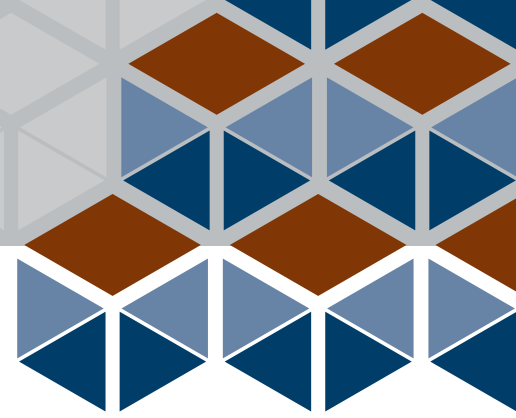




**AUSTRALIAN  
MASTERS  
YIELD**  
FUND SERIES



# AMYF SERIES QUARTERLY UPDATE

1 JULY 2015 – 30 SEPTEMBER 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 \$0.64 per share to be paid on 4 December 2015.
  - Australian Masters Yield Fund No 2 (AMYF2), announced a fully franked dividend of \$0.73 per share to be paid on 4 December 2015.
  - Australian Masters Yield Fund No 3 (AMYF3), announced a fully franked dividend of \$0.46 per share to be paid on 10 December 2015.
  - Australian Masters Yield Fund No 4 (AMYF4), announced a fully franked dividend of \$0.43 per share to be paid on 10 December 2015.
  - Australian Masters Yield Fund No 5 (AMYF5), announced a fully franked dividend of \$0.53 per share to be paid on 10 December 2015.
- All existing fixed income investments held in the AMYF Series performed as expected.

### MARKET HIGHLIGHTS

- **Global markets:** In the United States (US), the Federal Reserve (Fed) left rates on hold citing external concerns as the primary driver for the decision. Janet Yellen's statement and press conference post the rate decision appeared to increase uncertainty rather than provide clarity and calm. The global economy is expanding at a moderate pace, with some softening of conditions in Asia. The Fed is still expected to raise rates in the period ahead, while other central banks continue to maintain an easing stance.
- **Australian rates:** Over the September quarter, The Reserve Bank of Australia (RBA) maintained rates at the historic low of 2.00%, with yields across fixed income markets suggesting rates will continue to trade around this level for some time. Moderate expansion in the Australian economy has resulted in the RBA maintaining an accommodative stance, as inflationary pressures remain contained and the economy operates with a "degree of spare capacity".
- **Domestic credit:** Spreads widened over the quarter, driven by the revaluation of the Chinese yuan, volatility in global equity markets (particularly in China) and the surprising dovish sentiment from the Fed following the September FOMC meeting. Domestic issuance continues to be strong with bond yields remaining well below their long-term average.



## AMYF ACTIVITY

AMYF Series announced the following quarterly dividends and capital returns:

FUND	DIVIDEND	FRANKED	GROSSED UP	CAPITAL RETURN	EXPECTED PAYMENT DATE
AMYF1	\$0.64	\$0.27	\$0.91	\$0.00	4 December 2015
AMYF2	\$0.73	\$0.31	\$1.04	\$0.00	4 December 2015
AMYF3	\$0.46	\$0.20	\$0.66	\$0.00	10 December 2015
AMYF4	\$0.43	\$0.18	\$0.61	\$0.00	10 December 2015
AMYF5	\$0.53	\$0.23	\$0.76	\$0.00	10 December 2015

All existing fixed income securities held within the portfolios of the AMYF Series performed as expected. 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. Upcoming capital returns are expected to be announced in November 2015.

## GLOBAL MARKETS UPDATE

Global markets exhibited high volatility during the third quarter (Q3) of 2015 as deteriorating growth momentum in China and speculation surrounding the timing of a rate hike in the US unsettled investors across markets. Commodities were also hit hard by the turmoil declining to multi year lows. The Eurozone showed modest recovery but is vulnerable to the subdued overseas growth.

In the latest Federal Open Market Committee (FOMC) meeting in mid-September, the US Fed decided against raising interest rates and surprised markets with their dovish commentary. However, in a subsequent news conference, Fed chairwoman Janet Yellen stated she expects policy normalisation to begin before the end of the year. The Fed is cautious of the heightened global financial turbulence and economic growth prospects and considers it a risk to the US recovery. Economic data in general was positive, with the unemployment rate near long-term normal level. Inflation continues to lag their target rate, owing to the lower commodity prices and stronger dollar.

