AUSTRALIAN MASTERS YIELD FUND SERIES

AMYF SERIES QUARTERLY UPDATE

1 APRIL 2017 – 30 JUNE 2017

SUMMARY

AUSTRALIAN MASTERS YIELD FUND SERIES (AMYF SERIES) HIGHLIGHTS

FUND	DIVIDEND	FRANKED	TOTAL	CAPITAL RETURN	EXPECTED PAYMENT DATE
AMYF#1	$0.17	$0.06	$0.23	–	28 August 2017
AMYF#2	–	–	–	–	–
AMYF#3	$0.48	$0.01	$0.49	$8.19	28 August 2017
AMYF#4	$0.34	$0.12	$0.46	$4.51	28 August 2017
AMYF#5	$0.69	$0.16	$0.85	–	28 August 2017

During the second quarter, 2017 (Q2) Wachovia (Wells Fargo) subordinated notes held in AMYF1 matured, and Morgan Stanley senior fixed rate notes and IAG subordinated notes held in AMYF2 were called early by their respective issuers. Capital associated with these redemptions received by the respective funds was returned to shareholders. IMB Limited subordinated notes held in AMYF3 and AMYF4 were called by the issuer in June, with capital returns scheduled for the September quarter.

During Q2, AMYF1, AMYF3, AMYF4 and AMYF5 announced capital returns on a per share basis of $7.91, $33.49, $5.02 and $15.25 respectively, and were paid to shareholders on 13 June.

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 increased the target range for the federal funds rate by 25 basis points (bps) to 1.00–1.25% at the June meeting of the Federal Open Market Committee (FOMC).
- FOMC members also detailed a plan to gradually unwind the US Federal Reserve's $4.5 trillion asset portfolio.
- The eurozone's unemployment rate stabilised at its lowest levels since the financial crisis, and economic indicators continued to strengthen.

- The European Central Bank (ECB) left key policy rates unchanged; however, comments from the president of the ECB signalled that a scale-back of its monetary easing program may soon accompany the eurozone's economic recovery.
- The 10-year US Treasury yield declined over Q2, from 2.39 to 2.30%, as the prospects for both inflation and US President Trump's policies assisting growth waned.

Australian markets:

- The Reserve Bank of Australia (RBA) maintained its accommodative monetary policy position, leaving the cash rate unchanged at 1.50%.
- In line with the US 10-year Treasury yield, the 10-year Australian Government Bond yield declined to 2.60%, from 2.70%.
- Corporate bond spreads tightened as investor confidence in the global economy improved.

GLOBAL MARKETS UPDATE

In the US, Q2 2017 GDP growth (released post quarter end) came in at 2.6% (quarter on quarter, annualised) up from a Q1 rate of 1.4% due to stronger consumer spending growth. The FOMC, as previously signalled, raised the federal funds rate target range by 25bp, to 1.00–1.25% at its June policy meeting – the third hike in six months. Steady economic growth, inflation that is expected to continue to move towards 2% over the medium term and a fall in the unemployment rate supported this decision. The FOMC maintained its outlook for one more rate hike this year and upgraded growth projections, but lowered near term inflation estimates. Comments towards the end of Q2 also confirmed the Federal Reserve's intentions to begin the gradual unwind of its $4.5 trillion asset portfolio. However, the FOMC members were divided over the timing of proposed reductions between the upcoming September and December 2017 meetings. The course of inflation and balance sheet surplus are expected to influence the Federal Reserve's monetary policy settings in the short term.

In the eurozone, political developments were a key focus for market participants during Q2, with the outcomes of both the French and the United Kingdom (UK) general elections decided in May and June respectively. Pro-European Union candidate Emmanuel Macron won the French presidential election convincingly. The UK Prime Minister Theresa May, however, only managed to form a coalition government after her party failed to gain a clear majority in the snap election held on June 8.

The ECB kept key policy rates unchanged during Q2 but noted increasing confidence in the economic recovery. A better than expected eurozone Q1 GDP growth (at 1.9% year-on-year) and further expansion in the manufacturing sector, highlighted by a persistent rise in the eurozone's Purchasing Managers Index (PMI) to 57.4 points in June were noted in the ECB's decision. The unemployment rate in the eurozone fell further to 9.3% in April, its lowest level since the financial crisis.

