

Australian Masters Yield Fund No 4 Limited

(ACN 149 790 563)

Notice of General Meeting

Notice is given that the General Meeting of Australian Masters Yield Fund No 4 Limited (**Company**) will be held as follows:

Date: **Thursday, 25 May 2017**
Time: **11:00am (AEST)**
Venue: **Dixon Advisory
Level 15, 100 Pacific Highway
North Sydney NSW 2060**

Ordinary Business

No ordinary business resolutions.

Special Business

1) Ninth Return of Capital

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, for the purposes of Section 256C(1) of the Corporations Act and for all other purposes, the reduction of the share capital of the Company by an amount of up to \$5,000,000 applied equally against each fully paid ordinary share on issue in the Company on the Ninth Record Date and otherwise on the terms set out in the attached Explanatory Memorandum be approved.”

Other Information

An Explanatory Memorandum accompanies and forms part of this Notice of General Meeting.

All Shareholders should read the Explanatory Memorandum carefully and in its entirety. Shareholders who are in doubt regarding any part of the business of the Meeting should consult their financial or legal adviser for assistance.

Proxies

A Shareholder entitled to attend and vote at this Meeting is entitled to appoint not more than 2 proxies to attend and vote in his/her stead.

A proxy need not be a Shareholder of the Company.

If the Shareholder appoints 2 proxies, the Shareholder may specify the proportion or number of votes each proxy is entitled to exercise. If no proportion or number of votes is specified, each proxy may exercise half of the votes. If the specified proportion or number of votes exceed that which the Shareholder is entitled to, each proxy may exercise half of the Shareholder's votes. Any fractions of votes brought about by the apportionment of votes to a proxy will be disregarded.

Proxies must be:

- (a) lodged by posting them or delivering them by hand to the address specified below; or
- (b) received at the fax number specified below; or
- (c) registered online at www.votingonline.com.au/amyf4gmmay2017;

not later than 48 hours before the Meeting i.e. **11:00am (AEST) on Tuesday, 23 May 2017**.

Address: Boardroom Pty Limited, GPO Box 3993, Sydney NSW 2001, Australia

Fax Number: + 61 2 9290 9655

A form of proxy is provided with this Notice of General Meeting.

Entitlement to Vote

In accordance with Section 1074E(2)(g)(i) of the Corporations Act and Regulation 7.11.37 of the Corporations Regulations, the Company has determined that for the purposes of the Meeting all Shares in the capital of the Company will be taken to be held by the persons who held them as registered holders at 7:00pm (AEST) on Tuesday, 23 May 2017. Accordingly, Share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

By order of the Board

Hannah Chan
Company Secretary
24 April 2017

Australian Masters Yield Fund No 4 Limited
(ACN 149 790 563)
Explanatory Memorandum

This Explanatory Memorandum relates to the General Meeting of Australian Masters Yield Fund No 4 Limited (**Company**) to be held at **Level 15, 100 Pacific Highway, North Sydney NSW 2060** on **Thursday, 25 May 2017 at 11:00am AEST**.

Ordinary Business

There are no ordinary business resolutions to consider.

Special Business

Resolution 1. Return of Capital to Shareholders

Resolution 1 authorises the return of capital of up to \$5,000,000, the amount received by the Company on the sale of debt instruments held within the Company's portfolio (**Debt Instruments**). The amount to be returned is expressed as a maximum amount as the actual amount to be returned may be reduced having regard to the cashflow requirements of the Company. The Company has employed a similar procedure in securing authority to return capital at previous general meetings.

Cash to fund this return of capital will be drawn from the proceeds of sale of Debt Instruments that the Company received in the period from 16 February 2017 up to and including 2 March 2017.

The Resolution

Resolution 1 authorises the Company to undertake a reduction of capital to return up to a maximum of \$5,000,000 to Shareholders.

Resolution 1 seeks Shareholder approval pursuant to Section 256C(1) of the Corporations Act for a capital reduction and return to Shareholders of up to a maximum of \$5,000,000. If \$5,000,000 is returned to Shareholders, this will represent a return of approximately \$5.02 per Share (based on the capital structure as at the date of this Explanatory Memorandum).

For the purposes of the Corporations Act, the proposed Capital Return is treated as an "equal" reduction of capital and requires approval by ordinary resolution of Shareholders in a general meeting.

Reasons for the Capital Return

Ninth Capital Return

From 16 February 2017 to 2 March 2017 all hybrid debt securities held by the Company issued by Westpac Banking Corporation and National Australia Bank (together **Bank Hybrids**) were sold. The Company's Board of Directors and the manager of the Company's portfolio viewed this as a suitable exit point for the bank hybrids held in the portfolio, considering the current low levels of expected market volatility.

