



29 November 2016

## **AMYF CHAIRMAN'S ADDRESS**

**Tuesday, 29 November 2016, 3.00pm**

Welcome to the Annual General Meeting for the Australian Masters Yield Fund No 1, No 2, No 3, No 4 and No 5 (**AMYF1, AMYF2, AMYF3, AMYF4 and AMYF5 or the Funds**) for the financial year ended 30 June 2016 (**FY16**). The funds are part of the Australian Masters Yield Fund Series (**AMYF Series**).

### **Chairman's Address –**

I would like to begin today's Chairman's Address by bringing to your attention to Australian Corporate Bond yields over the past 10 years.

Also included for comparison on this chart, the equivalent government bond yield and 3 month bank bill swap rates, from which many floating rate debt instrument coupons are set.

A persistent low yield environment has dominated the fixed income markets globally over the past 3 years, and has meant opportunities for fixed income investment remain limited. This low rate environment continues to be fuelled by ongoing global stimulus programs, low rates of expansion of the global economy and persistently low levels of inflation. In line with offshore central banks, the Reserve Bank of Australia has maintained an accommodative stance over the past 12 months, cutting rates by 0.25% in May and again in August, taking the cash rate to a historic low of 1.50%.

Corporations have continued to take advantage of these market conditions, and primary bond issuance has remained strong. Multiple issuers have come to market during 2016, with many rolling or calling bonds at spreads significantly lower than were achievable five to seven years ago when the Yield Funds were launched.

Finally, we have witnessed a recent rise in longer term yields and steepening of yield curves, following the election of Donald Trump as the new President of the United States however, on the whole bond yields continue to remain near long-term historical lows.

All funds within the Series have continued to perform well and have continued to pay quarterly dividends and capital returns to Shareholders. The Boards remain comfortable with the underlying investments of the funds but may look to trim positions when attractive opportunities to do so arise.

Please note that all dividend and capital return figures discussed over the next two slides are on a per share basis.

AMYF1 paid \$1.82 in dividends during FY16 totalling \$2.60 including franking and expects to pay its next distribution of \$0.10 tomorrow. The fund also paid, in aggregate, capital returns of \$31.06 during FY16, has announced a capital return of \$10.55 to be paid tomorrow and is scheduled to pay further capital returns of \$9.73 and \$7.89 in March 2017 and June 2017, subject to Shareholder approval at this AGM and yet to be announced.

AMYF2 paid \$2.77 in dividends during FY16 totalling \$3.96 including franking and will pay its next distribution of \$0.05 tomorrow. The fund did not pay any capital returns to Shareholders in FY16, but paid a capital return of \$37.66 in August 2016, has announced a capital return of \$23.52 to be paid tomorrow and is scheduled to pay a



further capital return of \$16.84 per share in March 2017, subject to Shareholder approval at this AGM and yet to be announced.

AMYF1 and AMYF2 currently hold 2 and 1 investment(s) respectively, with these final remaining investments due to mature in the next 6 months.

AMYF3 paid \$2.63 in dividends during FY16 totalling \$3.76 including franking and will pay its next distribution of \$0.54 tomorrow. The fund also paid a capital return of \$3.17 in FY16 and is scheduled to pay further capital returns of \$14.34, \$31.93, \$8.19 and \$4.10 in March, June, August and November 2017, subject to Shareholder approval at this AGM and yet to be announced.

AMYF3 currently holds 7 remaining investments across the financial services sector, which the board expects will either be called by the issuer or mature during 2017.

AMYF4 paid \$2.20 in dividends during FY16 totalling \$3.14 including franking and will pay its next distribution of \$0.37 tomorrow. The fund also paid, in aggregate, capital returns of \$30.32 in FY16, has announced a capital return of \$3.79 to be paid tomorrow and is scheduled to pay further capital returns of \$4.52 and \$3.51 in August 2017 and November 2017, subject to Shareholder approval at this AGM and yet to be announced.

AMYF5 paid \$2.56 in dividends during FY16 totalling \$3.66 including franking and will pay its next distribution of \$0.54 tomorrow. The fund also paid, in aggregate, capital returns of \$9.88 in FY16.

AMYF4 currently holds 8 investments across the financial services and infrastructure sectors and AMYF5 currently holds 11 investments, with exposure to the financial services, airports, mining, infrastructure, property and PPP sectors.

AMYF1 is forecast to return up to 100% of capital by June 30 2017 as investments in Bank of America and Wachovia Bank (acquired by Wells Fargo) subordinated notes mature.

AMYF2 is forecast to return up to 100% of capital by 31 March 2017 as the final investment, Bank of America subordinated notes mature.

AMYF3 is forecast to return up to 96% of capital by 31 December 2017 as investments either mature or become callable. The Bank of America subordinated notes and the Morgan Stanley fixed and floating rate senior notes mature during the period. Additionally, the Manager anticipates that the Australian Mutual Investment Trust senior notes, the Insurance Australia Group hybrids, the Bank of Queensland subordinated notes, the IMB Limited subordinated notes and the AMP Bank subordinated notes held by the company will be called by the issuers on the relevant call date.

AMYF4 is forecast to return up to 63% of capital by 31 December 2017 as investments either mature or become callable. The Morgan Stanley 2016 senior bonds mature during the period. Additionally, the Manager anticipates that the IMB Bank subordinated notes, the Australian Mutual Investment Trust senior notes and the AMP Bank subordinated notes held by the company will be called by the issuers on the relevant call date.

AMYF5 is not forecast to return any further capital by 31 December 2017.

During the past twelve months a number of bonds held in the funds matured or were redeemed.



HSBC Bank (Australia) and Bank of Queensland subordinated notes held in AMYF1 were called by their respective issuers in November 2015 and April 2016 and the Mirvac Group Finance and Adelaide Airport senior bonds matured in September 2016. This capital was approved for return to Shareholders at the November 2015 AGM and was/will be returned in full over the period to 30 November 2016.

Bank of Queensland, Genworth Financial and IMB Bank subordinated notes held in AMYF2 were called by their respective issuers in May 2016, June 2016 and September 2016. This capital was approved for return to Shareholders at the November 2015 AGM and returned, for the bank of Queensland and Genworth investments in full over the period. As previously announced, the capital relating to the IMB Bank investment will be returned to Shareholders tomorrow.

There were no maturities or redemption from AMYF3 over the last twelve months.

The Morgan Stanley 2016 senior bonds held in AMYF4 matured in September 2016. As previously announced, this capital is due to be returned to Shareholders tomorrow.

The balance of the BIS Industries 2015 senior syndicated loan held in AMFY4 and AMYF5 was fully redeemed by the borrower in December 2015 and, along with the portion of the loan returned by the lender prior to December 2015, returned to Shareholders in February 2016.

If there are questions in relation to the above we will now pause to take questions.

That concludes the chairman's address.