China's economic woes remain a concern, which threatens to derail the recent growth momentum in the US and the eurozone. Since mid-June, China's equity markets have retraced all of their 2015 gains, further casting doubts over the country's ability to re-attain previous levels of growth. In August, policymakers unexpectedly changed the method by which China pegs its currency, causing the single biggest devaluation of the yuan in two decades. This sent global stock markets along with commodities and emerging market currencies sharply down, and evoked fears of a global currency war.

In the eurozone, growth remains fragile with inflation staying significantly below target, slipping into negative in September. The slide in commodity prices and a stronger euro, due to the depreciation of emerging market currencies, pushed inflation lower. Exports were expected to decline due to a slowdown in China and other emerging countries. However, domestic consumption and business confidence showed signs of improvement. The European Central Bank (ECB) president, Mario Draghi, has resisted calls to expand the stimulus introduced earlier this year, but maintained it would step in if the need arises.

Global bond prices rallied during Q3, as a sell-off in equity markets, fears over a global slowdown and a decline in commodity prices led investors towards safe haven assets. The higher demand for US government bonds led prices to surge. The 10-year treasury yields declined from 2.35% to 2.04% in Q3. European bond prices also rose during the quarter after the US Fed kept interest rates on hold, raising expectations of further easing by the ECB.

In light of the current economic outlook including the deterioration in Australian economic fundamentals and global instability, the Fund Manager is monitoring the market and its exposures closely. The Fund Manager may, where appropriate, take opportunities to reduce the Funds' exposure to debt securities that are mispriced against peers or where the underlying risk/reward of specific securities is no longer consistent with the targeted profile of the Funds.



## AUSTRALIAN FINANCIAL MARKET UPDATE

In Australia, housing prices, the Australian Dollar (AUD), domestic growth, weakening business investment and unemployment remain the key areas of focus for the Reserve Bank of Australia (RBA). Mining investment is expected to continue to decline in the near future. Non-mining investment, while expected to pick-up over time as a result of the depreciation of the AUD, is yet to do so, with companies preferring to return capital to investors through dividends and capital returns, rather than invest in growth projects.

Consumer sentiment while improving remains in negative territory. Retail sales have improved along with consumption growth and overall, conditions in Australian financial markets continue to support the financing of the business and household sectors although financial institutions continue to tighten lending criteria. The RBA continues to follow accommodative monetary policy of low interest rates to support the economy.

