



AUSTRALIAN MASTERS  
CORPORATE BOND  
FUND SERIES

## Quarterly Update

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1 October 2015 – 31 December 2015

### Summary

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

The following dividend has been announced:

- Australian Masters Corporate Bond Fund No 5 (AMCBF5), announced a dividend of \$0.02 per share to be paid on 15 February 2016.

The following capital return has been announced:

- AMCBF5 announced a final capital return of \$8.75 per share to be paid on or around 15 February 2016.

The last remaining investments in the Fund matured in December 2015.

#### MARKET HIGHLIGHTS

- **Global markets:** In the United States (US), the Federal Reserve (the Fed) lifted rates for the first time in seven years from a range of 0% to 0.25% to a range of 0.25% to 0.50%. The move in rates, which had been well flagged in previous statements and expected to occur prior to the end of the year, was supported by improving US labour market fundamentals and inflation that continues to move towards the medium term target rate of 2%. The Fed emphasised that further rate increases would occur gradually. In contrast, the European Central Bank (ECB) moved to extend their quantitative easing program and cut deposit rates by a further 0.10% to -0.30%.
- **Australian rates:** Over the December quarter, The Reserve Bank of Australia (RBA) maintained an accommodative stance, keeping rates at 2.00%. The RBA noted in their announcement that moderate expansion in the economy continues, despite a continued decline in capital spending in the mining sector. Inflationary pressures remain low and GDP growth continues to remain below long-term averages. Non-mining business surveys indicate continued gradual improvement, but the economy is expected to operate with “a degree of spare capacity for some time yet”.
- **Credit markets:** Spreads contracted from September highs as markets stabilised following a volatile September quarter, but began to widen again from early November, particularly in the mining and energy sectors. Uncertainty surrounding China’s economic growth, increasing rates

in the US and deterioration in commodity prices sparked fears that a higher level of defaults in offshore markets may be experienced in future periods.

## AMCBF Activity

FUND	DIVIDEND	FRANKED	GROSSED UP	CAPITAL RETURN	EXPECTED PAYMENT DATE
AMCBF#5	\$0.02	\$0.00	\$0.02	\$8.75	15 February 2016

The final investment in AMCB5 matured in December 2015.

As of 31 December 2015 \$88.99 of capital per share has been returned to investors. Following the next return of capital the Board will consider options including putting 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 in the fourth quarter (Q4) of 2015 were largely influenced by the monetary policy decisions of the United States Federal Reserve (the Fed). In December, the Fed finally raised interest rates by 25 basis points (bps), however investor confidence remained subdued owing to the weak global growth prospects. China's slowing economy and the decline in commodity prices remained key concerns. Europe's economic recovery is still fragile leading the European Central Bank (ECB) to announce further monetary policy easing during the quarter.

After keeping interest rates at near zero for seven years, the Federal Open Market Committee (FOMC) raised rates at its December policy meeting, recognising the progress made by the US economy since the financial crisis. Markets were widely expecting the move as numerous Fed officials, including Chairwoman Janet Yellen, had previously stated their intention to hike rates before the end of the year. The Fed noted the considerable improvement in the US labor market and remained confident of inflation reaching its target rate of 2% in the medium term. The Fed emphasised future rate increases will be gradual and chose to be non-committal on the number of hikes in 2016.

In contrast, the ECB in December announced an extension of their quantitative easing program by six months to March 2017, as growth in the eurozone remained vulnerable to the weakening emerging markets. The bond purchase program was extended to EUR1.46 trillion, while the deposit rate was cut by 10 basis points to -0.3%. The financial markets had expected a more aggressive action from the ECB, which refrained from raising the amount of monthly purchases (currently EUR60 billion per month). Eurozone inflation remained far below its target rate while unemployment figures, although improving, are still high.

China's economic activity slowed further, but the release of better-than-expected data was seen as a sign of stabilising growth. The government's announcement of several stimulus measures and mixed economic data helped calm the markets after steep declines in the third quarter. Investors continue to intensely monitor China's economic performance, as it remains a key determinant to the recovery in global growth.

Global bond markets in Q4 reflected the diverging monetary policies of the major central banks. The expectations of a US rate hike initially in the quarter and the subsequent increase in December kept demand for bonds low. The yield on 10-year US treasuries rose from 2.04% to 2.27% over the quarter. In Europe, disappointment following the ECB's stimulus extension announcement in December led to a fall in all assets including bond prices.

## **Australian Financial Market Update**

The Reserve Bank of Australia's (RBA) decision to keep the monetary policy unchanged was based upon the improvement in domestic consumption and a decline in unemployment. Housing prices and the Australian dollar (AUD) remained a key area of focus. Economic growth remains positive, but below trend, as the progressive shift from mining to non-mining activity continues. Non-mining businesses continue to report improving conditions, aided by low interest rates.

