



**AUSTRALIAN
MASTERS
YIELD**
FUND SERIES



AMYF SERIES QUARTERLY UPDATE

1 OCTOBER 2016 – 31 DECEMBER 2016

SUMMARY

AUSTRALIAN MASTERS YIELD FUND SERIES (AMYF SERIES) HIGHLIGHTS

AMYF Series announced the following quarterly dividends and capital returns:

FUND	DIVIDEND	FRANKED	GROSSED UP	CAPITAL RETURN	EXPECTED PAYMENT DATE
AMYF1	\$1.20	-	\$1.20	-	03 March 2017
AMYF2	\$1.20	-	\$1.20	-	03 March 2017
AMYF3	\$0.50	\$0.21	\$0.71	-	03 March 2017
AMYF4	\$0.51	\$0.22	\$0.73	-	03 March 2017
AMYF5	\$0.60	\$0.26	\$0.86	-	03 March 2017

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.

MARKET HIGHLIGHTS

Global markets:

- The US Federal Reserve's target range for short-term interest rates increased 25 basis points (bps) from 0.50% to 0.75% at the December meeting of the Federal Reserve Open Market Committee (FOMC). FOMC members also signaled their expectations of further monetary tightening.
- The European Central Bank (ECB) left key policy rates unchanged and announced an extension of their quantitative easing (QE) program until December 2017. The ECB also raised 2017 growth forecasts by 0.1% to 1.7%.
- Overall, the rate hike decision by the US Federal Reserve (the Fed) and Trump's election (including the prospect of his infrastructure spending and tax cut promises being implemented) pushed bond yields higher, globally. The 10-year US Treasury yield rose from 1.60% to 2.44% at quarter end.



Australian markets:

- Over the December quarter the Reserve Bank of Australia (RBA) maintained their accommodative monetary policy position, maintaining interest rates at 1.50%.
- In line with international yields, Australian 10-year bond yields experienced a large relative increase over the quarter, from 1.91% to 2.77%.
- Corporate bond spreads were broadly flat over the quarter.

GLOBAL MARKETS UPDATE

Two key events that captured market participants' attention during the quarter were the outcome of the US presidential election on 8 November and the December FOMC meeting. The outcome of the election surprised most market participants and initially resulted in exceptional volatility across financial markets. The US dollar (USD) continued to rally, sending the Dollar Index to a 14-year high, placing extended downward pressure on certain Asian currencies and other emerging market currencies.

The US Federal Reserve transitioned to a more hawkish stance, voting to raise the target range for short-term interest rates by 25 basis points (bps) from 0.50% to 0.75% and forecast three further rate rises in 2017. This was the first US rate hike in 2016 and only the second in a decade. The FOMC's decision was based on the pace of strength in the labour market, moderate expansion in the economy and growing inflation.

In Europe, Q3 Eurozone GDP growth matched market expectations, up 0.3% quarter-on-quarter (qoq), compared with 0.3% in Q2. On 4 December, Italy held a referendum and voted against constitutional reforms, which led to the resignation of the Italian Prime Minister, Matteo Renzi. The ECB chose to extend their QE program until at least December 2017 (from March 2017 previously), but at a reduced monthly bond buying rate of EUR60 billion from April 2017 onwards (currently EUR80 billion per month).

China's economic activity remained stable in Q3, with GDP rising 6.7% year-on-year (yoy). China continues to shift away from industrial production driven growth and toward consumer spending. However, the economy still remains dependent on fixed-asset investment, which is largely being driven by state owned firms. Declining returns on investment as well as property oversupply remain lingering concerns.

Overall, commodity prices experienced more modest gains than in the prior quarter, although oil prices rose sharply as the Organization of the Petroleum Exporting Countries (OPEC) and some non-OPEC members reached an agreement to cut crude production.

Following a cautious Q3, global bond markets began on a dismal note in Q4 as rising prospects of an interest rate hike by the Fed combined with concerns surrounding the end of the ECB's QE program, weighed on bond prices. Yields rose dramatically in the aftermath of Trump's victory, partly due to election promises including tax cuts and infrastructure spending. The interest rate hike and hawkish comments by the Fed during its December policy meeting added to upwards yield momentum however, the extension of the ECB's bond-buying program helped soothe the bond markets. The 10-year US Treasury yield rose from 1.60% to 2.44% over the quarter, touching 2.60% in mid-December. European Bond prices also fell, notably the benchmark 10-year German Bund returned to a positive yield during Q4 (away from the more recent phenomenon of a negative yield).



AUSTRALIAN FINANCIAL MARKET UPDATE

The Australian economy continues its transition from the mining investment boom. GDP growth contracted in Q3 by 0.5%, the weakest quarterly GDP growth since Q4 2008, on the back of falling private and public investments along with rising imports. The labour market continues to be mixed, and employment growth slowed during the quarter.

