



**AUSTRALIAN
MASTERS
YIELD**
FUND SERIES



AMYF SERIES QUARTERLY UPDATE

1 APRIL 2015 – 30 JUNE 2015

SUMMARY

AUSTRALIAN MASTERS YIELD FUND SERIES (AMYF SERIES) HIGHLIGHTS

- The following dividends have been announced:
 - Australian Masters Yield Fund No 1 (AMYF1) announced a fully franked dividend of \$0.29 per share to be paid on 18 August 2015.
 - Australian Masters Yield Fund No 2 (AMYF2) announced a fully franked dividend of \$ 0.64 per share to be paid on 18 August 2015.
 - Australian Masters Yield Fund No 3 (AMYF3) announced a fully franked dividend of \$ 0.82 per share to be paid on 18 August 2015.
 - Australian Masters Yield Fund No 4 (AMYF4) announced a fully franked dividend of \$0.56 per share to be paid on 18 August 2015.
 - Australian Masters Yield Fund No 5 (AMYF5) announced a fully franked dividend of \$ 0.65 per share to be paid on 18 August 2015.
- The following capital returns have been announced:
 - AMYF4 announced a capital return of \$20.28 per share to be paid on or around 18 August 2015.
- All existing fixed income investments held in the AMYF Series 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.



AMYF ACTIVITY

AMYF Series announced the following quarterly dividends and capital returns:

FUND	DIVIDEND	FRANKED	GROSSED UP	CAPITAL RETURN	EXPECTED PAYMENT DATE
AMYF1	\$0.29	\$0.12	\$0.41	\$0.00	18 August 2015
AMYF2	\$0.64	\$0.27	\$0.91	\$0.00	18 August 2015
AMYF3	\$0.82	\$0.35	\$1.17	\$0.00	18 August 2015
AMYF4	\$0.56	\$0.24	\$0.80	\$20.28	18 August 2015
AMYF5	\$0.65	\$0.27	\$0.92	\$0.00	18 August 2015

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

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 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.

