AUSTRALIAN MASTERS
CORPORATE BOND
FUND SERIES

# AMCBF Series Quarterly Update

## 1 April 2015 – 30 June 2015

## Summary

### AUSTRALIAN MASTERS CORPORATE BOND FUND NO. 5 (AMCBF5 OR FUND) HIGHLIGHTS

- The following dividends have been announced:
  - ACBF5 announced an un-franked dividend of $0.20 per share to be paid on 18 August 2015.
- All existing fixed income investments held in the AMCBF5 performed as expected.

### MARKET HIGHLIGHTS

- **Global markets:** In June, the US Federal Reserve (Fed) released an announcement suggesting economic growth in the second quarter of 2015 was less than initially projected (April 2015). Labour market conditions remain positive, while consumer confidence and economic conditions also continued to improve. The Fed reiterated the current cash rate range (0 to 0.25%) will remain the same until labour market and inflation figures provide sufficient evidence the current target should be lifted.
- **Australian rates:** In May, The Reserve Bank of Australia (RBA) reduced rates to the historic low of 2.00%, with the market suggesting rates will remain at this level over the near term. The RBA continues to be concerned about growth prospects for the Australian economy and anticipates a further decline in the AUD.
- **Domestic credit:** Primary issuance continues to be strong, with both domestic and offshore issuers coming to market at record-low rates. While the situation in Greece caused some global volatility in the credit markets, the low-interest rate environment and investors chasing yield has meant spreads on corporate bonds have continued to remain tight, although the decision by Greece to walk away from negotiations saw spreads widen at the end of the quarter.


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# AMCBF Activity

AMCBF5 announced the following quarterly dividend and capital return:

| FUND | DIVIDEND | FRANKED | GROSSED UP | CAPITAL RETURN | EXPECTED PAYMENT DATE |
|---|---|---|---|---|---|
| AMCBF5 | $0.20 | $0.00 | $0.20 | $0.00 | 18 August 2015 |

The manager is proactively managing the cash balances of the funds and will consider returning capital to shareholders when it is practical to do so.

As this Fund is coming to its maturity with its final investment expect to mature in December 2015, distributions will be less frequent and reflect the lower amount still held in the portfolio. As of 30 June 2015 $79.32 per share has been returned to investors.

# Global Markets Update

Global markets lacked momentum in the June quarter as sluggish economic activity in China and the US and uncertainty over timing of the interest rate hike in the US led to an increase in volatility. Europe showed signs of growth, aided by the quantitative easing program introduced by the European Central Bank (ECB) in the first quarter. However, the debt woes in Greece continue to cast a shadow over the fragile recovery.

Expectations were the US Federal Reserve (Fed) could potentially begin raising rates in June, moving away from their accommodative monetary policy. A surprise contraction in the US economy during the first quarter has now delayed this decision. Commentators now expect the rate normalisation process to begin in September (or later), with the potential for one or two rate hikes before the end of the year. Strong macroeconomic data towards the end of June lent further support to this view. In the latest Federal Open Market Committee (FOMC) meeting, the Fed described the US economic activity as moderately expanding. It also stressed its intention to observe the economic momentum before taking any decision, and suggested a slower path of interest rates increases.

In the eurozone, investors were watchful of the intense negotiations between Greece and its creditors. With Greece unwilling to accept the stringent austerity measures, negotiations for receiving further bailout funds broke down. Consequently, on 30th June, Greece defaulted on its debt repayment to the International Monetary Fund (IMF), becoming the first advanced country to do so. On 5th July, Greece called for a nationwide “Yes” or “No” referendum to decide whether they should accept the austerity measures. The majority rejected the bailout conditions, raising prospects of a Greek exit from the eurozone, with the Government then moving to push through austerity measures (July 15) and opening the door for further bailout funding.

