

**Australian Masters Yield Fund No 3 Limited**  
**(ACN 149 790 545)**  
**Notice of Annual General Meeting**

Notice is given that the Annual General Meeting of Australian Masters Yield Fund No 3 Limited (**Company**) will be held as follows:

Date: **Wednesday 22 November 2017**  
Time: **11:00am (AEDT)**  
Venue: **Level 15, 100 Pacific Highway**  
**North Sydney NSW 2060**

**Ordinary Business**

***Financial Statements and Reports of the Directors and Auditor***

To receive and consider the Financial Statements of the Company and the Reports of the Directors and Auditor for the financial year ended 30 June 2017.

**1) Re-election of Director – Alex MacLachlan**

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

*“That Mr Alex MacLachlan, who retires by rotation in accordance with the Company’s constitution and, being eligible, offers himself for re-election, be re-elected as Director of the Company.”*

Note: please see the Explanatory Memorandum for a detailed biography on Alex.

**2) Remuneration Report**

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

*“In accordance with Section 250R of the Corporations Act, the Company adopts the Remuneration Report as set out in the Directors’ Report.”*

Notes:

- (a) The vote on this Resolution is advisory only and does not bind the Directors or the Company.
- (b) The Company’s key management personnel and their closely related parties must not cast a vote on the Remuneration Report unless they are appointed in writing as a proxy for a Shareholder (other than a member of the Company’s key management personnel and their closely related parties) eligible to vote on the Resolution and that proxy specifies how to vote on the Resolution.
- (c) The Chairman may cast a vote on the Remuneration Report if appointed in writing as a proxy for a Shareholder (other than a member of the Company’s key management personnel and their closely related parties) eligible to vote on the Resolution and where that proxy does not specify how to vote on the Resolution only if the proxy form expressly authorises the Chairman to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the key management personnel for the Company.
- (d) The Chairman will vote all undirected proxies in favour of this Resolution. If you wish to vote “against” or “abstain” you should mark the relevant box in the attached proxy form.

## Special Business

### 3) Final 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 2001 and for all other purposes, the reduction of the share capital of the Company by an amount of up to the aggregate of:*

- (a) \$9,424,598; and*
- (b) that part of the capital reductions approved for payment to Shareholders in respect of Previous Capital Returns that was not in fact returned to Shareholders in accordance with the relevant resolution (if any),*

*applied equally against each Share on issue in the Company on the Final Record Date is approved.”*

### Other Information

An Explanatory Memorandum accompanies and forms part of this Notice of Annual 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/amyf3agm2017](http://www.votingonline.com.au/amyf3agm2017);

not later than 48 hours before the Meeting i.e. 11:00am (AEDT) on Monday 20 November 2017.

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

Fax Number: +61 2 9290 9655

A proxy form is provided with this Notice of Annual 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 (AEDT) on Monday, 20 November 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**  
**20 October 2017**

# **Australian Masters Yield Fund No 3 Limited**

## **(ACN 149 790 545)**

### **Explanatory Memorandum**

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This Explanatory Memorandum relates to the Annual General Meeting of Australian Masters Yield Fund No 3 Limited (**Company**) to be held at **Level 15, 100 Pacific Highway, North Sydney NSW 2060** on **Wednesday, 22 November 2017 at 11:00am (AEDT)**.

#### **Ordinary Business**

#### **Financial Report and Reports of the Directors and Auditor**

This item allows Shareholders the opportunity to consider the Financial Report, Directors' Report and Auditor's Report of the Company. Under Section 317 of the Corporations Act, the Company is required to lay these three reports that together comprise the Company's Annual Report before its Shareholders at its Annual General Meeting.

#### **Resolution 1. Re-election of Director – Alex MacLachlan**

Resolution 1 provides for the re-election of Mr Alex MacLachlan as Director in accordance with the Company's constitution and the Listing Rules. See below for details of Alex's background.

Under Listing Rule 14.4 and rule 6.7 of the Company's constitution, a director of an entity must not hold office (without re-election) past the third annual general meeting following the director's appointment or 3 years, whichever is longer.