DOMESTIC RATES

The RBA kept interest rates unchanged at 1.50% in Q4, a level they view as “consistent with sustainable growth in the economy and achieving the inflation target over time”.

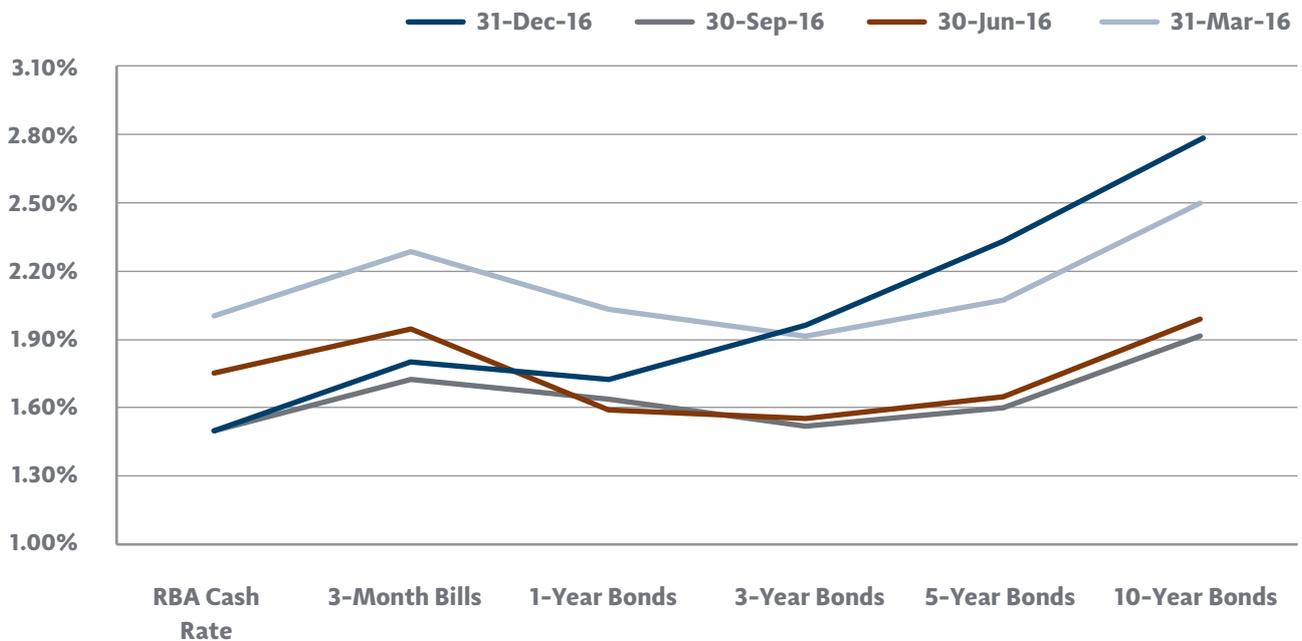
In his December Monetary Policy Statement, the new RBA Governor, Phillip Lowe, noted monetary policy considerations included: rising commodity prices and the boost to national income; subdued business investment although business sentiment measures are above average; expectations of continued employment growth; low inflation; and overall housing market strength.

With regard to housing, the RBA commented that while there is broad strength in the national housing market, there is significant price divergence across markets, as well as a considerable supply of apartments scheduled for completion over the coming years. The course of the labour and housing markets are expected to be two of the primary considerations driving the RBA’s monetary policy decisions in the short-term.

The Australian Dollar (AUD) depreciated 5.9% against the USD during the quarter, affected by subdued Australian economic activity and an increasingly more positive outlook for the US economy.

The Australian bond market followed the lead of the US government bond market. As the following chart highlights, Australian 10-year bond yields experienced a large relative increase over the quarter, from 1.91% to 2.77%.