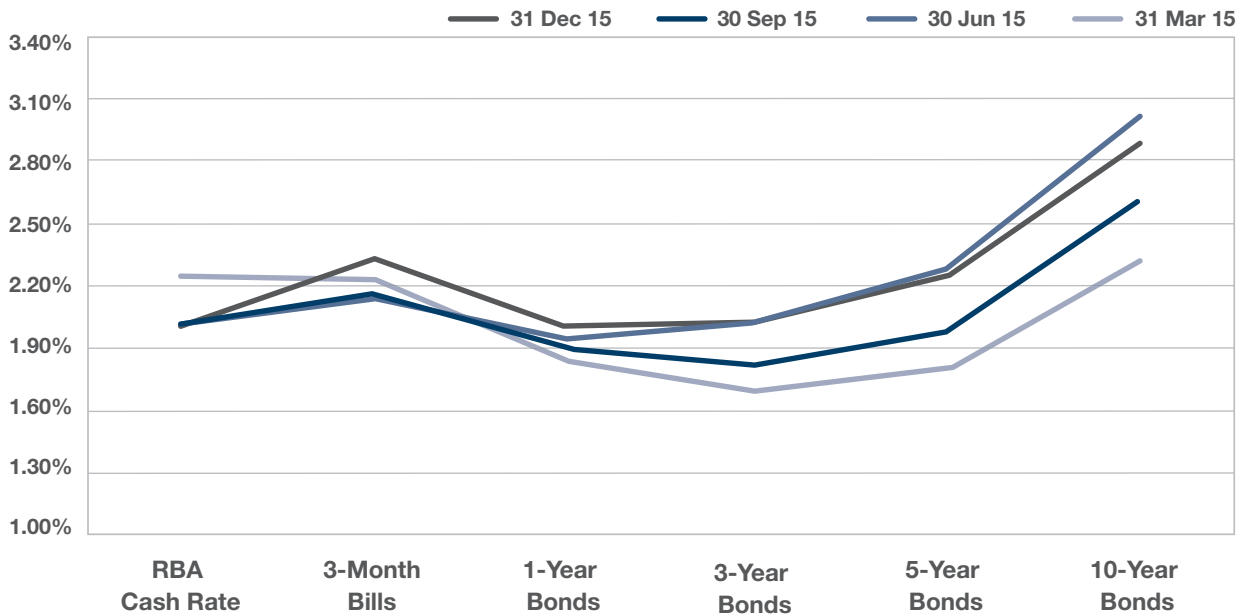
### **Domestic Rates**

The RBA kept the cash rate unchanged during the December quarter, which has remained at 2.00% since May. The strong growth in employment and rise in business confidence encouraged the RBA to keep the cash rate steady. The low interest rate has supported growth in household consumption boosting demand for domestic production. In November, Australia recorded its highest back-to-back monthly jobs gain in nearly three decades. The RBA maintained they might opt for further monetary easing if need be due to the low inflation outlook.

The buoyant property markets of Sydney and Melbourne witnessed declining growth in housing prices, quelling fears of a bubble. The stringent lending standards introduced by the Australian Prudential Regulation Authority (APRA) saw lending for housing to investors declining, while lending to owner-occupiers improved.

The AUD strengthened 3.8% against the USD during Q4 after the RBA declined to cut interest rates. Signs of economic stabilisation in China and emphasis by the Fed on gradual future rate hikes aided the appreciation.

## AUSTRALIAN GOVERNMENT YIELD CURVE



Source: Bloomberg

## Domestic Credit

Australian credit spreads closed the quarter at a lower level relative to their position in September. Credit spreads tightened in October as markets stabilised after the volatile third quarter. However, the latter part of Q4 saw spreads drifting wider owing to the uncertainty surrounding China's economic growth and deteriorating commodity prices.

## 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.

Investor demand for bonds remained subdued given the slowdown in China's growth, decline in commodities and the US interest rate hike. The fear that these factors might lead to higher defaults kept confidence low and saw credit spreads both on and off shore, particularly within the materials and energy sectors, continue to widen, a trend that began in the June quarter of 2015.

### AUSTRALIAN BBB 5YR CORPORATE BOND YIELDS



Source: Bloomberg

Q4 saw a sharp rise in bond yields with the Australian Corporate Bond BBB composite rising from 4.27% to 4.76% during the quarter.

In the December quarter, the domestic debt issuance totaled USD 16.2 billion. The 2015 (calendar year) issuances were \$67.5 billion up from \$65 billion in 2014.

## **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.

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.

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## AMCBF#5

FUND	DECEMBER QUARTER DIVIDENDS & CAPITAL RETURNS	
	CASH*	CAPITAL RETURNS**
AMCBF#5	\$0.02	\$8.75

\* Unfranked dividend

\*\* 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
		<b>\$75,230,000</b>	<b>\$73,573,888</b>	

\* Investment has been redeemed or has matured.

\*\*Figures may not reconcile due to rounding

## COUPONS RECEIVED

OCTOBER	NOVEMBER	DECEMBER
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
78,125	-	-
-	-	30,000
-	-	21,221
<b>78,125</b>	<b>-</b>	<b>51,221</b>

## MANAGER

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