



AUSTRALIAN MASTERS
CORPORATE BOND
FUND SERIES

Quarterly Update

1 July 2015 – 30 September 2015

Summary

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

The last remaining investment in the Fund is expected to mature in December 2015. The Fund intends to announce a dividend and an upcoming capital return to Shareholders in November 2015.

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.

AMCBF Activity

AMCBF5 expects to announce a dividend to return income received by the Fund, as well as an upcoming capital return (subject to Shareholder approval), in November 2015.

As AMCB5 is coming to its maturity with its final investment expect to mature in December 2015. As of 30 September 2015 \$79.32 per share has been returned to investors. Following the return of all capital, expected to be Q1 2016 (subject to Shareholder approval) to Shareholders, the Board intends to put to Shareholders the option of a voluntary wind up, consistent with what was set out in the prospectus. Any remaining cash will be paid as dividends to shareholders prior to, or as part of the wind up process.

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.

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.

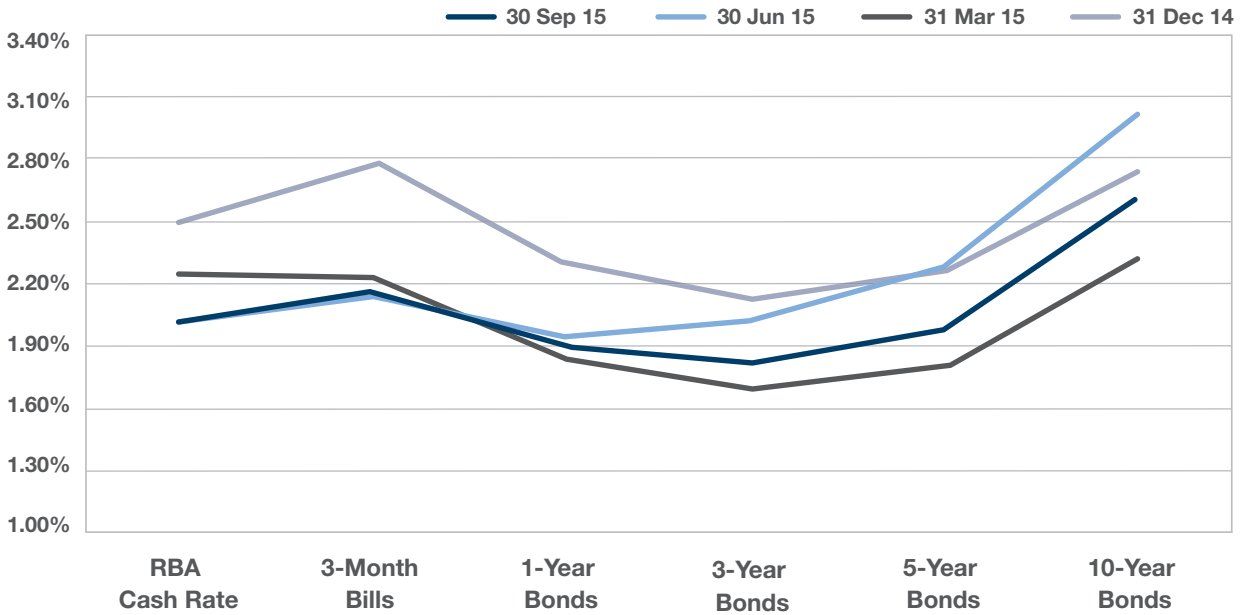
Domestic Rates

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 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