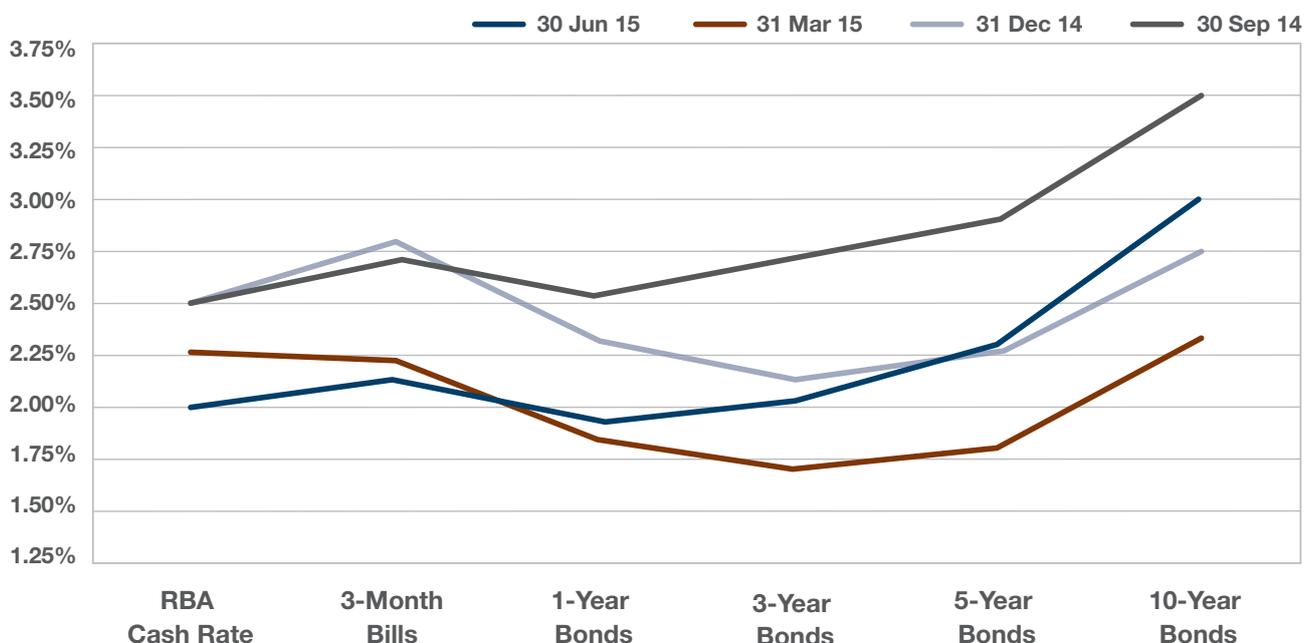
DOMESTIC RATES

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.

AUSTRALIAN GOVERNMENT YIELD CURVE



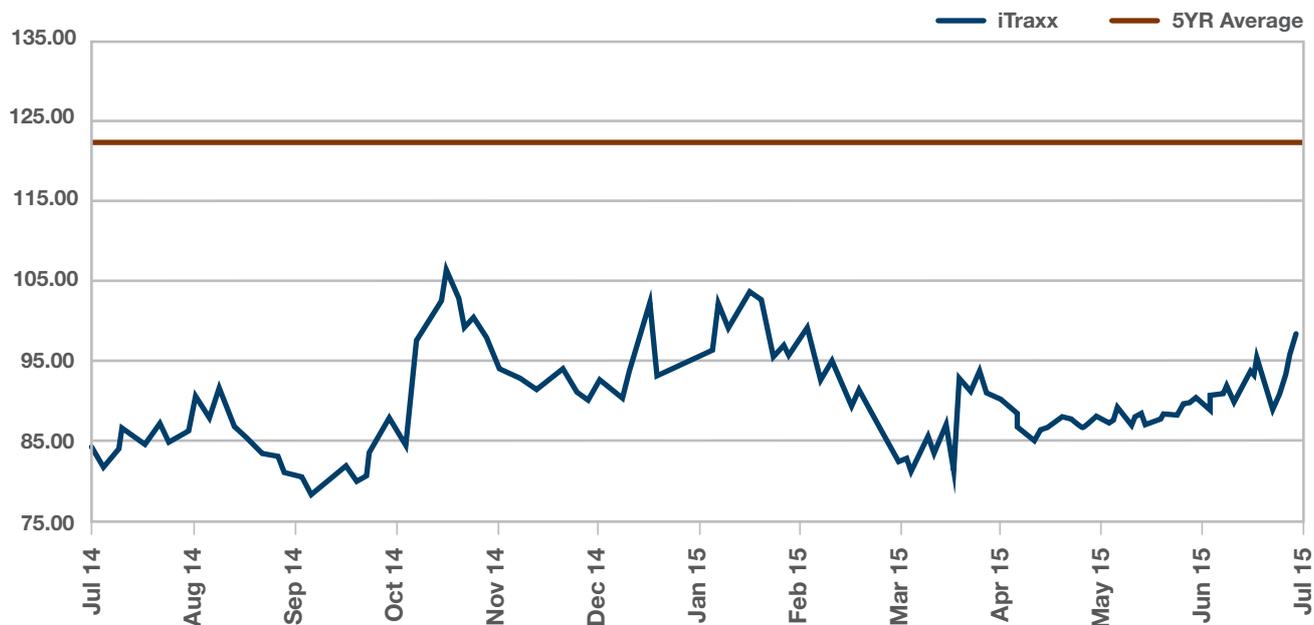
Source: Bloomberg



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.