#### ***Alex MacLachlan***

Alex joined Dixon Advisory in 2008 to lead the then newly formed Funds Management division. Alex focused the efforts of the Funds Management division on providing retail investors with access to asset classes and investment opportunities that would normally only be available to institutional investors.

From funds under management of under \$100 million at the time of his start, Alex has grown Walsh & Company to circa \$5 billion of funds under management today, with investments across residential and commercial property, fixed income, private equity, listed equities and renewable energy.

Prior to joining the firm, Alex was an investment banker at UBS AG, where he rose to Head of Energy for Australasia. During his tenure in investment banking, Alex worked on more than \$100 billion in mergers and acquisitions and capital markets transactions, advising some of the world's leading companies.

Alex has a Bachelor of Arts from Cornell University and a Masters of Business Administration from The Wharton School, University of Pennsylvania.

#### **Resolution 2. Remuneration Report**

Resolution 2 provides Shareholders the opportunity to vote on the Company's remuneration report (**Remuneration Report**). The Remuneration Report is contained in the Directors' Report. Due to the relatively small size of the Company and its operations, the Board does not consider it appropriate, at this time, to form a separate committee to deal with the remuneration of Directors. Under the Company's constitution, each Director may be paid remuneration for ordinary services performed as a Director. However, Daryl Dixon, Chris Brown and Alex MacLachlan have agreed not to be paid any remuneration for the services they perform as Directors. Under Section 250R(2) of the Corporations Act, the Company must put the adoption of its Remuneration Report to a vote at its annual general meeting.

This vote is advisory only and does not bind the Directors or the Company.

The Board will consider the outcome of the vote and comments made by Shareholders on the Remuneration Report at the Annual General Meeting when reviewing the Company's remuneration

policies. If 25% or more of the votes that are cast are voted against the adoption of the Remuneration Report at two consecutive annual general meetings, at the second of those annual general meetings Shareholders will be required to consider and, if thought fit, pass an ordinary resolution (a “spill resolution”) that another meeting be held within 90 days at which all of the Directors other than the Managing Director must seek re-election to the Board.

Key management personnel (including Directors) and their closely related parties must not cast a vote on the Remuneration Report, other than as holders of directed proxies for Shareholders eligible to vote on Resolution 2. The Chairman may cast a vote on the Remuneration Report if appointed in writing as a proxy for a Shareholder eligible to vote on Resolution 2 and where that proxy does not specify how to vote on the Resolution only if the proxy form expressly authorises the Chairman to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the key management personnel for the Company. The Chairman will vote all undirected proxies in favour of this Resolution. If you wish to vote “against” or “abstain” you should mark the relevant box in the attached proxy form.

The Company encourages all Shareholders to cast their votes on this Resolution.

## **Special Business**

### **Resolution 3 – Return of Capital to Shareholders**

Resolution 3 authorises the Company to undertake a reduction of capital to return up to a maximum of \$9,424,598 to Shareholders over the period to and including March 2018 (**Final Capital Return**) together with that part of the Eighth Capital Return previously approved for payment by Shareholders at the General Meeting of the Company held on 29 November 2016 that was not in fact returned to Shareholders (**Eighth Capital Return**), if any.

Cash to fund the Final Capital Return will be drawn from the proceeds received at redemption on maturity of debt instruments, the sale of debt instruments and any residual capital held within the Company’s portfolio over the period to and including March 2018 (**Debt Instruments**).

#### *The Resolution*

Resolution 3 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 \$9,424,598 together with any shortfall in payment of the Eighth Capital Return, if any. If \$9,424,598 is returned to Shareholders, this will represent a return of approximately \$9.65 per Share (based on the capital structure as at the date of this Explanatory Memorandum). This represents the portion of the redemption monies to be received at redemption or sale of the Debt Instruments that reflects the consideration paid to acquire those Debt Instruments.

#### **Reasons for the Final Capital Return**

On 21 December 2017, subordinated debt issued by AMP Bank Limited (**AMP Subordinated Notes**) are eligible to be called meaning it may be repaid earlier than its scheduled maturity date. If not called, the subordinated debt is scheduled to mature on 20 December 2022. As this subordinated debt may be paid back at the call date, which we anticipate, we are seeking approval to return this capital. If this subordinated debt is not called by the issuer, it will be repaid at redemption on maturity or sale. Total consideration paid for the AMP Subordinated Notes was \$7,500,000. The Company also has residual capital available to distribute of \$1,924,598 with the Final Capital Return representing up to a maximum total of \$9,424,598.

