AUSTRALIAN MASTERS YIELD FUND SERIES

AMYF SERIES QUARTERLY UPDATE

31 DECEMBER 2016 – 31 MARCH 2017

SUMMARY

AUSTRALIAN MASTERS YIELD FUND SERIES (AMYF SERIES) HIGHLIGHTS

AMYF Series announced the following quarterly dividends and capital returns:

FUND	DIVIDEND	FRANKED	TOTAL	CAPITAL RETURN[1]	EXPECTED PAYMENT DATE
AMYF1	$0.75	–	$0.75	–	13 June 2017
AMYF2	$0.70	–	$0.70	–	13 June 2017
AMYF3	$0.50	$0.05	$0.55	–	13 June 2017
AMYF4	$0.45	$0.19	$0.64	–	13 June 2017
AMYF5	$0.42	–	$0.42	–	13 June 2017

Over the March quarter, Bank of America February 2017 subordinated debt, held in AMYF1, AMYF2 and AMYF3 matured. This capital was returned to shareholders with the Q4 2016 dividend announced 31 January 2017. Additionally, the Morgan Stanley February 2017 senior notes, held in AMYF3 matured, and bank hybrid positons held across AMYF4 and AMYF5 were sold.

All existing fixed-income securities held in the portfolios of the AMYF Series performed as expected. The Fund Manager is proactively managing the cash balances of the funds and will return 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 to 0.75%–1.00% at the March meeting of the Federal Open Market Committee (FOMC). FOMC members also signalled their expectations of further monetary tightening and highlighted the potential for the quantitative easing program (QE) to be unwound.
- The European Central Bank (ECB) left key policy rates unchanged, eurozone unemployment levels declined to the lowest level since the financial crisis and economic indicators strengthened.
- The 10-Year US Treasury yield declined marginally over the quarter, from 2.44% to 2.39%.

1 The Manager intends, subject to Shareholder and/or board approval, to anounce capital returns in May 2017 for AMYF1, AMFY3, AMYF4 and AMYF5.

Australian markets:

- The Reserve Bank of Australia (RBA) maintained their accommodative monetary policy position; The RBA cash rate was unchanged at 1.50%.
- In line with international yields, the 10-Year Australian Government Bond yield declined slightly over the quarter, from 2.77% to 2.70%.
- Corporate bond spreads tightened as investor confidence in the global economy improved.

GLOBAL MARKETS UPDATE

Economic data from the US and China continued to fuel optimistic global growth expectations. In the US the FOMC again raised the federal funds rate target range as inflation moved closer to its long-run 2% target. China's trade data exceeded consensus expectations and the recent trend of declining Chinese foreign currency reserves was halted. The Eurozone Manufacturing Purchasing Managers' Index (PMI) was at its strongest level since April 2011, also indicative of global economic strengthening.

In the US, the FOMC, as signalled, raised the federal funds rate target range by 25 basis points, to 0.75%–1.00% in March. Steady economic growth, job gains, rising inflation and continued asset price stability were reasons behind this decision. The FOMC maintained its outlook for two additional rate hikes this year and three in 2018, flagging expectations of a gradual advance towards a neutral rate. It is important to note that recent increases in the federal funds target rate have only matched increases in inflation and that while the moves appear more hawkish, the FOMC position remains accommodative. Comments towards the end of the quarter also indicate that the Federal Reserve may start to partly unwind its balance sheet as the economy continues to strengthen.

The Chinese Government lowered their 2017 GDP growth target to 6.5%, as officials continue to look to stabilise the economy by placing an emphasis on employment, tackling overcapacity and deleveraging the corporate sector. Foreign exchange reserves, which have been declining from their 2014 peak of $US4 trillion stabilised this quarter at $US3 trillion.