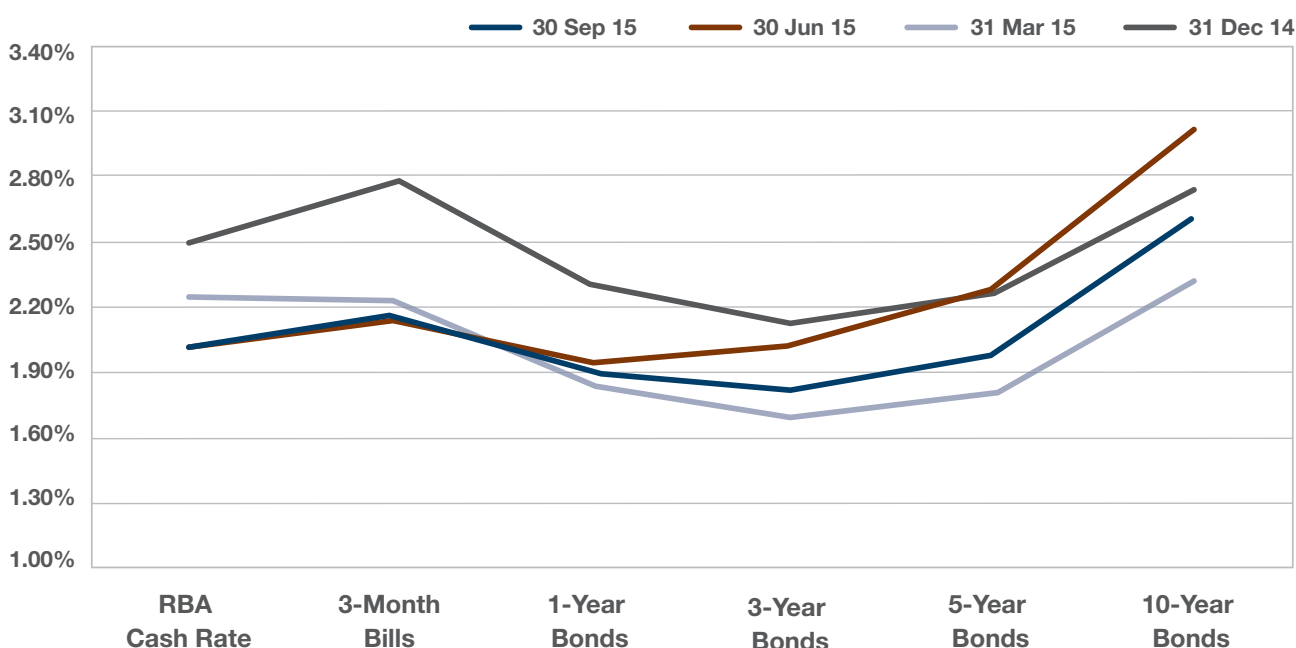
## DOMESTIC RATES

Following the rate cut in May, the RBA kept the cash rate unchanged at 2.00% for the fifth consecutive month. Despite the moderate growth in the Australian economy over the second quarter, RBA's tone suggested they are more comfortable with the current level of rates. However, expectation for a rate cut is building with the economy weakening further, amid weak commodity prices and low levels of business investment.

The depreciating AUD is one of the key instruments that can improve business sentiment and bring in investment. The AUD depreciated 8.9% against the USD during Q3 on growing concerns of China's deteriorating growth and a fall in global commodity prices. The economy is reaping some benefits of a lower AUD, which has fallen around 20% in the past year, providing much needed impetus to the economy. The weakening AUD has allowed the RBA to hold their decision against a rate cut.

The US Fed is expected to start increasing its policy rate before the end of the year, but other major central banks continue to ease policy. The effect of the US Fed monetary tightening will impact Asian economies including China, Australia's largest trading partner.

## AUSTRALIAN GOVERNMENT YIELD CURVE



Source: Bloomberg



## DOMESTIC CREDIT

Australian credit spreads finished the quarter at a significantly higher level, as equity market volatility spread through credit indices. In August, volatility reached a 2-year high following the surprise devaluation of the yuan and the rout in China's stock market caused by fears over China's declining growth. The Fed's decision against raising rates in their September FOMC meeting and the unexpected dovish tone led to wide swings during the last two weeks of the quarter.

### ITRAXX AUSTRALIAN CREDIT SPREADS



Source: Bloomberg

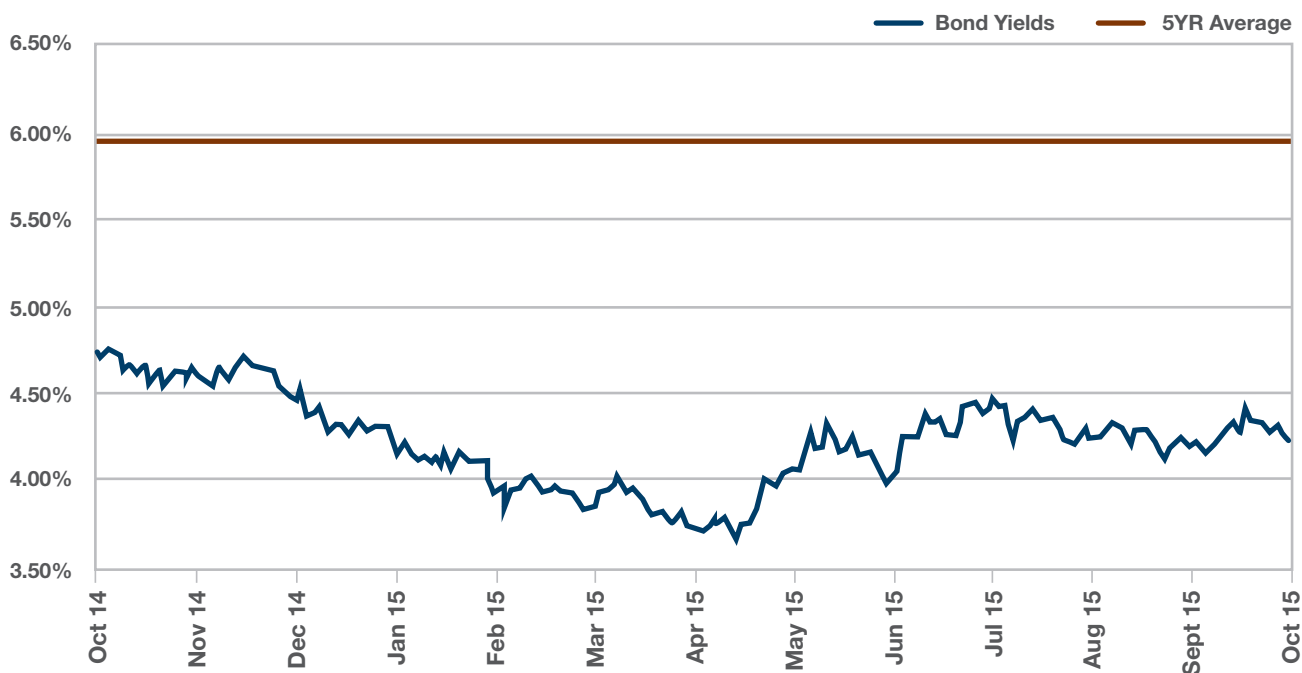
The iTraxx Australia index is a liquid Financial Instrument generally used for hedging Credit exposure. The index is constructed of 25 Australian Credit Default Swaps (CDS) evenly weighted, and is heavily represented by some of the largest and highest rated issuers in the domestic market. The liquidity of the index exceeds that of the underlying CDSs and as such can move more rapidly as the risk profile of the market changes.