The total consideration paid to purchase the Bank Hybrids was \$5,000,000 and a summary table of the Company's Bank Hybrid positions held prior to their sale is set out in the following table:

Issuer	ASX ticker	Consideration
Westpac Banking Corporation	WBCPD	\$2,500,000
National Australia Bank	NABPA	\$2,500,000
Total		\$5,000,000

The Company received \$5,030,895 on the realisation of the Bank Hybrids, representing a gain on acquisition of \$30,895.

Consistent with disclosures in the Information Memorandum and Prospectus, it is proposed that up to a maximum of \$5,000,000, being the consideration paid to acquire the Bank Hybrids, will be paid from the proceeds of sale and cash reserves to Shareholders by way of a return of capital. The balance of any gain will be distributed to Shareholders by way of dividend or retained by the Company to meet its working capital requirements.

The precise amount to be returned to Shareholders under the Ninth Capital Return cannot be determined at this time, as the Corporations Act provides that a capital return may only be undertaken with the prior approval of Shareholders if the return:

- a) is fair and reasonable to Shareholders of the Company as a whole; and
- b) the return does not materially prejudice the ability of the Company to pay its creditors.

Proceeds received may be required to meet ongoing costs of the Company, which may include tax payable on interest or capital gains received in respect of the Debt Instruments as well as ongoing management fees and operating costs. The Company may need to retain a portion of funds received on sale of the Bank Hybrids to meet its ongoing costs.

Unless appropriate cash reserves are retained, the Company may be required to liquidate other Debt Instruments which, if held to maturity, are expected to provide a better financial return for the Company. To do so prior to maturity would not, in the view of the Directors, be fair and reasonable to Shareholders as a whole.

Accordingly, the amounts set out in the resolution represent the maximum amount that the Company may return to Shareholders under the Ninth Capital Return. The Company intends to return as much of the cash authorised to be returned under the Resolution as possible, having regard to the above constraints.

If the Company is unable, for any reason, to pay the maximum amount of the capital return approved by Shareholders, it may pay that sum as part of a subsequent Capital Return.

The Board proposes to announce the actual amount to be returned to Shareholders under the Ninth Capital Return no later than 5 business days prior to the **Ninth Record Date**.

Payment of dividends

The Directors anticipate that interest income, together with the profit realised on sale of the Bank Hybrids, net of taxes and expenses will be distributed to Shareholders by way of dividend. The Corporations Act states that dividends need not be paid out of profits of the Company. It is anticipated that a dividend payment will be made to coincide with the anticipated capital returns.

Who will participate in the Capital Return?

Subject to Shareholder approval, the distribution resulting from the Ninth Capital Return will be made to Shareholders, pro-rata to the number of Shares held by each Shareholder at the Ninth Record Date. This return is intended be paid on or around 13 June 2017.

If the Capital Return is not approved, the excess cash will be retained by the Company or utilised as the Board considers appropriate.

Tax treatment of the Capital Return

The following is a broad outline of the tax consequences for Shareholders associated with the Capital Return. This outline is not exhaustive of all possible income tax considerations that could apply to a particular Shareholder. There are a number of limitations to the outline including that:

1. it applies only to Shareholders who are Australian residents for income tax purposes. It does not cover the tax treatment for any other classes of taxpayers including individuals who are non-residents of Australia for tax purposes, insurance organisations, superannuation funds, trusts or employees of the Company who acquired their Shares in respect of their employment;
2. it applies only where Shareholders hold their Shares on capital account. It does not apply where the Shares are held on revenue account (eg. shares held by Shareholders who trade in securities or hold Shares as trading stock); and
3. it is based on Australian tax law in effect at the date of this Explanatory Memorandum. It does not consider or anticipate any changes in the law (including changes to legislation, judicial authority or administrative practice).

The Company intends to structure the proposed Capital Return so that each is treated as a return of capital, and not as a dividend, for income tax purposes. As discussed above, the proposed Capital Return consists of the initial consideration paid for each Bank Hybrid. As they are sold, any profits made on Debt Instruments will be paid out as dividends. As noted earlier, the Company intends to pay a dividend distributing retained profits to Shareholders prior to, or at the same time, as it affects the Capital Return.