The European Central Bank (ECB) kept key policy rates unchanged at its March meeting. The unemployment rate in the eurozone fell to 9.5% in February, its lowest level since the financial crisis. There was further expansion in the manufacturing sector, with the Eurozone Manufacturing PMI rising 0.7 points to 56.7 points in March. Strong PMI figures and positive economic growth have now raised expectations that the ECB will further scale back its quantitative easing program.

Global bond markets were broadly flat over the quarter, however they exhibited some intra-period volatility, initially spurred by US President Trump and the global growth outlook. The 10-Year US Treasury yield declined from 2.44% to 2.39% over the quarter, touching 2.63% in mid-March. European bond prices fell as the benchmark 10-Year German Bund yield rose from 0.21% to 0.33%.

DOMESTIC RATES

During the quarter statistics released highlighted that the Australian economy continued its relatively healthy transition away from the mining and energy investment boom, expanding by approximately 2.5% in 2016. Measures of business and consumer confidence continue to trend in a positive direction, however labour markets across the country continue to be mixed, with wages growth (1.9% year on year) now at multi-decade lows and below inflaton at 2.1%.

The RBA maintained interest rates at 1.50% in Q1, a level they view as "consistent with sustainable growth in the economy and achieving the inflation target over time".

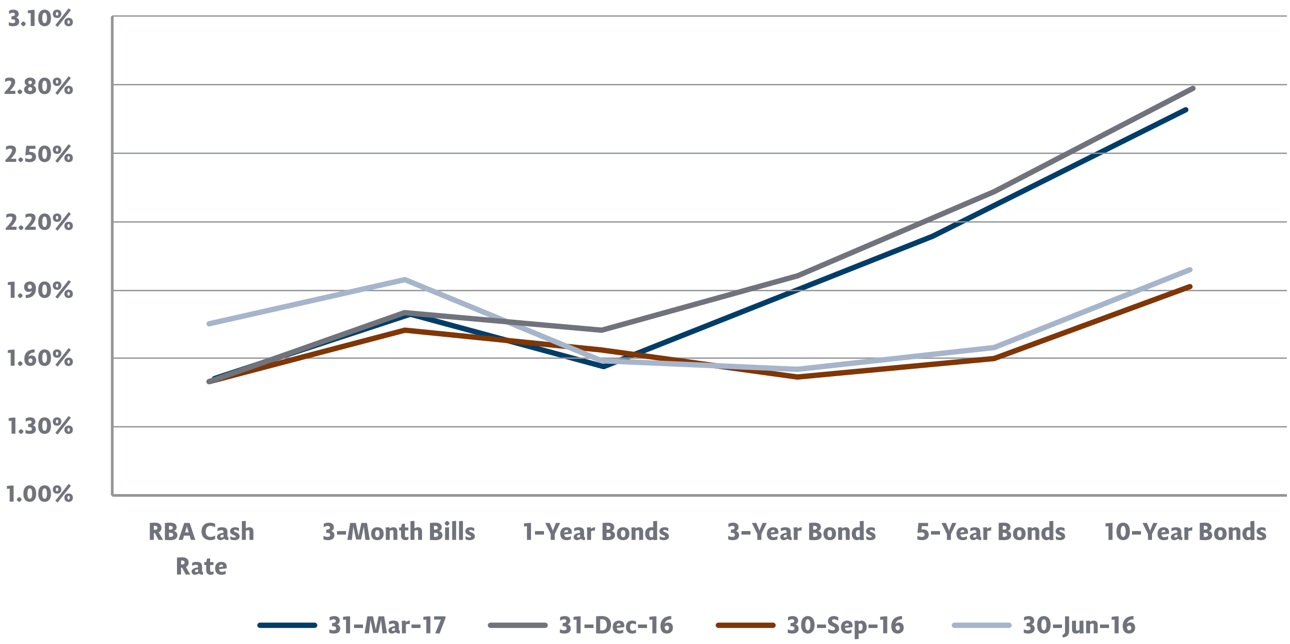
In his March Monetary Policy Statement, the RBA Governor, Phillip Lowe noted monetary policy considerations included: recent strength in commodity prices and the boost to national income; consumption growth; business and consumer sentiment measures that are above average; the strength of financial institutions; a positive forward outlook for employment; low inflation; and variable housing market strength.