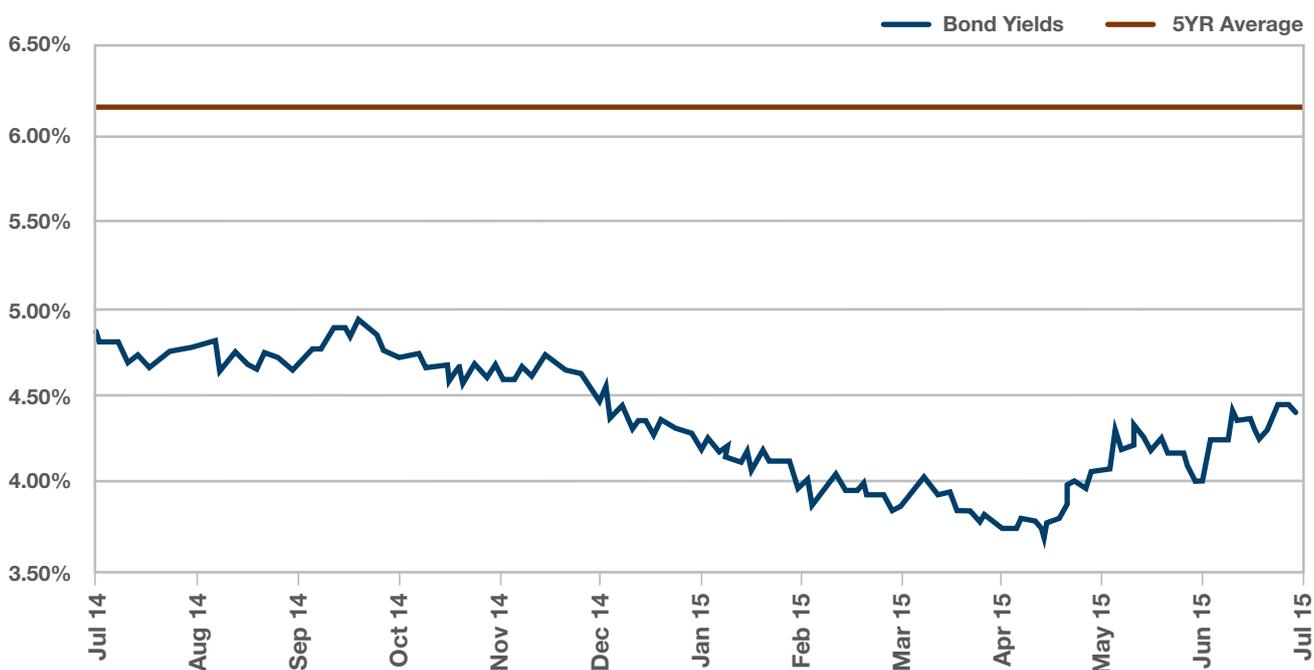
ITRAXX AUSTRALIAN CREDIT SPREADS



Source: Bloomberg

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].

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.



JUNE QUARTER DIVIDENDS & CAPITAL RETURNS**

FUND	CASH	FULLY FRANKED	CAPITAL RETURNS***
AMYF#1	\$0.29	\$0.41	\$0.00
AMYF#2	\$0.64	\$0.91	\$0.00
AMYF#3	\$0.82	\$1.17	\$0.00
AMYF#4	\$0.56	\$0.80	\$20.28
AMYF#5	\$0.65	\$0.92	\$0.00

AMYF#1

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY
Generator Income Trust*	8-Oct-11		\$1,654,500	\$1,507,009	Diversified Financials
Southern Cross Airports*	20-Dec-16	1-Jan-12	\$2,205,600	\$2,167,700	Transportation
Royal Bank of Scotland*	27-Oct-14		\$21,900,000	\$19,086,932	Diversified Financials
DBNGP Finance	29-Sep-15		\$5,000,000	\$5,109,000	Utilities
HSBC Bank (Australia)	26-Nov-20	26-Nov-15	\$3,000,000	\$3,000,000	Diversified Financials
Mirvac Group Finance	16-Sep-16		\$8,500,000	\$8,642,990	Real Estate
Adelaide Airport	20-Sep-16		\$1,000,000	\$899,130	Transportation
Bank of America	14-Feb-17		\$10,100,000	\$8,797,248	Diversified Financials
HBOS Plc (Lloyds)*	1-May-17	1-May-12	\$15,000,000	\$12,631,391	Diversified Financials
Wachovia Bank (Wells Fargo)	25-May-17		\$7,000,000	\$6,023,630	Diversified Financials
Bank of Queensland	14-Apr-21		\$20,000,000	\$20,000,000	Diversified Financials
			\$95,360,100	\$87,865,030	