In contrast, Bond yields were relatively stable during the quarter, in part a function of a lack of liquidity in the market. Volatility in the equity markets led to a rise in yields in August, but yields subsequently declined after the Fed delayed raising interest rates at their September meeting.

The Australian Corporate Bond BBB composite remained close to a 4.25% yield over the course of the quarter.



## AUSTRALIAN BBB 5YR CORPORATE BOND YIELDS



Source: Bloomberg

During the September quarter, domestic debt issuance totaled \$17.3 billion. Of all the deals launched, Apple Inc.'s \$2.2 billion multi-tranche issue was the largest over the period and the largest issue in Australian corporate history.

## HYBRID MARKET UPDATE

After seeing no major activity in the June quarter, the third quarter saw the issuance of Westpac's \$1.25 billion 'Capital Notes 3' hybrids in September.

Hybrid securities remained weak during the quarter as investors sold off these securities to buy lower priced bank issued stocks or invested in cash securities due to the prevailing higher risks.

### DISCLAIMER

This Quarterly Update (**Update**) has been prepared by Walsh & Company Asset Management as Investment Manager of Australian Masters Yield Fund No. 1 to 5 (**Company**).

An investment in the Company is subject to various risks, many of which are beyond the control of the Investment Manager and the Company. The past performance of the Company is not a guarantee of the future performance of the Company.

This Update contains statements, opinions, projections, forecasts and other material (forward looking statements), based on various assumptions. Those assumptions may or may not prove to be correct. None of the Investment Manager and the Company, their officers, employees, agents, analysts nor any other person named in this Update makes any representation as to the accuracy or likelihood of fulfilment of the forward looking statements or any of the assumptions upon which they are based.

This Update may contain general advice. Any general advice provided has been prepared without taking into account your objectives, financial situation or needs. Before acting on the advice, you should consider the appropriateness of the advice with regard to your objectives, financial situation and needs, and consider obtaining advice from a financial advisor. You should obtain a copy of the relevant Prospectus or offer document before making any decisions to purchase the product.



**SEPTEMBER QUARTER DIVIDENDS & CAPITAL RETURNS\*\***

FUND	CASH	FULLY FRANKED	CAPITAL RETURNS***
AMYF#1	\$0.64	\$0.91	\$0.00
AMYF#2	\$0.73	\$1.04	\$0.00
AMYF#3	\$0.46	\$0.66	\$0.00
AMYF#4	\$0.43	\$0.61	\$0.00
AMYF#5	\$0.53	\$0.76	\$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**

JULY	AUGUST	SEPTEMBER
-	-	-
-	-	-
-	-	-
-	-	64,715
-	37,355	-
-	-	340,000
-	-	5,992
-	64,280	-
-	-	-
-	44,198	-
287,296	-	-
287,296	145,833	410,707

**COUPONS RECEIVED**

JULY	AUGUST	SEPTEMBER
-	-	-
-	-	-
-	-	-
-	146,847	-
-	-	104,351
-	-	155,097
-	43,914	-
-	-	-
-	190,761	259,448

**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**

JULY	AUGUST	SEPTEMBER
-	-	-
-	-	-
-	-	-
-	110,740	-
-	46,871	-
-	-	242,097
-	-	-
-	-	-
-	-	128,750
-	-	56,422
-	-	98,230
-	157,612	525,499

**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**

JULY	AUGUST	SEPTEMBER
-	-	-
-	-	-
-	65,017	24,119
12,005	11,639	11,245
-	-	162,000
-	-	72,422
-	-	50,323
-	-	58,938
-	-	-
-	-	23,570
-	-	23,358
-	-	-
-	77,862	-
12,005	154,519	425,973



**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	

\* 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.

**COUPONS RECEIVED**

JULY	AUGUST	SEPTEMBER
-	-	-
12,005	11,639	11,245
-	-	-
-	-	18,856
-	-	23,358
-	-	38,192
-	-	-
83,986	-	-
-		287,500
-	75,350	-
-	-	13,198
-	-	91,079
-	-	98,010
95,991	86,990	581,437