With regard to the housing market, the RBA's stance has moved to one of muted caution. While there is continued strength in the eastern capital city markets (and some concerns around overheating) there is significant price divergence across the country. In addition, a considerable supply of apartments is 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) appreciated 5.8% against the US dollar (USD) during the quarter (unwinding the depreciation in Q4 2016) affected by adjustments to the relative growth outlook for the two countries and general US dollar weakness. The US dollar declined 3.5% over the quarter against a basket of 10 major trading currencies[2].

The Australian bond market followed the lead of the US government bond market. As the following chart highlights, the 10-Year Australian Government Bond yields experienced a minor retracement over the quarter, down from 2.77% to 2.70%. The yield curve was almost unchanged, with the spread between long-term bond yields (10-year) and short-term bond yields (2-year) expanding one basis point.

AUSTRALIAN GOVERNMENT YIELD CURVE



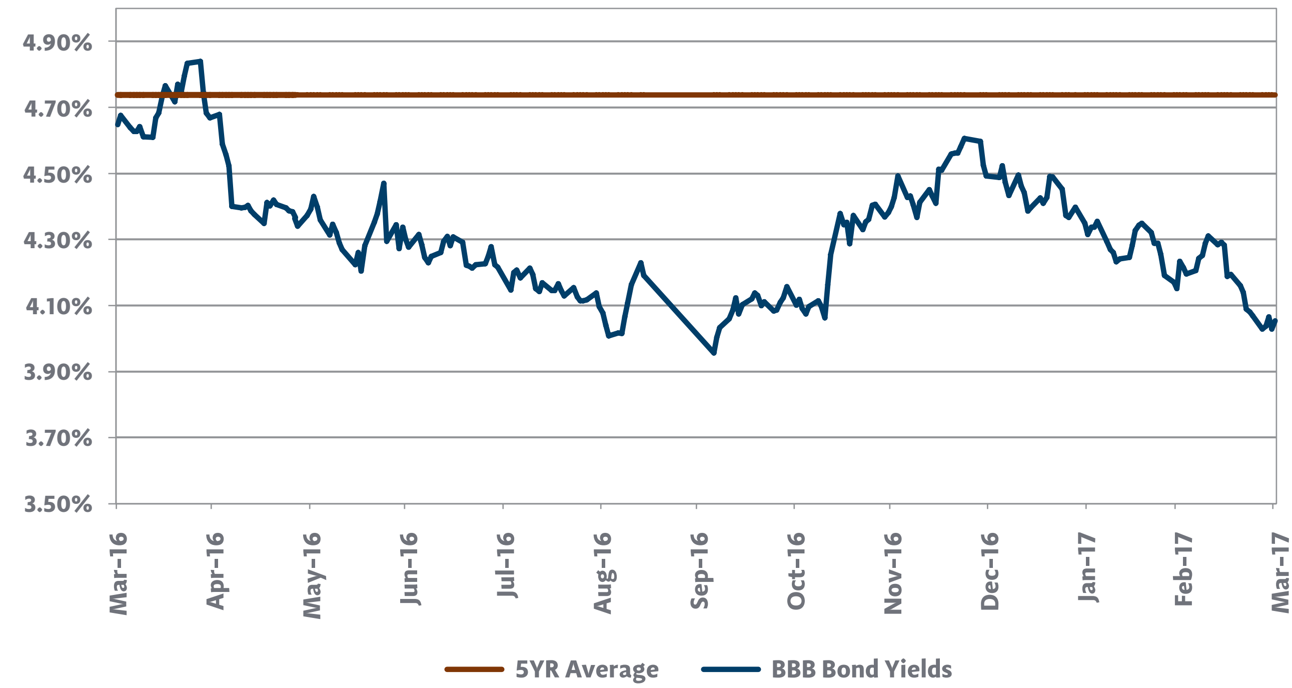
Source: Bloomberg

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

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 from 3.64% to 3.38% and BBB-rated five-year corporate bond yields fell from 4.45% to 3.97% over the quarter, continuing to trade well below the 5 year average (illustrated in the following chart).[3]

