capital over a number of years through investment in a portfolio of equity and equity related securities in companies located in Asia (excluding Japan).

**Fund Information**  
**Fund Manager**  
Ezra Sun  
**Fund Size**  
\$1,226.2m  
**NAV per share**  
\$223.74  
**Launch price**  
\$100.00  
**Dividend payment**  
Annually (September)  
**Inception date**  
18 Oct 2004

**Sedol**  
B02T6L7  
**ISIN**  
IE00B02T6L79  
**Index**  
MSCI AC Asia Pacific (ex Japan)  
**Sector**  
LGC - Equity Asia Pacific ex Japan  
**Domicile**  
Ireland  
**Structure**  
ICVC  
**Tax status**  
UK Distributor Status  
**Dealing**  
Daily by 4.30 p.m.  
**Management fee (%)**  
1.0 (institutional A Class)  
1.5 (retail)

**Performance fee (%)**  
20% of any positive increase over the Index  
**Custodian**  
HSBC Institutional Trust Services (Ireland) Ltd

**Administrator**  
HSBC Securities Services (Ireland) Ltd  
**Manager**  
Veritas Asset Management (UK) Ltd

**Independent Fund Ratings**  


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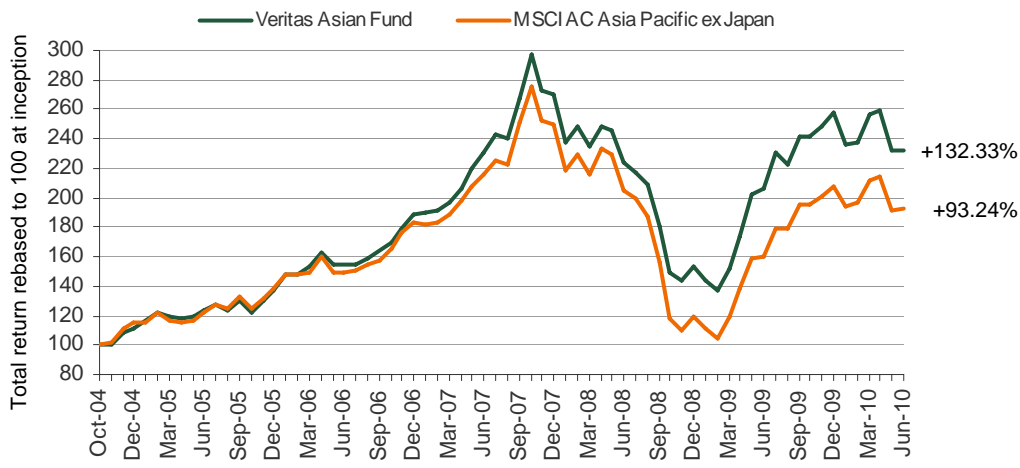
Issued by Veritas Asset Management (UK) Ltd,  
6th Floor, Elizabeth House, 39 York Road,  
London SE1 7NQ

**Authorised and Regulated by the Financial Services Authority**

**Veritas Asian Fund**  
**(USD 'A' Institutional Class)**

Cumulative total performance to 30th June 2010 (source: Veritas Asset Management)

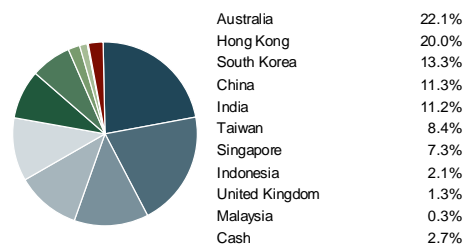
	VAF	Index	Sector
Q2 2010	-9.46%	-8.91%	-7.03%
Year to date	-9.76%	-7.03%	-5.42%
1 year	12.96%	21.07%	19.41%
3 years	0.72%	-10.57%	-11.53%
5 years	88.82%	59.13%	55.96%
<b>Since Inception</b>	<b>132.33%</b>	<b>93.24%</b>	<b>79.67%</b>



**Historical performance (total returns, including dividends reinvested, net of fees and expenses)**

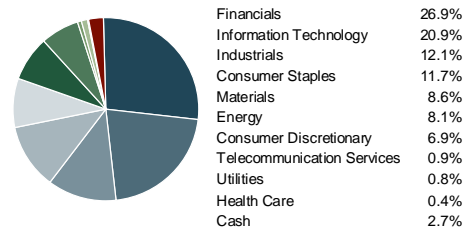
Year to end:	Jun-10	Jun-09	Jun-08	Jun-07	Jun-06
Fund:	12.96	-8.21	-2.86	49.45	25.44
MSCI AC Asia Pacific (ex Japan) Index:	21.07	-22.21	-5.04	44.77	22.91

The above figures refer to the past and past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations.