Other eurozone economies showed signs of revival in spite of the ongoing concerns. The 1st quarter eurozone gross domestic product (GDP) growth rate came in higher than the US, boosted by the ECB stimulus, weaker Euro and lower energy costs. Eurozone annual inflation increased for the first time in six months in May while the most recent business activity readings came at a four-year high. The ECB in June decided to keep its policy rate steady and expressed its satisfaction with the quantitative easing program. The program has led to higher credit availability, supporting



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overall GDP growth in the region. The jobless rates have been the lowest in three years.

Bond markets were volatile during the second quarter and yields across most major bond markets surged higher. US government bond prices declined sharply after signs of an uptick in the US economy strengthened speculation of a rate hike this year. The benchmark 10-year US Treasury yield climbed from 1.92% to 2.35% during the period. Bond prices declined in Europe as well, owing to higher inflation expectations in the eurozone and improving economic activity. Concerns of a Greek default dragged the German bund yields down in June (flight to safety), though it still ended the quarter higher.

# Australian Financial Market Update

In Australia, house prices, the Australian Dollar (AUD), domestic growth, weakening business confidence, and unemployment remain the key areas of focus for the RBA. Weak business capital expenditure in both the mining and non-mining sectors continues to weigh on the economy. While lower interest rates are helping with the transition of the economy, confidence is missing at both a consumer and business level. The subdued recovery should keep the RBA in an easing mode through 2015, with the cash rate likely to stay at record lows.

# Domestic Rates

The RBA cut the cash rate in May for the second time this year, lowering it to a record low of 2.00%. The accompanying monetary policy statement provided little forward guidance, leading to speculation the RBA will maintain the cash rate at current levels while they continue to assess the impact of these historically low interest rates.

Monetary policy has become the main policy instrument in Australia to invigorate domestic demand and aid the transition away from mining investment, with the government reluctant to implement strong fiscal stimulus measures. However, the Australian economy has been slow and less responsive to the generous monetary stimulus injected in the past three years. The RBA recently noted that even though additional interest rate cuts were likely, the marginal benefit to the economy would be minimal. It noted the issue is not monetary policy, but rather a lack of “animal spirits”, which is holding back business investment and warned the government against any more fiscal “restraint”.

A weaker Australian dollar should provide support to business sentiment and stimulate investment. The AUD declined by 17% over the past year to $US0.77 at 30 June, but is still above where the RBA says it needs to be to support growth. Weakening commodity prices and expected rate hikes in the United States later this year, or early next, will continue to exert downward pressure on the AUD in 2015.


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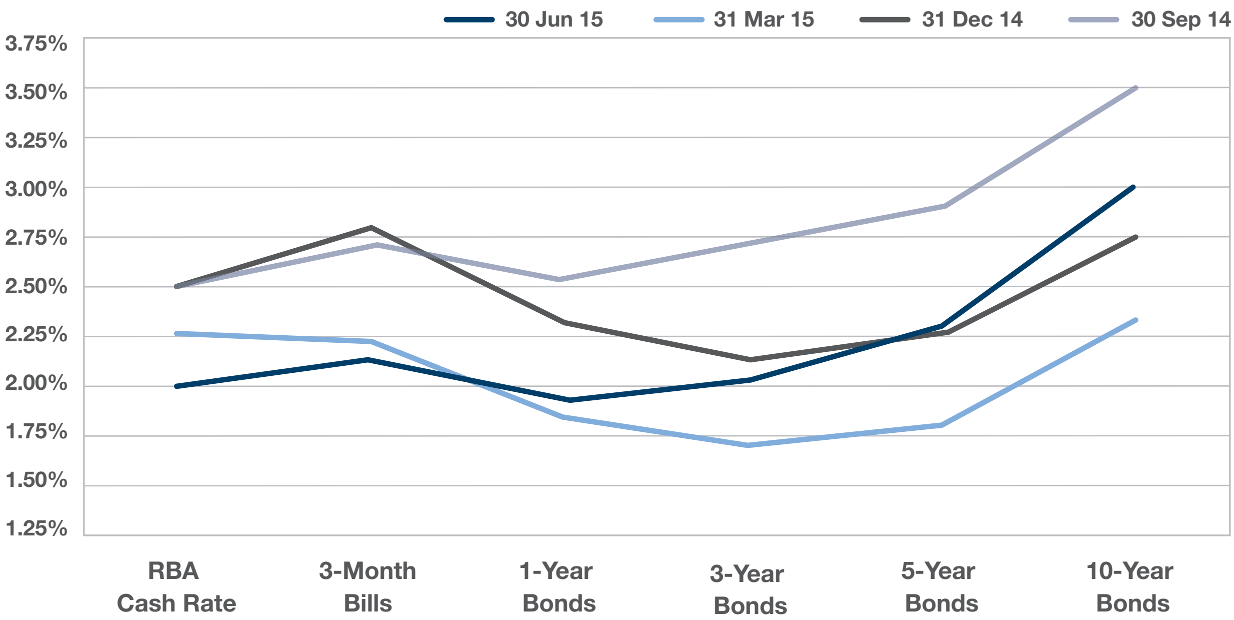
### AUSTRALIAN GOVERNMENT YIELD CURVE