In late June, Mario Draghi, President of the ECB, commented at the ECB Forum on Central Banking that reflationary pressures had replaced deflationary ones on the continent. Market participants interpreted his comments as an indicator of future rate rises (or an end to the ECB's asset purchasing program) which saw both European bond and equity markets sell-off.

In China, Q1 GDP growth surpassed market expectations, up 6.9% year-on-year as the world's second largest economy retained positive momentum, assisted by a mix of government spending, consumer spending and fixed-asset investments by state-owned firms. In Q2, China's manufacturing activity also accelerated more than expected, as the official manufacturing PMI rose to 51.7, after dipping to 51.2 earlier in the quarter. Inflation, which had declined in February to 0.8%, its lowest level since January 2015, continued to regain momentum and increased to 1.5% in Q2. With solid growth and increasing inflation China's central bank indicated a near-term monetary tightening bias. Government officials have implemented a range of financial reforms in recent periods to address concerns about financial leverage. The China Banking Regulatory Commission issued tighter risk management guidelines to banks in Q2, which contributed to a withdrawal of an estimated US$1.7 trillion of shadow funds from the financial system. Moody's Investors Service turned cautious over the deleveraging measures and downgraded China's long-term local currency and foreign currency issuer ratings from Aa3 to A1 (while revising their outlook to stable from negative). Foreign exchange reserves were maintained above $US3.0 trillion in June.

Overall, commodity prices declined over the quarter. The oil price (WTI) fell 9%, despite an extension of crude production cuts by the Organization of the Petroleum Exporting Countries (OPEC), as some unconstrained OPEC members and the US continued to expand production. Iron ore prices for delivery in Qingdao also declined (-19.2%) during Q2 as Chinese mills reduced inventories. At one point in mid-June the price had fallen 33.6% before Chinese mill restocking supported a partial price recovery.

Global bond markets were mixed over the quarter, with European political events fueling volatility. The largest yield move over the quarter followed the comments from Mario Draghi (mentioned above) on June 27, which pushed out 10-year government yields in the eurozone and the US approximately 20 points by month end. European bond prices fell as the benchmark 10-year German Bund yield rose from 0.33% to 0.47%. The 10-year US Treasury yield declined from 2.39% to 2.30% over Q2.

AUSTRALIAN FINANCIAL MARKET UPDATE

Economic data released during the second quarter indicated that the Australian economy continued to expand, although at it's slowest pace since Q3 2009, and was up 1.7% year-on-year in the first quarter. Q1 inflation was 0.5% quarter-on-quarter, or 2.1% year-on-year, up from 1.5% in Q4 2016. Broadly, most measures of economic activity in Australia remain positive.

The RBA maintained interest rates at 1.50%, a level they view as "consistent with sustainable growth in the economy and achieving the inflation target over time". In the June Monetary Policy Statement, the RBA Governor, Phillip Lowe, noted monetary policy considerations included a recent fall in commodity prices, moderate consumption growth, and low household income growth, which were offset by improved business and capacity utilisation measures, stable financial conditions globally, a positive outlook for employment, and expectations of a gradual rise in inflation.