Consistent with disclosures in the Information Memorandum and Prospectus, it is proposed that up to a maximum of \$9,424,598, being the consideration paid to acquire the AMP Subordinated Notes and other capital available to distribute will be paid from existing cash and the proceeds at call to Shareholders by way of a return of capital together with any shortfall in the Eighth Capital Return.

The precise amount to be returned to Shareholders under the Final Capital Return cannot be specified at this time as:

1. Payment of the Final Capital Return will be dependent on receipt of redemption monies on maturity and/or call of Debt Instruments. The Company has no reason to believe that any of the issuers of the Debt Instruments will default in their redemption obligations. However, if default occurs, the Company will not receive the funds necessary to undertake the Final Capital Return.
2. 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.

The funds received may be required to meet ongoing costs of the Company. These costs 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 some funds received at redemption of Debt Instruments to meet these ongoing costs.

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

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

The Board proposes to announce the actual amount to be returned to Shareholders under the Final Capital Return no later than 5 business days prior to the relevant record date.

Shareholder approval for the maximum Final Capital Return is sought at this Meeting for administrative convenience and to avoid incurring additional costs of convening separate meetings to approve a further capital return.

### ***Payment of dividends***

The Directors anticipate that interest income, together with the profit realised on maturity of the Debt Instruments, 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 dividend payments will be made to coincide with anticipated capital returns.

### ***Who will participate in the Final Capital Return?***

Subject to Shareholder approval, the distribution of the Final Capital Return will be made to Shareholders, pro rata to the number of Shares held by each Shareholder at the Final Record Date. This return is intended be paid on or around 9 March 2018.

If the Final 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 Final Capital Return***

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

All Shareholders should consult their own independent professional tax advisers regarding the tax consequences of the Final Capital Return. 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 (e.g. 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 Final Capital Return so that it is treated as a return of capital, and not as a dividend, for income tax purposes. As discussed above, the proposed return consists of the consideration paid for each Debt Instrument as they mature or are redeemed, any profits made on Debt Instruments acquired at a discount to face value will be paid out as dividends. The Company intends to pay a dividend distributing retained profits to Shareholders prior to or at the same time, as it affects the Final Capital Return.

Shareholders may be liable to pay capital gains tax (**CGT**) in relation to the Final 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 the Final 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 the Final Capital Return, but it cannot be reduced below nil;
2. if a Final 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 Final 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 Final 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 Final Capital Return or in respect of the taxation consequences themselves.

### ***Effect on the Company***

As at the date of this Notice, the Company had 976,386 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 amount of the Final Capital Return.

The anticipated effect of the Final Capital Return on the Company is illustrated in the unaudited pro forma Statement of Financial Position set out below. This unaudited pro forma Statement of Financial Position is based on the audited Statement of Financial Position for the Company as at 30 June 2017.

This table is not a consolidated pro forma Statement of Financial Position prepared in accordance with the Corporations Act, the Corporations Regulations, Accounting Standards or any other mandatory financial reporting requirements in Australia. It is provided only to illustrate the anticipated impact on the Company of completion of the Final Capital Return. The specific assumptions taken in preparing the tables are set out in the notes below the tables.

### **Illustrative unaudited pro forma statement of financial position**

(A\$'000 unless otherwise stated)

	Audited statement of Financial Position 30 June 2017	Pro forma Statement of Financial Position Seventh Capital Return	Pro forma Statement of Financial Position Eighth Capital Return	Pro forma Statement of Financial Position Final Capital Return
<b>Assets</b>	23,063	15,063	11,063	1,638
<b>Liabilities</b>	(70)	(73)	(76)	(79)
<b>Net Assets</b>	22,993	14,990	10,987	1,559
<b>NTA Per Share</b>	\$23.55	\$15.35	\$11.25	\$1.60