Source: Bloomberg

# Domestic Credit

Australian credit spreads finished the quarter at a slightly higher level relative to their position in March. Amid persistent global headwinds, credit spreads continued to drift sideways, with a widening bias till the final week of the quarter, where they spiked wider on mounting Greek default fears.

### ITRAXX AUSTRALIAN CREDIT SPREADS


Source: Bloomberg



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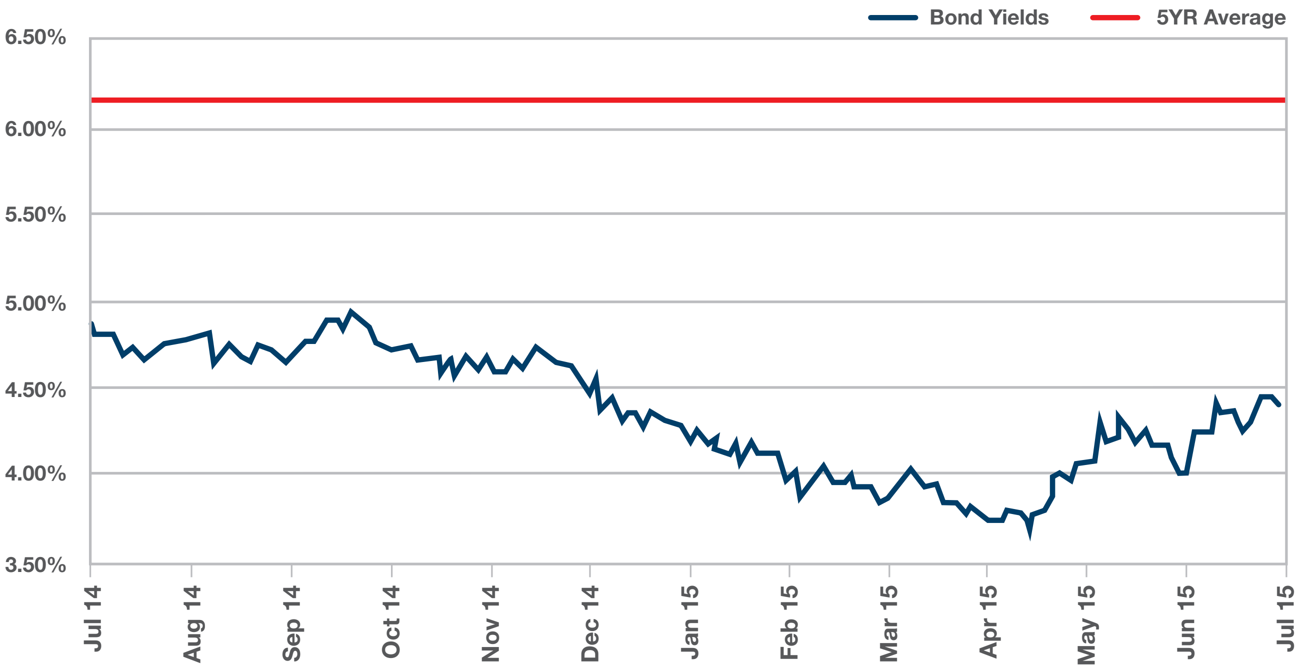
The second quarter of 2015 saw bond yields climbing sharply across most major bond markets, including Australia. Expectations interest rates could rise in the US later this year and an escalation of the Greek crisis triggered a sharp sell-off in Australian bonds.