**Top 10 Holdings**

Samsung Electronics	4.1%
China Life Insurance	3.4%
Tencent Holdings	3.0%
United Overseas Bank	2.7%
Bharat Heavy Electricals Ltd.	2.6%
China Yurun Food Group Ltd.	2.6%
Commonwealth Bank of Australia	2.4%
Newcrest Mining	2.3%
Asciano Group	2.2%
Computershare	2.2%



**Risk profile since inception**

	VAF	Index
Standard Deviation:	22.4	24.9
Annualised Sharpe:	0.6	0.4
Annualised Sortino:	0.8	0.5
Beta:	0.9	1
Number of holdings:	83	n/a

Source: Veritas Asset Management

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Extreme volatility returned to the Asian markets in the second quarter. The MSCI Asia Pacific ex-Japan index initially rose to a high of 508.8 in the middle of April before plunging 16.4% to a low of 425.5 in late May. For the quarter, the index fell 8.9%. The Veritas Asia Fund fell 9.5% during the quarter.

The fund has underperformed the index during the period. The main reason is that we were more pro-cyclical at the beginning of the year believing that tightening in Asia is a normal occurrence at this stage of the cycle and should not undermine the cyclical rally that started in March 2009. This pro-cyclical stance was sorely tested by the sovereign debt crisis in Europe, which forced a re-think about global growth. The fear about slow down in China also played a part in investors turning cautious towards Asia. This has hurt performance during period.

The global economic growth in recent months continued to be strong. However, investors are now more concerned that global growth may have peaked. Indeed, recent economic growth data are suggesting some signs of softening. For example, the OECD composite leading indicator (CLI) index fell marginally to 10.1% in April from 10.6% in March. The US manufacturing PMI declined slightly to 59.7% in May from 60.4% in April, whilst European PMI fell from 57.5 in April to 55.6 in June. The US GDP also showed some signs of moderation to 2.7% in 1Q10, down from 5.6% in 4Q09. The net result of these is the return of fear as evidenced by the VIX index rising to a high of 48.2 from 17.6 at the start of the quarter. The corollary of this is that the weighted USD index also rose above the 88 level from 81 at the beginning of the quarter. The strength of the USD has historically been bearish for Asian equities, and this time is no different.

The major and very real risk lies with the huge and unsustainable fiscal deficits in many sovereigns. In May, a defining moment was reached as the market forced the governments of Greece, Portugal and Spain to a sharp fiscal contraction to reign in deficits. This will have the effect of slowing growth at the margin. Fortunately for the Euro, Greece is only 2.7% of European GDP, Portugal only 1.8% and even the larger Spain only 11.5%. Hence, the problems in peripheral Europe are unlikely to cause a global double dip unless we have contagion to the financial system. The real elephant in the room where the most severe risk lies is in the highly leveraged, triple A rated, large economies of France, United Kingdom and the US. Several of the French banks CDS's are now at higher levels than that reached during the Lehman bankruptcy in September 2008. The United States is expected to run a deficit of USD1.6 trillion, equivalent to 10% of GDP. Other than the risks of defaults, the huge deficits mean that massive sovereign bond issuance in the US, UK and Europe will have to attract huge amounts of private capital thus eventually crowding out some private investment. The expiry of the EUR442 billion sovereign debt on July 1 was cited as a factor for the sharp fall in global markets towards the end of June.