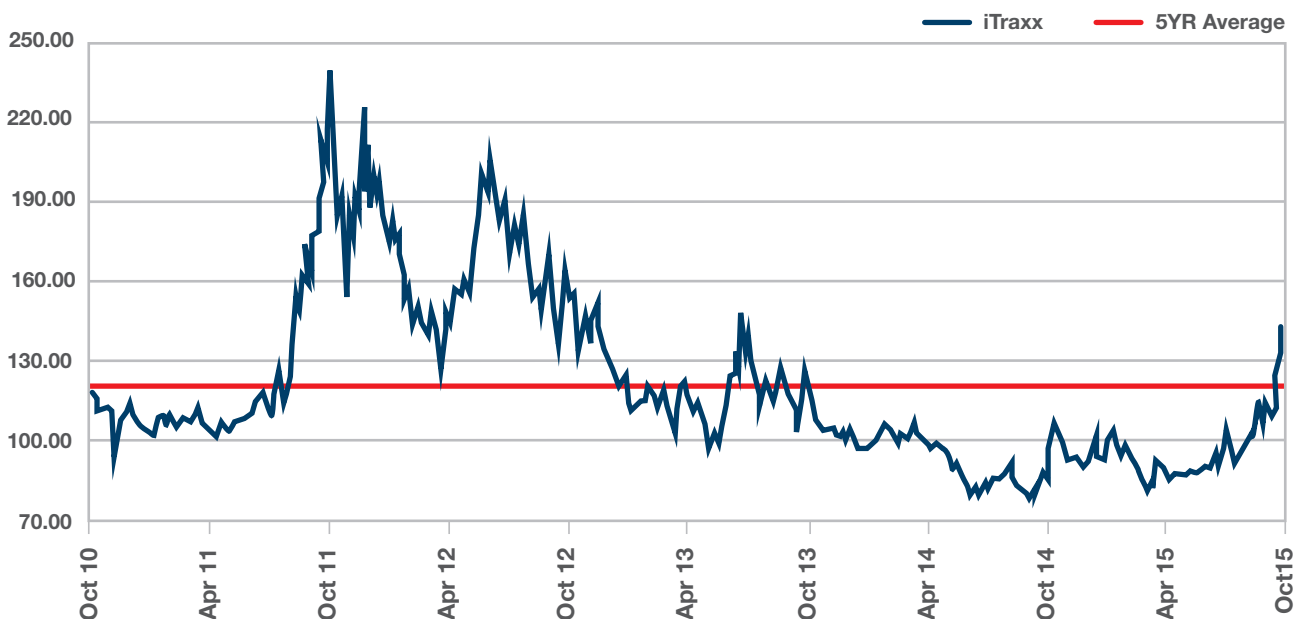


Source: Bloomberg

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



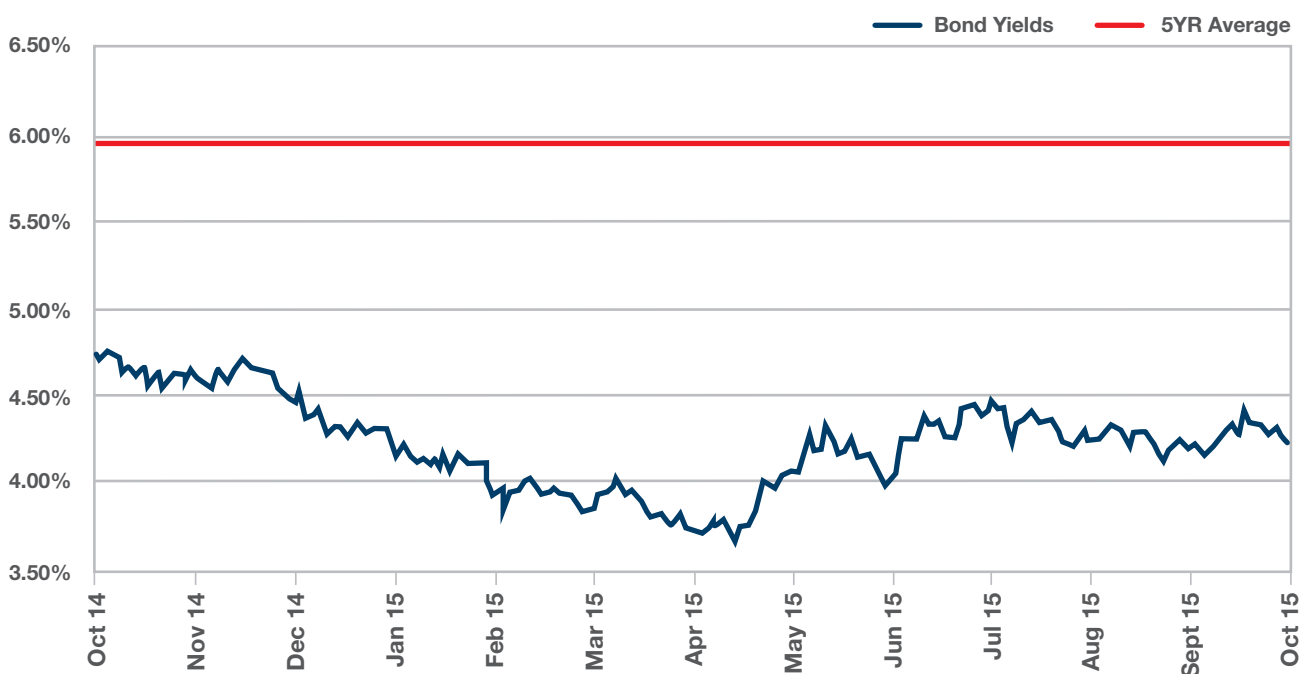
Source: Bloomberg

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 subsequently declined after the Fed delayed raising interest rates in 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 Corporate Bond Fund No. 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.

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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

JULY	AUGUST	SEPTEMBER
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	187,500
-	-	-
-	-	-
-	-	21,075
-	-	208,575

*Investment has been redeemed or has matured

**Figures may not reconcile due to rounding

MANAGER

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