Shareholders may be liable to pay capital gains tax (**CGT**) in relation to the Capital Return; however this will depend on Shareholders' individual circumstances. An outline of the potential CGT consequences for Shareholders is as follows:

1. if the amount of any of the Capital Return is less than or equal to the Shareholder's CGT cost base of the Shares they hold, the CGT cost base will be reduced by the amount of that Capital Return, but it cannot be reduced below nil;
2. if a Capital Return is more than the Shareholder's CGT cost base, the CGT cost base will be reduced to nil, and the excess amount of the Capital Return will be included in the Shareholder's taxable income calculation as a capital gain; and
3. if applicable, any capital gain can be treated as a discount capital gain where the Shares were purchased by the Shareholder at least 12 months prior to the payment of the Capital Return, and the other requirements of the discount capital gains provisions have been satisfied.

The Company and its advisers do not accept any liability or responsibility in respect of any statement concerning the taxation consequences of the Capital Return or in respect of the taxation consequences themselves. All Shareholders should consult their own independent professional tax advisers regarding the tax consequences of the Capital Return.

Effect on the Company

As at the date of this Notice, the Company had 995,896 Shares on issue. After the proposed Capital Return, the number of Shares on issue will remain the same but the capital of the Company will be reduced by the relevant Capital Return.

On 29 November 2016, Shareholders approved the Seventh Capital Return in an amount of up to \$4,500,000 and the Eighth Capital Return in an amount of up to \$3,500,000. These capital returns will be funded from the proceeds of redemption of other Debt Instruments which are held in the Company's portfolio. These capital returns, subject to call by their respective issuers, are intended to be paid on or around 28 August 2017 and 30 November 2017 respectively.

The anticipated effect of the Capital Return on the Company, including Capital Returns previously approved at the 2016 Annual General Meeting, but not yet provided to Shareholders as at 31 December 2016, is illustrated in the unaudited pro forma Statements of Financial Position set out below. These

pro-forma Statements of Financial Position are based on the audit-reviewed Statement of Financial Position for the Company as at 31 December 2016.

The unaudited consolidated pro forma Statements of Financial Position have not been prepared in accordance with the Corporations Act, the Corporations Regulations, Accounting Standards or any other mandatory financial reporting requirements in Australia. They are provided only to illustrate the anticipated impact on the Company following payment of the Capital Returns. The specific assumptions taken in preparing the tables are set out in the notes below the tables.

Illustrative pro forma balance sheet

(\$'000 unless otherwise stated)

	Statement of Financial Position 31 December 2016	Pro forma Statement of Financial Position Ninth Capital Return	Pro forma Statement of Financial Position Seventh Capital Return	Pro forma Statement of Financial Position Eighth Capital Return
Record Date		2 June 2017	11 August 2017	20 November 2017
Assets	\$51,307	\$46,307	\$41,807	\$38,307
Liabilities	(\$170)	(\$173)	(\$176)	(\$179)
Net Assets	\$51,137	\$46,134	\$41,631	\$38,128
NTA Per Share	\$51.35	\$46.32	\$41.80	\$38.29

1. The column headed "Statement of Financial Position 31 December 2016" comprises the audit-reviewed Statement of Financial Position of the Company as at 31 December 2016.
2. The column headed "Pro forma Statement of Financial Position Ninth Capital Return" has been prepared as if the Ninth Capital Return of \$5,000,000 had been completed on 31 December 2016.
3. The column headed "Pro forma Statement of Financial Position Seventh Capital Return" has been prepared as if the Ninth Capital Return of \$5,000,000 and the Seventh Capital Return of \$4,500,000, approved by Shareholders at the 2016 Annual General Meeting, but not returned to shareholders as at 31 December 2016, had been completed on 31 December 2016.
4. The column headed "Pro forma Statement of Financial Position Eighth Capital Return" has been prepared as if the Ninth Capital Return of \$5,000,000 and the Seventh Capital Return of \$4,500,000 and the Eighth Capital Return of \$3,500,000, both approved by Shareholders at the 2016 Annual General Meeting, but not returned to shareholders as at 31 December 2016, had been completed on 31 December 2016.
5. All amounts assume that there are 995,896 Shares on issue being the number of Shares on issue at 31 December 2016.
6. The figures in the table above do not take into account future dividends. Future dividends will distribute the interest paid on the underlying Debt Instruments and any profits made on the maturity or sale of Debt Instruments purchased at a discount, less any expenses and taxes of the Company.
7. The above assumes that the Company had paid transaction costs associated with each Capital Return of approximately \$3,000 on 31 December 2016 relating to legal and tax advice and registry fees.

As noted in note 6, the above table does not take into account dividends paid, or expected to be paid, following 31 December 2016. Interest will continue to accrue and be paid on Debt Instruments, including

Bank Hybrids, until they mature and are redeemed or are sold. Accordingly, the asset base of the Company will increase as interest payments are received after 31 December 2016 and will be reduced by future dividend payments.

