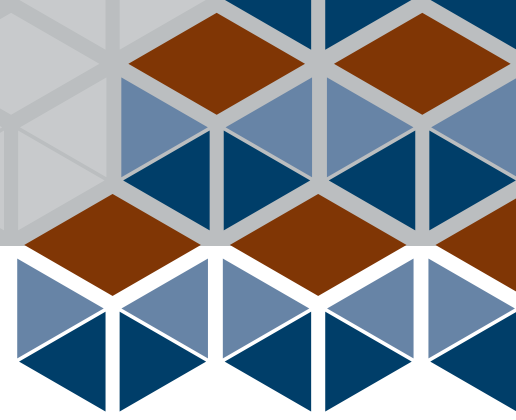




**AUSTRALIAN
MASTERS
YIELD**
FUND SERIES



QUARTERLY UPDATE

1 APRIL – 30 JUNE 2014

SUMMARY

AUSTRALIAN MASTERS YIELD FUND SERIES (AMYF SERIES) HIGHLIGHTS

- The following dividends have been announced:
 - Australian Masters Yield Fund No 1 (AMYF1) announced a fully franked dividend of \$0.80 per share to be paid on 18 August 2014.
 - Australian Masters Yield Fund No 2 (AMYF2) announced a fully franked dividend of \$0.94 per share to be paid on 18 August 2014.
 - Australian Masters Yield Fund No 3 (AMYF3) announced a fully franked dividend of \$1.20 per share to be paid on 18 August 2014.
 - Australian Masters Yield Fund No 4 (AMYF4) announced a fully franked dividend of \$0.85 per share to be paid on 18 August 2014.
 - Australian Masters Yield Fund No 5 (AMYF5) announced a fully franked dividend of \$1.20 per share to be paid on 18 August 2014.
- All existing fixed income investments held in the AMYF Series performed as expected.

MARKET HIGHLIGHTS

- **Global markets:** “A Tale of Two Cities” appears to be forming as the US Federal Reserve continued winding back its bond purchase program on improving economic data. On the other hand, the European Central Bank (ECB) announced further stimulus measures through its new regional bank funding program. Geopolitical risks dominate emerging markets.
- **Australian rates:** The Reserve Bank of Australia (RBA) continued a ‘watch and see’ approach, electing not to move its official cash rate over the period. The central bank is cautious on the domestic and global economy as data remains mixed.



- **Domestic credit:** Australian corporate bond yields continued their downward trend, influenced by high demand both domestically and internationally for Australian dollar-denominated bonds, a flattening interest rate curve and tighter credit spreads.

AMYF ACTIVITY

AMYF Series announced the payment of the following quarterly dividends:

FUND	DIVIDEND	FRANKED	GROSSED UP	CAPTIAL RETURN	EXPECTED PAYMENT DATE
AMYF1	\$0.80	\$0.34	\$1.14	\$0.00	18 August 2014
AMYF2	\$0.94	\$0.40	\$1.34	\$0.00	18 August 2014
AMYF3	\$1.20	\$0.51	\$1.71	\$0.00	18 August 2014
AMYF4	\$0.85	\$0.36	\$1.21	\$0.00	18 August 2014
AMYF5	\$1.20	\$0.51	\$1.71	\$0.00	18 August 2014

During the quarter, the boards of AMYF4 and AMYF5 (the Companies) approved the sell down of the respective holdings in the Ubiquity Power Maintenance Group Ltd convertible notes and convertible non-cumulative preference shares.

All existing fixed income securities held within the portfolios of the AMYF Series performed as expected. The manager is proactively managing the cash balances of the funds and will consider returning capital to shareholders when it is practical to do so.

GLOBAL MARKETS UPDATE

In line with improving economic fundamentals, the Federal Reserve, while still cautious, has improved its tone over the quarter. In the most recent FOMC minutes (June), it indicated the progressive tapering of its bond purchasing program was likely to be completed by year-end, and possibly as early as October. With the tapering program out of the way, financial markets are now focusing their attentions towards the timing and speed of rate hikes and the shrinking of the Federal Reserve's balance sheet.

European Central Bank (ECB) president Mario Draghi highlighted in a recent speech that price stability for the region continued to be a real threat for the region. He reinforced that the ECB would act where necessary. During June, this rhetoric was supported by the ECB launching its targeted long-term refinancing operation (TLTRO). The idea is to provide banks with cheap funding to help promote credit growth to households and firms. The program has been met with a mixed response, with a number of analysts questioning the effectiveness of the program given potential weaknesses around the structure, allocation and rules.