AUSTRALIAN GOVERNMENT YIELD CURVE



Source: Bloomberg

DOMESTIC CREDIT

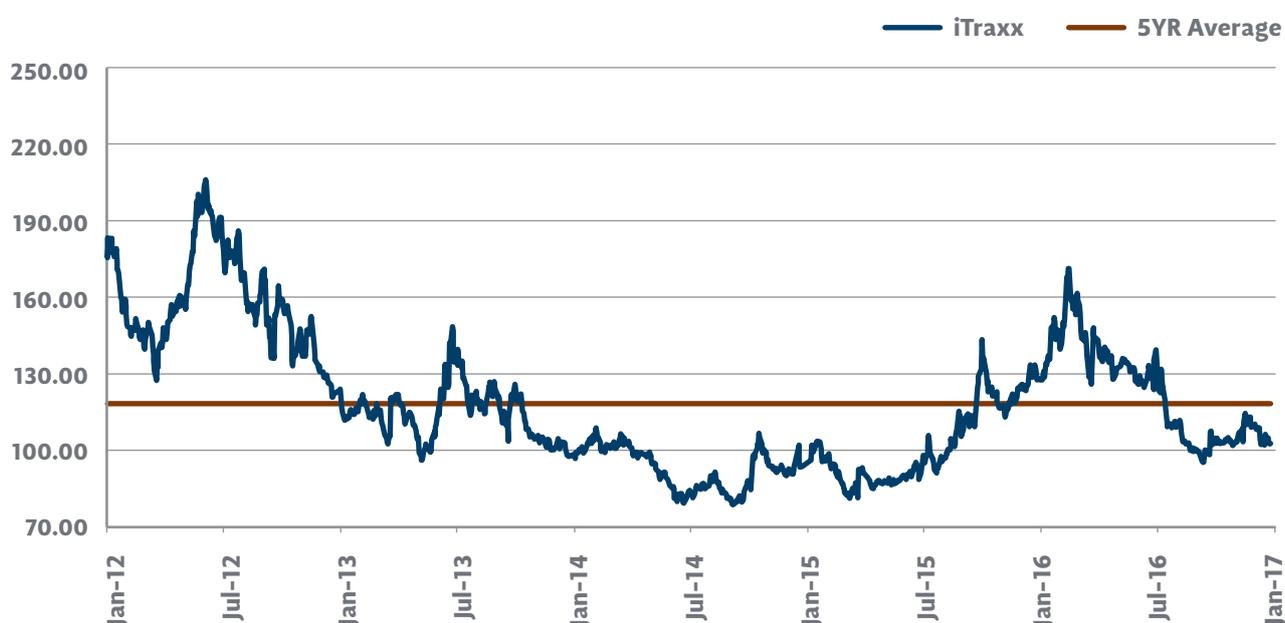
Broadly, Australian corporate bond yields reflected the rise in Australian government bond yields. Australian A-rated 5-year corporate yields rose from 2.91% to 3.64% and BBB-rated 5-year corporate bond yields rose from 3.73% to 4.45% over the quarter.¹

Overall pricing of credit risk was largely unchanged. This was reflected by the Australian A-rated 5-year corporate bond spread which decreased marginally to 102 from 103, and the Australian BBB-rated 5-year corporate bond spread which declined to 183 from 184.^{1,2}

Relatively unchanged market appraisals of overall Australian credit risk were also reflected in the iTraxx index, which began the quarter at 105 (5-year tenure) and ended at 103.

In the December quarter, domestic debt issuances totalled \$32.8 billion.

ITRAXX AUSTRALIAN CREDIT SPREADS



*5YR Average has been calculated considering period from 2nd January 2012 to 23 December 2016.

Source: Bloomberg

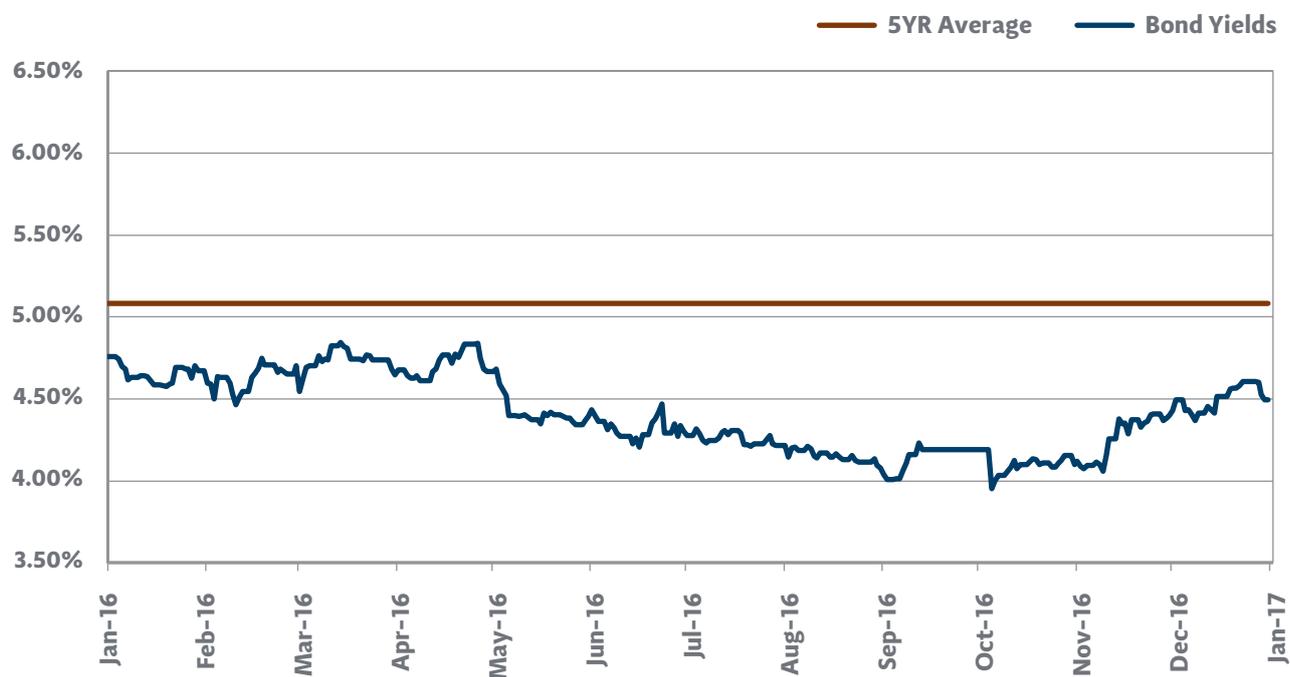
The iTraxx Australia index is a liquid financial instrument generally used for hedging credit exposure. The index is constructed of 25 Australian Credit Default Swaps (CDS) evenly weighted, and is heavily represented by some of the largest and highest rated issuers in the domestic market. The liquidity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