AUSTRALIAN BBB 5YR CORPORATE BOND YIELDS



Source: Bloomberg

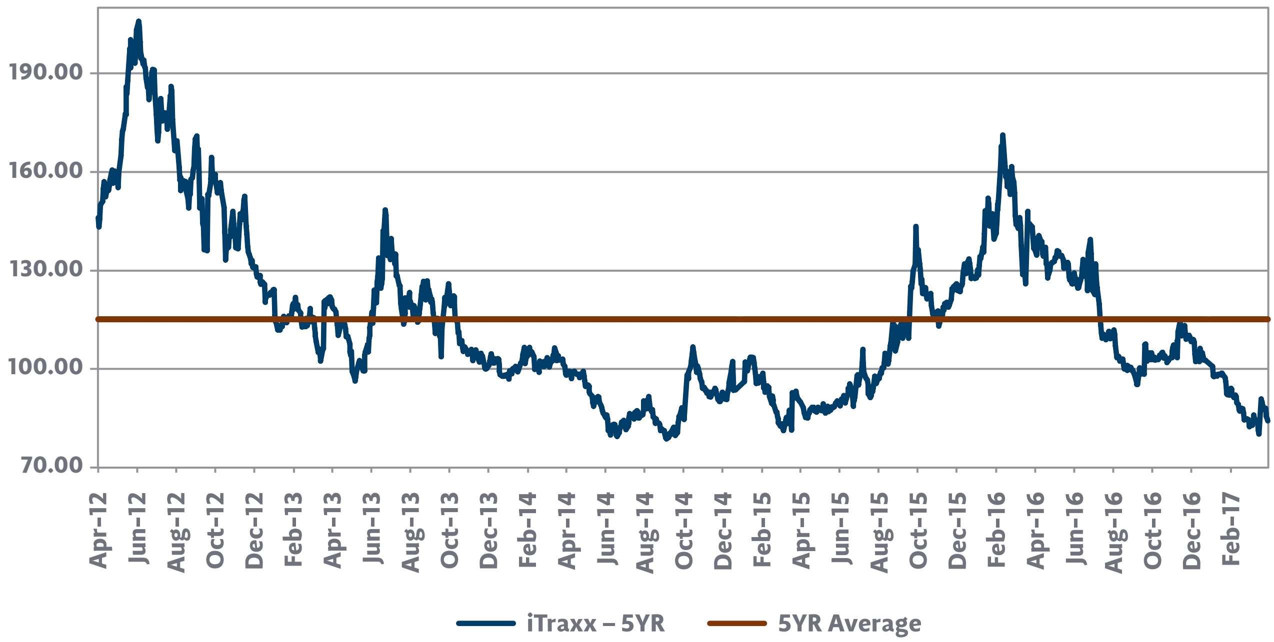
In the March quarter, domestic debt issuances totalled $17.1 billion, dominated by $14.3 billion of issuance from the major banks.

Overall pricing of credit risk tightened as investors seeking yield outstripped supply in an environment where improving global economic data, market stability and the policy positions of US President Trump are currently viewed as supportive of risk assets. The Australian A-rated five-year corporate bond spread decreased marginally to 85 from 102 basis points, and the Australian BBB-rated five-year corporate bond spread declined to 143 basis points from 183 basis points.[3]

Overall Australian credit risk, as measured by the iTraxx Australia index (five-year tenure), declined. This index began the quarter at 103 and ended at 93.

3 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).

ITRAXX AUSTRALIAN CREDIT SPREADS



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 CDS and as such can move more rapidly as the risk profile of the market changes.