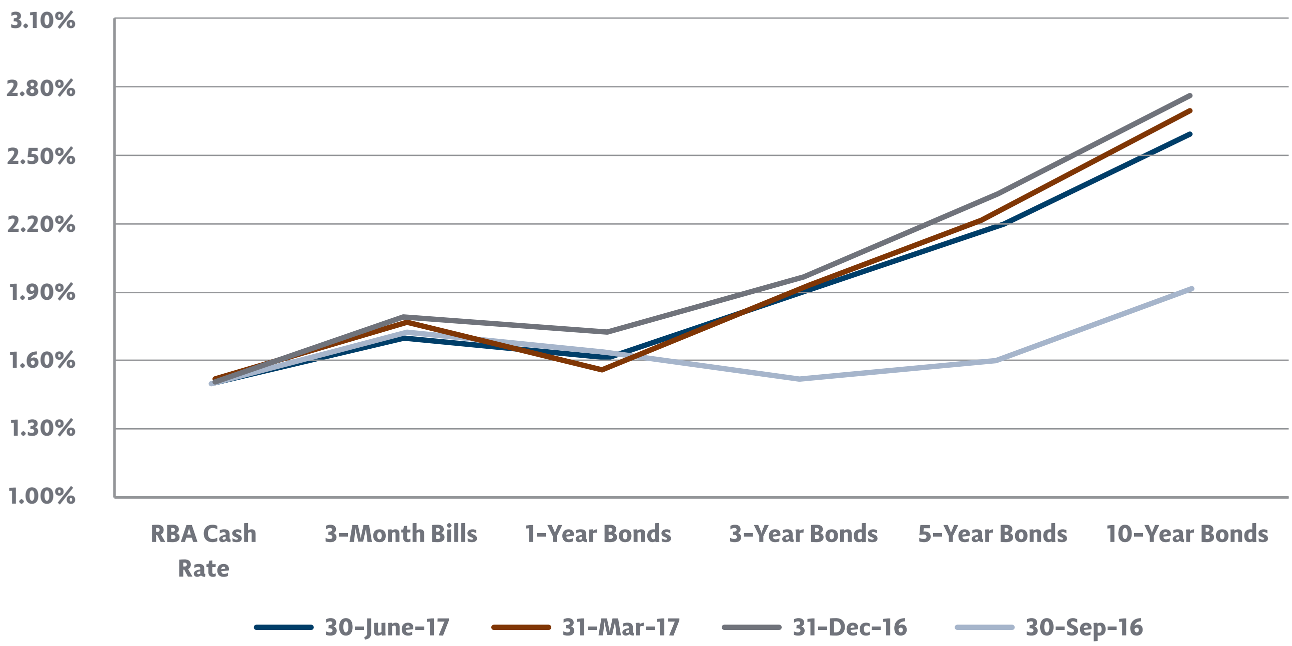
With regard to the housing market, there were some signs of price growth easing in the eastern capital city markets, due to slowing investment activity, rising mortgage rates, and tempered housing market sentiment. However, housing price trends remained divergent across the country. Housing credit growth has remained relatively steady, with the RBA acknowledging it is still "too early for prudential supervisory measures announced by the Australian Prudential Regulation Authority , which were designed to help address the risks associated with high and rising levels of indebtedness, to have had their full effect". Building approvals continue to fall across most states, particularly for higher density projects and construction in weaker markets (like Western Australia) continued to decline.

The Australian dollar (AUD) appreciated 0.8% against the US dollar (USD) during Q2 despite an interest rate hike by the US Federal Reserve. The US dollar declined 2.2% over the quarter against a basket of 10 major trading currencies, continuing to give back gains made in late 2016[1].

During Q2, the Australian bond market moved in parallel to the US bond market. As the following chart highlights, the 10-year Australian Government Bond yield experienced a minor retracement over the quarter, down from 2.70% to 2.60%. The yield curve flattened slightly, with the spread between long-term bond yields (10-year) and short-term bond yields (2-year) contracting eight basis points.