Despite heightened tensions in the Middle East and ongoing fighting between Russia and the Ukraine, emerging market equity bourses rebounded from the Q114 sell-off, with the MSCI Emerging Market equity index rallying 6% over the period. However, ongoing geopolitical event risks are causing volatility in financial markets.

AUSTRALIAN FINANCIAL MARKETS UPDATE

Australian debt markets had a strong quarter relative to equity markets. Fixed income prices rallied as the RBA maintained a cautious rhetoric, anchoring official cash rates at 2.50%. As a result, interest curves continue to flatten as expectations around potential future rate rises are pushed out.

Credit spreads are tightening further. Fundamentally, we are in a low corporate default environment and from a technical perspective, corporate debt remains well bid as demand outstrips supply.

This has resulted in overall corporate bond yields falling over the period.

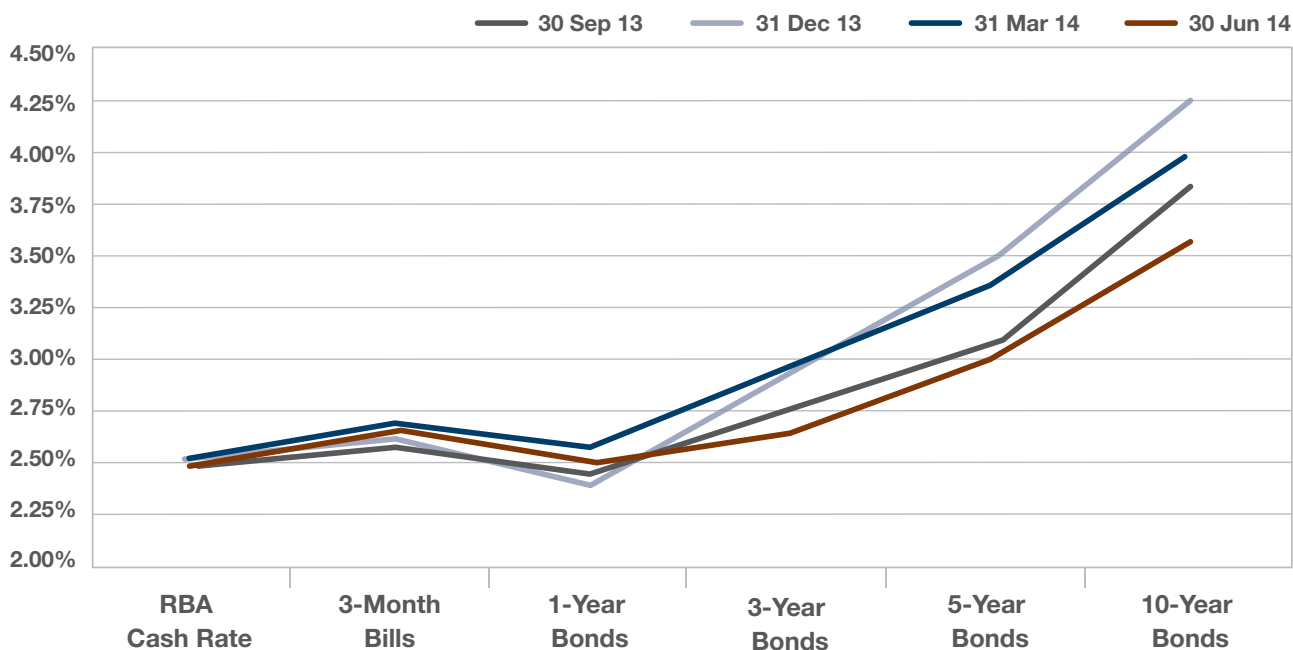


DOMESTIC RATES

RBA held official cash rates at 2.50% for the 11th consecutive month. Over the quarter, the statements by the central bank remained cautious. The economic recovery is likely to be tempered as a result of investment from the resources sector “starting to decline significantly”.

The RBA continues to take a balanced view given the ongoing currency versus credit growth conundrum. It is reluctant to cut official interest rates because of the heated property market, but is unlikely to raise interest rates given their view of an overvalued Australian dollar (AUD).