HYBRID MARKET UPDATE

Following a prolonged period of trading well below par, hybrids' more recent price strength continued throughout the first quarter, with the majority of large bank hybrids trading near to, or above, face value. The Manager took this opportunity to exit hybrid positions held in AMYF4 and AMYF5 issued by Westpac Banking Group, ANZ Limited and National Australia Bank.

The quarter saw three major domestic hybrid issuances. Challenger Limited launched a $350 million capital notes (Capital Notes 2) offer at 4.4%–4.6% over bank bill swap in February and Suncorp Group Limited launched a $250 million capital notes (Capital Notes 9) offer at 4.1%–4.3% over bank bill swap in March. Of greater interest was the Commonwealth Bank's (CBA's) Perls IX $750 million offer launched in February at 3.9%–4.1% over bank bill swap, which gave priority to holders of the maturing Colonial Group sub-notes. The CBA offer closed significantly oversubscribed.

Money markets were broadly flat over the quarter, with three-month bank bills closing at 1.79%.

MARCH QUARTER DIVIDENDS & CAPITAL RETURNS**

FUND	CASH	TOTAL INCLUSIVE OF FRANKING	CAPITAL RETURNS***
AMYF#1	$0.75	$0.75	-
AMYF#2	$0.70	$0.70	-
AMYF#3	$0.50	$0.55	-
AMYF#4	$0.45	$0.64	-
AMYF#5	$0.42	$0.42	-

AMYF#1

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY	COUPONS RECEIVED JANUARY	FEBRUARY	MARCH
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	-	54,352	-
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	-	38,488	-
Bank of Queensland*	14-Apr-21	14-Apr-16	$20,000,000	$20,000,000	Diversified Financials	-	-	-
TOTAL			$95,360,100	$87,865,030		-	92,840	-

AMYF#2

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY	COUPONS RECEIVED JANUARY	FEBRUARY	MARCH
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	-	37,131	-
HBOS Plc (Lloyds)*	1-May-17	1-May-12	$2,000,000	$1,560,000	Diversified Financials	-	-	-
TOTAL			$42,517,700	$40,079,927		-	37,131	-

AMYF#3

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY	COUPONS RECEIVED JANUARY	FEBRUARY	MARCH
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	-	93,636	-
Morgan Stanley*	22-Feb-17		$7,000,000	$6,205,450	Diversified Financials	-	39,258	-
Bank of Queensland*	22-Mar-22	22-Mar-17	$15,000,000	$15,000,000	Diversified Financials	-	-	223,582
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	-	-	119,441
AMIT	09-Nov-22	9-Nov-17	$4,000,000	$4,000,000	Diversified Financials	-	-	52,140
AMP BANK	21-Dec-22	21-Dec-17	$7,500,000	$7,500,000	Diversified Financials	-	-	90,493
TOTAL			$101,939,705	$93,780,660		-	132,893	485,655

AMYF#4

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY	COUPONS RECEIVED JANUARY	FEBRUARY	MARCH
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	-	-	67,186
AMIT	09-Nov-22	9-Nov-17	$3,500,000	$3,500,000	Diversified Financials	-	-	46,503
AMP Bank	21-Dec-22	21-Dec-17	$4,500,000	$4,500,000	Diversified Financials	-	-	54,296
Morgan Stanley	22-Feb-18		$10,000,000	$10,354,499	Diversified Financials	-	737,500	-
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	-	79,535	-
TOTAL			$96,164,242	$96,825,839		-	817,035	167,984

AMYF#5

						COUPONS RECEIVED		
ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY	JANUARY	FEBRUARY	MARCH
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	-	-	-
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	-	-	34,293
Lend Lease^	13-May-20		$25,000,000	$24,975,250	Infrastructure	-	-	-
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	-	-	287,500
Sydney Airports	20-Nov-20		$6,000,000	$7,516,200	Airline Infrastructure	-	76,969	-
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	-	-	79,992
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	76,969	401,785

* 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

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