AMYF#2

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY
Generator Income Trust*	8-Oct-11		\$1,827,500	\$1,767,716	Diversified Financials
Southern Cross Airports*	20-Dec-16	1-Jan-12	\$790,200	\$788,263	Transportation
Royal Bank of Scotland*	27-Oct-14		\$5,000,000	\$4,381,050	Diversified Financials
Bank of Queensland	10-May-21	10-May-16	\$10,000,000	\$10,000,000	Diversified Financials
Genworth Financial Mortgage Insurance	30-Jun-21	30-Jun-16	\$6,000,000	\$6,011,530	Diversified Financials
IMB Building Society	16-Sep-21	16-Sep-16	\$10,000,000	\$10,000,000	Diversified Financials
Bank of America	14-Feb-17		\$6,900,000	\$5,571,368	Diversified Financials
HBOS Plc (Lloyds)*	1-May-17	1-May-12	\$2,000,000	\$1,560,000	Diversified Financials
			\$42,517,700	\$40,079,927	

COUPONS RECEIVED

APRIL	MAY	JUNE
-	-	-
-	-	-
-	-	-
-	-	65,196
-	37,563	-
-	-	-
-	-	6,516
-	65,120	-
-	-	-
-	46,170	-
307,973	-	-
307,973	148,853	71,712

COUPONS RECEIVED

APRIL	MAY	JUNE
-	-	-
-	-	-
-	-	-
-	151,397	-
-	-	105,561
-	-	159,299
-	44,488	-
-	-	-
-	195,885	264,859

AMYF#3

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY
Royal Bank of Scotland*	17-Feb-17	17-Feb-12	\$4,000,000	\$2,982,720	Diversified Financials
FKP Property Group*	05-Jan-16	5-Jan-14	\$4,000,000	\$3,867,611	Real Estate
Royal Bank of Scotland*	27-Oct-14		\$6,100,000	\$5,015,789	Diversified Financials
Loy Yang Power Projects*	12-Nov-15		\$10,464,705	\$9,941,470	Utilities
Bank of America	14-Feb-17		\$17,400,000	\$14,001,455	Diversified Financials
Morgan Stanley	22-Feb-17		\$7,000,000	\$6,205,450	Diversified Financials
Bank of Queensland	22-Mar-22	22-Mar-17	\$15,000,000	\$15,000,000	Diversified Financials
Insurance Australia Group	01-May-19	1-May-17	\$7,975,000	\$7,975,000	Diversified Financials
HBOS Plc (Lloyds)*	01-May-17		\$5,400,000	\$4,191,165	Diversified Financials
Morgan Stanley	09-May-17		\$5,100,000	\$5,100,000	Diversified Financials
IMB Building Society	29-Jun-22	29-Jun-17	\$8,000,000	\$8,000,000	Diversified Financials
AMIT	09-Nov-22	9-Nov-17	\$4,000,000	\$4,000,000	Diversified Financials
AMP Bank	21-Dec-22	21-Dec-17	\$7,500,000	\$7,500,000	Diversified Financials
			\$101,939,705	\$93,780,660	

COUPONS RECEIVED

APRIL	MAY	JUNE
-	-	-
-	-	-
-	-	-
-	112,187	-
-	47,030	-
-	-	243,643
-	185,203	-
-	-	-
-	204,000	-
-	-	129,245
-	-	56,501
-	-	100,318
-	548,421	529,707