1. The column headed "Statement of Financial Position 30 June 2017" is based on the audited Statement of Financial Position of the Company as at 30 June 2017.
2. The column headed "Pro forma Statement of Financial Position Seventh Capital Return" is based on column 1 and has been prepared as if the Seventh Capital Return of \$8,000,000 had been completed on 30 June 2017. The Seventh Capital Return was paid in full to Shareholders on 28 August 2017.
3. The column headed "Pro forma Statement of Financial Position Eighth Capital Return" is based on column 1 and has been prepared as if the Eighth Capital Return of \$4,000,000, approved by Shareholders at the general meeting of the Company held on 29 November 2016 and not returned as at the date of this Explanatory Memorandum, and the Seventh Capital Return of \$8,000,000 had both been completed on 30 June 2017.
4. The column headed "Pro forma Statement of Financial Position Final Capital Return" is based on column 1 and has been prepared as if the Final Capital Return of \$9,424,598, the Eighth Capital Return of \$4,000,000, approved by Shareholders at the general meeting of the Company held on 29 November 2016 and not returned as at the date of this Explanatory Memorandum, and the Seventh Capital Return of \$8,000,000 had all been completed on 30 June 2017.
5. All amounts assume that there are 976,386 Shares on issue being the number of Shares on issue at 30 June 2017.
6. The above table does not take into account future dividends. Future dividends will distribute the interest paid on the underlying Debt Instruments and any profits made on 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 30 June 2017 relating to legal and tax advice and registry fees.

As noted above in point 6, the above table does not take into account dividends to be paid following 30 June 2017. Interest will continue to accrue and be paid on Debt Instruments until they mature and are redeemed. Accordingly, the asset base of the Company will increase as interest payments are received after 30 June 2017 and will be reduced by future dividend payments.

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 Seventh, Eighth and Final Capital Returns,



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 returns.

As the management fee for the financial year ending 30 June 2018 is payable in advance, the capital returns will have no effect on the management fee payable by the Company in respect of the financial year ending 30 June 2018.

### ***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 10 October 2017 were \$101.80 (30 April 2014) and \$10.71 (1 September 2017) respectively. A total of 98,843 Shares have traded on the ASX in this period representing turnover of approximately 2.8% of the Company's total Shares outstanding on an annualised basis. The Company publishes a net tangible asset backing of the Shares on a monthly basis to assist Shareholders in valuing their investment. Between these dates, approximately \$82.3 million of capital has been returned representing \$84.26 per Share.

### ***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 and it was confirmed in the Information Memorandum. 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 Final Capital Return***

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

### ***Recommendation of Directors***

The Directors are of the opinion that the proposed Final Capital Return is fair and reasonable to Shareholders as a whole and do not materially prejudice the Company's ability to pay its creditors. Accordingly, the Directors unanimously recommend that Shareholders vote in favour of Resolution 3.

No Director will receive any payment or benefit of any kind as a consequence of the Final 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 3 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 Australian Securities Exchange Limited (ACN 008 624 691).

**Board** means the board of Directors.

**Chairman** means the chairman of the Company.

**Company** means Australian Masters Yield Fund No 3 Limited (ACN 149 790 545).

**Corporations Act** means the *Corporations Act 2001 (Cth)*.

**Corporations Regulations** means the *Corporations Regulations 2001 (Cth)*.

**Director** means a director of the Company.

**Eighth Capital Return** means the eighth capital return approved by Shareholders at the general meeting of the Company held on 29 November 2016 and not returned as at the date of this Explanatory Memorandum.

**Eighth Record Date** means 20 November 2017.

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

**Final Capital Return** means the return of capital intended to be undertaken by the Company following the passage of Resolution 3.

**Final Record Date** means 2 March 2018.

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

**Listing Rules** means the listing rules of the ASX.

**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 Annual General Meeting** means this general meeting.

**Notice** means this notice of meeting.

**Official List** means the official list of the ASX.

**Previous Capital Returns** means capital returns previously approved for return by shareholders at a company meeting, i.e. Eighth Capital Return.

**Prospectus** means the prospectus for the Company dated 7 November 2011.

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

**Shareholder** means a registered shareholder of the Company.