1 As measured by the Bloomberg Dollar Spot Index, which includes GBP, JPY, AUD, CAD, CHF, CNY, INR, EUR, MXN, KRW.

AUSTRALIAN GOVERNMENT YIELD CURVE

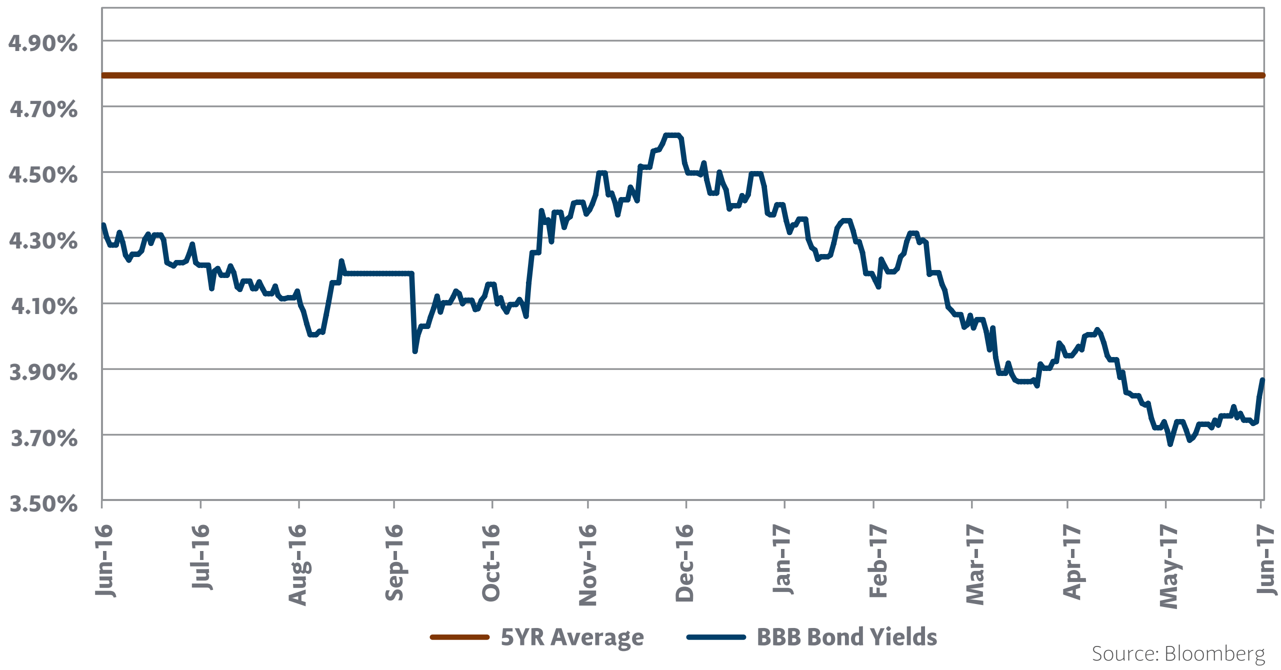


Source: Bloomberg

DOMESTIC CREDIT

Australian corporate bond yields declined, reflecting both the decrease in Australian government bond yields and tightening credit spreads. Australian A-rated five-year corporate yields fell one basis point from 3.34% to 3.33% and BBB-rated five-year corporate bond yields fell from 3.90% to 3.73% over the quarter, continuing to trade well below the 5-year average (illustrated in the following chart).[2]

AUSTRALIAN BBB 5YR CORPORATE BOND YIELDS



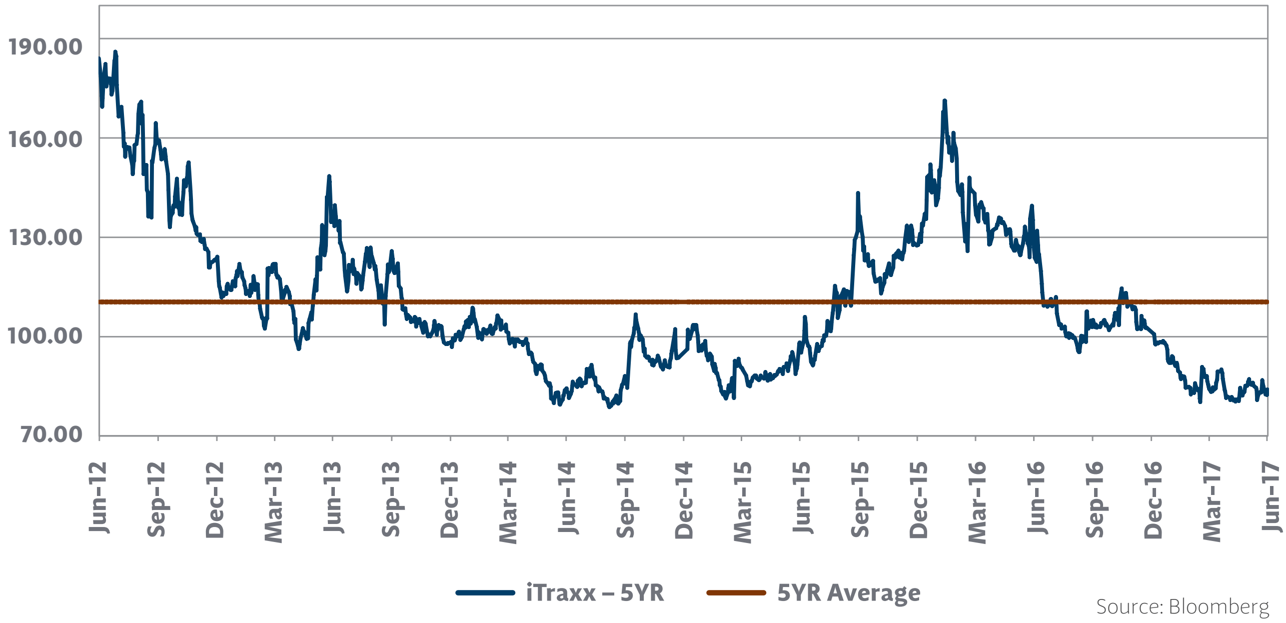
Source: Bloomberg

2 Source: RBA, Statistical Tables, "Aggregate Measures of Australian Corporate Bond Spreads and Yields". Corporate bond spreads are expressed as the spread over the swap rate of a corresponding tenor (as reported by the RBA).