AMYF#4

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY
McAleese Finance*	03-Apr-15		\$10,000,000	\$10,000,000	Mining Services
UPMG*	30-Jun-18		\$5,250,000	\$5,000,000	Industrials
Loy Yang Power Projects	12-Nov-15		\$21,114,242	\$20,196,856	Utilities
BIS Industries	21-Dec-15		\$7,500,000	\$7,500,000	Mining Services
Morgan Stanley	29-Sep-16		\$3,600,000	\$3,774,500	Diversified Financials
IMB Building Society	29-Jun-22	29-Jun-17	\$4,500,000	\$4,500,000	Diversified Financials
AMIT	09-Nov-22	9-Nov-17	\$3,500,000	\$3,500,000	Diversified Financials
AMP Bank	21-Dec-22	21-Dec-17	\$4,500,000	\$4,500,000	Diversified Financials
Morgan Stanley	22-Feb-18		\$10,000,000	\$10,354,499	Diversified Financials
Westpac	08-Mar-21	8-Mar-19	\$2,500,000	\$2,500,000	Diversified Financials
NAB	22-Mar-21	19-Mar-19	\$2,500,000	\$2,500,000	Diversified Financials
Lend Lease	13-May-20		\$15,000,000	\$14,985,150	Infrastructure
Sydney Airports	20-Nov-20		\$6,200,000	\$7,514,834	Airline Infrastructure
			\$96,164,242	\$96,825,839	

COUPONS RECEIVED

APRIL	MAY	JUNE
-	-	-
-	-	-
-	68,593	-
16,285	21,895	11,600
-	-	-
-	-	72,700
-	-	50,393
-	-	60,191
-	-	-
-	-	24,393
-	-	24,698
-	450,000	-
-	77,716	-
16,285	618,205	243,974



AMYF#5

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY
UPMG*	30-Jun-18		\$15,750,000	\$15,000,000	Industrials
BIS Industries	21-Dec-15		\$7,500,000	\$7,500,000	Mining Services
Anglo American	27-Sep-18		\$10,500,000	\$10,381,350	Mining
Westpac	08-Mar-21	8-Mar-19	\$2,000,000	\$2,000,000	Diversified Financials
NABPA	22-Mar-21	19-Mar-19	\$2,500,000	\$2,500,000	Diversified Financials
IAG	19-Mar-40	19-Mar-19	\$3,000,000	\$3,000,000	Diversified Financials
Lend Lease	13-May-20		\$25,000,000	\$24,975,250	Infrastructure
PRAECO	28-Jul-22	28-Jul-20	\$4,710,000	\$4,862,912	Private Public Project
Mirvac Group Finance	18-Sep-20		\$10,000,000	\$9,875,000	Real Estate
Sydney Airports	20-Nov-20		\$6,000,000	\$7,516,200	Airline Infrastructure
NAB CPSII	19-Dec-22	17-Dec-20	\$1,384,000	\$1,384,000	Diversified Financials
ANZ PD	01-Sep-23	01-Sep-21	\$4,541,000	\$4,541,000	Diversified Financials
ANZ PE	15-Mar-24	15-Mar-22	\$5,000,000	\$5,000,000	Diversified Financials
			\$97,885,000	\$98,535,712	

COUPONS RECEIVED

APRIL	MAY	JUNE
-	-	-
16,285	21,895	11,600
-	301,875	-
-	-	19,514
-	-	24,698
-	-	38,338
-	750,000	-
83,986	-	-
-	-	-
-	75,209	-
-	-	13,590
-	-	-
-	-	-
100,271	1,148,979	107,738

* Investment has been redeemed.

** Does not include dividends paid and capital returned during the quarter that were recorded in the previous quarterly update for the fund.

*** Capital Return up to this amount.

**** Figures may not reconcile due to rounding.