¹ Source: RBA, Statistical Tables, "Aggregate Measures of Australian Corporate Bond Spreads and Yields"

² Corporate bond spreads are expressed as the spread over the swap rate of a corresponding tenor (as reported by the RBA)



AUSTRALIAN BBB 5YR CORPORATE BOND YIELDS



Source: Bloomberg

HYBRID MARKET UPDATE

The quarter saw only a single major domestic hybrid issuance. Insurance Australia Group Limited (IAGPD) launched a \$300 million capital notes offer, but subsequently increased the issue size to \$350 million due to strong demand.

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.



DECEMBER QUARTER DIVIDENDS & CAPITAL RETURNS**

FUND	CASH	FULLY FRANKED	CAPITAL RETURNS***
AMYF#1	\$1.20	-	-
AMYF#2	\$1.20	-	-
AMYF#3	\$0.50	\$0.71	-
AMYF#4	\$0.51	\$0.73	-
AMYF#5	\$0.60	\$0.86	-

AMYF#1

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY
Generator Income Trust*	8-Oct-11		\$1,654,600	\$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	\$6,023,629	Diversified Financials
Bank of Queensland*	14-Apr-21	14-Apr-16	\$20,000,000	\$20,000,000	Diversified Financials
TOTAL			\$95,360,200	\$87,865,030	

COUPONS RECEIVED

	OCTOBER	NOVEMBER	DECEMBER
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	-	\$53,804	-
	-	-	-
	-	\$37,140	-
	-	-	-
	-	\$90,944	-

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
TOTAL			\$42,517,700	\$40,079,927	

COUPONS RECEIVED

	OCTOBER	NOVEMBER	DECEMBER
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	-	\$36,757	-
	-	-	-
	-	\$36,757	-

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
TOTAL			\$101,939,705	\$93,780,660	

COUPONS RECEIVED

OCTOBER	NOVEMBER	DECEMBER
-	-	-
-	-	-
-	-	-
-	-	-
-	\$92,692	-
-	\$38,728	-
-	-	\$223,822
-	\$107,445	-
-	-	-
-	\$204,000	-
-	-	\$119,472
-	-	\$52,599
-	-	\$90,470
-	\$442,865	\$486,363

AMYF#4

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY
McAlease 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
TOTAL			\$96,164,242	\$96,825,839	

COUPONS RECEIVED

OCTOBER	NOVEMBER	DECEMBER
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	\$67,203
-	-	\$46,912
-	-	\$54,282
-	-	-
-	-	\$21,488
-	-	\$21,533
-	\$375,000	-
-	\$79,098	-
-	\$454,098	\$211,417

AMYIF#5

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY
UPMG*	30-Jun-18		\$15,000,000	\$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	\$4,882,711	Private Public Project
Mirvac Group Finance	18-Sep-20		\$10,000,000	\$9,912,400	Real Estate
Sydney Airports	20-Nov-20		\$6,000,000	\$7,457,999	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
TOTAL			\$97,885,000	\$98,535,712	

COUPONS RECEIVED

OCTOBER	NOVEMBER	DECEMBER
-	-	-
-	-	-
-	\$301,875	-
-	-	\$17,190
-	-	\$21,533
-	-	\$33,882
-	\$675,000	-
\$83,986	-	-
-	-	-
-	\$76,546	-
-	-	\$12,028
-	-	-
\$83,986	\$1,053,421	\$84,633

* 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

[^]Partial redemption/sell down

Figures may not reconcile due to rounding