In contrast to the severe indebtedness and fragility of the developed world, the emerging market economies continued to roar ahead, especially in the two mega economies of China and India. We remain firm in our view that China is not in the midst of a massive over-investment bubble. It is true that China growth of 11.9% in the first quarter is too rapid, but a classic over-investment bubble like that of Thailand and other South East Asian countries in the mid 1990s all have similar characteristics of very low returns on capital. This is clearly not the case in China where industrial profits rose 81.6% in May, in contrast to the lows of -37.3% in February 2009.

In recent months, as the tightening policies in China started to be implemented, we began to see a deceleration in Chinese growth. This in our view is good news and is a sign that the risk of overheating is subsiding and we disagree with the pessimistic forecasts prevalent in the marketplace that China's economic growth is about to collapse. The latest economic data in May of retail sales of 18.7%, industrial production of 16.5%, fixed asset investment of 25.9%, and exports of 48.5% all suggest that economic growth remains buoyant. China's decision on the 19 June to end the RMB peg and adopt a currency movement with reference to a basket of currencies suggests that it is confident that growth is not a major concern in the medium term. The RMB stopped appreciating against the USD in September 2008 when growth slowed dramatically. Whilst the recent anti-property measures would have the impact of slowing growth at the margin, the overall economy is unlikely to collapse as the government has avoided the use of blunt instruments such as interest rates and RRR to curb property speculation. We continue to believe that strong China growth is a major positive for Asia.

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This is of course, true also for India. The Indian economy seems to be well on the road to recovery. Industrial production has been gathering steam, non oil imports and bank credit are improving. The reform in fuel price subsidy and efforts to further privatise state owned companies are addressing the chronic fiscal deficit issue and are like to lead to a reduction of systemic risk in the Indian economy. The one slightly negative datapoint is inflation remaining high with WPI at 10.16%/y/y for May. However, we believe it is likely to come down in the second half of the financial year from a high base as early indications are for a normal monsoon this year. Consensus is pricing in a 50-75 bps increase in rates for the remainder of 2010 which we believe to be reasonable. As mentioned in our previous commentaries, India has a very favourable demographic trend which will support its medium term growth outlook. Against this positive background, we have increased our exposure to India via domestic consumption and infrastructure related names.

The change in global growth dynamics has prompted us to cut back our exposures in Korea and Taiwan. These two markets are highly leveraged into global growth. We also fear that momentum in tech demand is dissipating as the high base effect starts to kick in. Our Australia weighting has also been reduced as China's slowdown will inevitably reduce demand for commodities.

Sectorwise, the consumer continued to be a core theme of the fund this year, especially in the populous nations of China, India and Indonesia which has a combined population of 2.75b people. We are of the view that the boom in consumption that took place in Japan in the 1980s and the US in the 1990s will happen to Asia in the next 10 years as baby boomers attain rising productivity and salaries. The high profile strikes in Chinese Honda car factories suggests that labour availability is becoming scarce and salaries will rise, and hence stimulate consumption. In contrast to the depressed global outlook for wages in the developed world, workers in China have something big to smile about this year. Minimum wage will rise significantly this year in China – Beijing (20%), Shanghai (17%), Guangzhou (20%), outer Shenzhen (22%) and Xiamen (20%). Some of the less developed provinces announced even more aggressive minimum wage increases, e.g. the 33% hike in Hubei and 29% in Wuhan. This will have an impact on corporate profitability of course, but labour components of cost are very low and so it is unlikely to have a significant impact on margins, particularly those companies that are more capital intensive than labour intensive.

Within the consumer sector, we are investors in the departmental store operators, food and beverage companies, sports-wear retailers in China, auto parts suppliers and home appliances in India, and food and tobacco companies in Indonesia.

With the specter of the credit crisis still haunting the market and the risk reduction in full swing, it is difficult to see markets in Asia breaking away on its own. However, it is important to emphasise that Asia is in robust health with regard to balance sheets (government, corporate and individual.) Growth is strong and sustainable. As and when external risks subside in the West, we are likely to see significant outperformance from Asia. The fund is well positioned in areas that we think will benefit from a more constructive view of Asian growth. For readers' references, the Asia Pacific ex Japan market is now trading at 12x 2010 earning and 10.5x 2011 earnings. Keep the faith.

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