In Q2, domestic debt issuance totalled $13.7 billion, with significant issuance from National Australia Bank ($2.25 billion of five-year floating rate notes) and Telstra ($1.0 billion in multiple tenures).

Overall pricing of credit risk tightened, although higher quality credit spreads widened off recent lows. The Australian A-rated five-year corporate bond spread increased to 87 from 80 basis points while the Australian BBB-rated five-year corporate bond spread declined to 127 basis points from 137 basis points. The iTraxx Australia index (five-year tenure), declined. This index began the quarter at 93 and ended at 84, and continues to trade at post-GFC lows.

ITRAXX AUSTRALIAN CREDIT SPREADS



Source: Bloomberg

***5YR Average has been calculated considering period from 2nd July 2012 to 30 June 2017.**

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.

HYBRID MARKET UPDATE

During the quarter, there was only one notable domestic hybrid issue. Suncorp Group Limited completed a $375 million raising of capital notes (Capital Notes 6) offered at 4.10% over bank bill swap in May, against an original issue target size of $300 million. Suncorp Group also disclosed that due to excess demand for the offer, applications were scaled back.

Money market rates drifted lower over Q2, with three-month bank bills closing at 1.71%, down eight basis points.

JUNE QUARTER DIVIDENDS & CAPITAL RETURNS**

FUND	CASH	TOTAL INCLUSIVE OF FRANKING	CAPITAL RETURNS***
AMYF#1	$0.17	$0.23	-
AMYF#2	-	-	-
AMYF#3	$0.48	$0.49	$8.19
AMYF#4	$0.34	$0.46	$4.51
AMYF#5	$0.69	$0.85	-

AMYF#1

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY	COUPONS RECEIVED APRIL	MAY	JUNE
Generator Income Trust*	8-Oct-11		$1,654,500	$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	$6,023,630	Diversified Financials	-	36,039	-
Bank of Queensland*	14-Apr-21	14-Apr-16	$20,000,000	$20,000,000	Diversified Financials	-	-	-
TOTAL			$95,360,100	$87,865,030		-	36,039	-

AMYF#2

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY	COUPONS RECEIVED APRIL	MAY	JUNE
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		-	-	-

AMYF#3

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY	COUPONS RECEIVED APRIL	MAY	JUNE
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	-	101,195	-
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	-	204,000	-
IMB Building Society*	29-Jun-22	29-Jun-17	$8,000,000	$8,000,000	Diversified Financials	-	-	121,894
AMIT	09-Nov-22	9-Nov-17	$4,000,000	$4,000,000	Diversified Financials	-	-	52,534
AMP BANK	21-Dec-22	21-Dec-17	$7,500,000	$7,500,000	Diversified Financials	-	-	92,536
TOTAL			$101,939,705	$93,780,660		-	305,195	266,964

AMYF#4

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY	COUPONS RECEIVED APRIL	MAY	JUNE
McAleese 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	-	-	68,565
AMIT	09-Nov-22	9-Nov-17	$3,500,000	$3,500,000	Diversified Financials	-	-	46,855
AMP Bank	21-Dec-22	21-Dec-17	$4,500,000	$4,500,000	Diversified Financials	-	-	55,521
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	-	375,000	-
Sydney Airports	20-Nov-20		$6,200,000	$7,514,834	Airline Infrastructure	-	80,042	-
TOTAL			$96,164,242	$96,825,839		-	455,042	170,942

AMYF#5

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY	APRIL	MAY	JUNE
						COUPONS RECEIVED		
UPMG*	30-Jun-18		$15,750,000	$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	-	301,875	-
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	-	-	34,368
Lend Lease^	13-May-20		$25,000,000	$24,975,250	Infrastructure	-	675,000	-
PRAECO	28-Jul-22	28-Jul-20	$4,710,000	$4,862,912	Private Public Project	83,986	-	-
Mirvac Group Finance	18-Sep-20		$10,000,000	$9,875,000	Real Estate	-	-	-
Sydney Airports	20-Nov-20		$6,000,000	$7,516,200	Airline Infrastructure	-	77,460	-
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		83,986	1,054,335	34,368

* Investment has been redeemed/sold.

** 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

DISCLAIMER