## AUSTRALIAN BBB 5YR CORPORATE BOND YIELDS




Source: Bloomberg

During the June quarter, the domestic debt issuance totaled $14.08 billion. Of the deals launched during the quarter, ANZ's $2.5 billion [tier 1 floating rate note] was the biggest in size, followed by NAB's $1.9 billion [tier 1 floating rate note].

BHP Billiton raised $1 billion in March, taking advantage of the all-time low interest rates, paying an annual coupon of 3.0% on a five-year senior note.

## HYBRID MARKET UPDATE

After large issuances by National Australia Bank, Australia and New Zealand Bank and Crown Resorts in the first quarter, the June quarter did not see any major activity.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| | JUNE QUARTER DIVIDENDS & CAPITAL RETURNS | | | |
|---|---|---|---|---|
| FUND | CASH | FULLY FRANKED | CAPITAL RETURNS** | FUND MATURITY* |
| AMCBF#5 | $0.20 | $0.20 | $0.00 | 31-Dec-15 |

*Anticipated end date
**Capital Return up to this amount

## AMCBF#5

| ISSUER | MATURITY | FACE VALUE | CONSIDERATION | GICS INDUSTRY |
|---|---|---|---|---|
| Downer EDI* | 29-Oct-13 | $11,400,000 | $11,624,536 | Commercial & Professional Services |
| Volkswagen Australia* | 26-Nov-12 | $3,000,000 | $2,983,500 | Automotive |
| Stockland* | 15-May-13 | $500,000 | $467,255 | Real Estate |
| GPT Property* | 22-Aug-13 | $1,000,000 | $933,490 | Real Estate |
| Brisbane Airport* | 11-Dec-13 | $5,000,000 | $4,629,810 | Transportation |
| Goldman Sachs* | 24-Jun-14 | $2,500,000 | $2,310,918 | Diversified Financials |
| Dexus Finance* | 28-Jul-14 | $2,500,000 | $2,701,975 | Real Estate |
| Leightons* | 28-Jul-14 | $6,900,000 | $7,229,182 | Capital Goods |
| AMP Limited* | 5-Oct-14 | $3,500,000 | $3,508,330 | Insurance |
| Sydney Airport Finance* | 20-Nov-14 | $3,030,000 | $2,696,706 | Transportation |
| CFS Retail Property* | 22-Dec-14 | $2,400,000 | $2,282,473 | Real Estate |
| Stockland* | 18-Feb-15 | $18,190,000 | $18,362,081 | Real Estate |
| Mirvac* | 15-Mar-15 | $2,300,000 | $2,349,798 | Commercial & Professional Services |
| Santos Finance | 23-Sep-15 | $6,000,000 | $5,511,440 | Energy |
| Envestra | 14-Oct-15 | $2,500,000 | $2,062,750 | Utilities |
| Melbourne Airport (Fixed) | 14-Dec-15 | $1,000,000 | $863,320 | Transportation |
| Melbourne Airport (FRN) | 14-Dec-15 | $3,510,000 | $3,056,324 | Transportation |
| | | $75,230,000 | $73,573,888 | |

| COUPONS RECEIVED | | |
|---|---|---|
| APRIL | MAY | JUNE |
| - | - | - |
| - | - | - |
| - | - | - |
| - | - | - |
| - | - | - |
| - | - | - |
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| - | - | - |
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| - | - | - |
| - | - | - |
| 78,125 | - | - |
| - | - | 30,000 |
| - | - | 22,490 |
| 78,125 | - | 52,490 |

*Investment has been redeemed or has matured
**Figures may not reconcile due to rounding




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