The Company intends to seek shareholder approval at future general meetings, beyond November 2017, for additional capital returns funded from the proceeds of Debt Instruments that either mature, are sold or are called.

Under the Management Agreement between the Company and Walsh & Company Asset Management Pty Limited, the Company pays a management fee of the equivalent of 0.65% (inclusive of GST) per annum of the value of the Portfolio. This fee is payable in advance and calculated on the basis of the value of the Portfolio on 30 June each year. As a result of the Capital Return, the management fee payable in respect of subsequent financial years will be reduced by an amount of 0.65% (inclusive of GST) per annum of the amount of the Capital Return.

As the management fee for the financial year ending 30 June 2017 is payable in advance, the Capital Return will have no effect on the management fee payable by the Company in respect of the financial year ending 30 June 2017.

Trading in Shares

Shares were issued under the Prospectus at an issue price of \$100.00 per Share. Official quotation of the Shares on the ASX commenced on 31 October 2013. The highest and lowest prices at which the Shares have traded on the ASX between 31 October 2013 and 28 March 2017 were \$101.13 (7 November 2013) and \$54.62 (9 March 2016) respectively. A total of 143,418 Shares have traded on the ASX in this period representing turnover of approximately 4.3% of the Company's total Shares outstanding on an annualised basis. The Company publishes monthly asset backing of the Shares to assist Shareholders in valuing their investment. Please note between these dates, approximately \$49 million of capital has been returned.

Alternative return structures

The Directors consider the use of a capital return to be the most appropriate mechanism to return surplus capital to members for the following reasons:

- (a) the capital return procedure was initially outlined to potential investors in the Prospectus. The Directors consider that Shareholders will have invested in the Company on the understanding that a series of capital returns would be proposed in the manner outlined in this Notice of Meeting and Explanatory Memorandum;
- (b) the combination of the capital return and payment of a dividend provides the Company with the opportunity to make available the benefits of franking credits on dividends generated from the operations of the Company to the extent that they are available without adding to the income tax liability of Australian resident shareholders receiving further cash from the Company.

Why you might vote against the Capital Return

The Directors unanimously recommend that Shareholders vote in favour of the Capital Return. However, some reasons why a Shareholder may choose to vote against the Resolution approving the Capital Return include the following:

- (a) a Shareholder may consider that the Company is more likely to generate a better financial return through reinvestment of funds realised on maturity of Debt Instruments than through direct investment by the Shareholder; and
- (b) Shareholders who are not Australian residents for tax purposes may not be able to take advantage of the franking credits to be provided by way of dividend or the benefit in the reduction in the CGT cost base resulting from a Capital Return.

Recommendation of Directors

The Directors are of the opinion that the proposed Capital Return is fair and reasonable to Shareholders as a whole and does not materially prejudice the Company's ability to pay its creditors. Accordingly, the Directors unanimously recommend that Shareholders vote in favour of Resolution 1.

No Director will receive any payment or benefit of any kind as a consequence of the Capital Return other than as a Shareholder of the Company.

Other material information

Other than in this Explanatory Memorandum, there is no other information known to the Company that is material to the decision whether or not to vote in favour of Resolution 1 which has not previously been disclosed to Shareholders.

Pursuant to Section 256C(5) of the Corporations Act, copies of this Notice and Explanatory Memorandum have been lodged with the Australian Securities and Investments Commission.

Glossary

Accounting Standards means Australian Accounting Standards.

ASX means the ASX Limited (ACN 008 624 691).

Bank Hybrids means the debt securities issued by Westpac Banking Corporation and National Australia Bank held by the Company and sold in the period 16 February to 2 March 2017.

Board means the board of Directors.

Capital Return means a return of capital intended to be undertaken by the Company.

Chairman means the chairman of the Company.

Company means Australian Masters Yield Fund No 4 Limited (ACN 149 790 563).

Corporations Act means the Corporations Act 2001 (Cth).

Corporations Regulations means Corporations Regulations 2001.

Director means a director of the Company.

Explanatory Memorandum means this explanatory memorandum to the Notice of General Meeting.

Information Memorandum means the information memorandum for the Company dated 13 September 2013.

Manager means Walsh & Company Asset Management Pty Limited (ACN 159 902 708).

Management Agreement means the management agreement between the Company and the Manager.

Meeting or General Meeting means this general meeting.

Ninth Record Date means 2 June 2017.

Notice means this notice of Meeting.

Previous Capital Returns means Capital Returns previously approved for return by shareholders at a company meeting.

Prospectus means the prospectus for the Company dated 4 June 2012.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a registered shareholder of the Company.