AUSTRALIAN GOVERNMENT YIELD CURVE



Source: Bloomberg

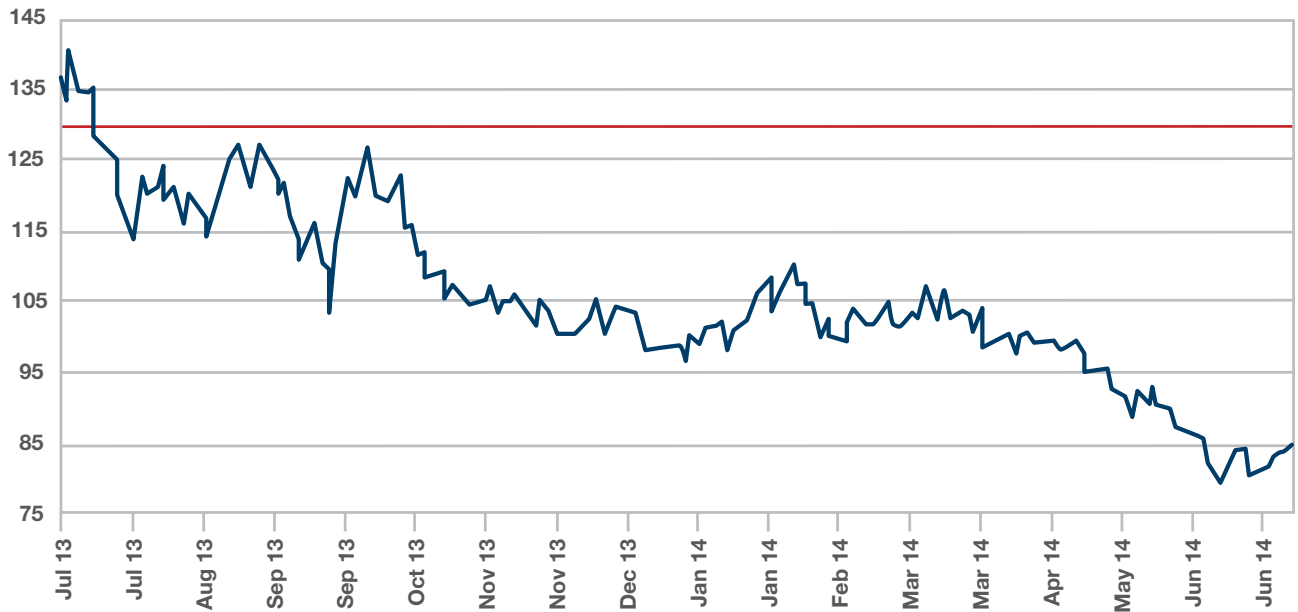
The cautious or dovish view from the RBA has led to a continued flattening of the interest rate curve over the quarter. The market is not expecting any interest rate hikes until the back end of 2015.

DOMESTIC CREDIT

Credit markets looked through potential ramifications of geopolitical events with spreads tightening further, supported by high offshore and domestic demand. The asset class is benefiting from the positive trend of default rates tracking below long-run averages.



ITRAXX AUSTRALIAN CREDIT SPREADS



Corporate bond prices rallied over the quarter, resulting in dropping yields. The flattening interest curve and tightening credit spreads has resulted in the Australian Corporate Bond BBB composite yield curve dropping below 5%. Australian corporate debt yields have not been lower since 2000.

AUSTRALIAN BBB 5YR CORPORATE BOND YIELDS



Source: Bloomberg



In addition, globally there is a lot of cash in the financial markets system chasing yield. Australian corporate and kangaroo debt continues to be in high demand given higher yields on offer relative to other developed nations. This is likely to continue as developed economy central banks continue to deploy and manage accommodative monetary policies.

New issuance remains in line with 2013's year-to-date numbers. However, there is still very little issuance by way of credit grades below single A credits. Only three BBB and below rated issuers came to capital markets during the quarter, a far cry from the seven issuers for the same period last year.

As noted in the previous quarterly report, it appears that well capitalised domestic banks continue to use their own balance sheets to lend, at competitive 'relationship driven' terms, resulting in low issuance at this part of the credit ratings spectrum.

HYBRID MARKET

The hybrid market remained subdued with only two institutions, ANZ and IAG, launching wholesale market Basel III APRA compliant Tier 2 capital issues totalling \$1.1 billion during the quarter.

The low interest rate and tight credit spread environment is steering both corporates and financial institutions towards raising money further up the capital structure. Financial institutions are favouring Tier 2 hybrid subordinated debt capital issues, given their robust Tier 1 capital levels.



JUNE QUARTER DIVIDENDS & CAPITAL RETURNS**

FUND	CASH	FULLY FRANKED	CAPITAL RETURNS
AMYF#1	\$0.80	\$0.34	\$0.00
AMYF#2	\$0.94	\$0.40	\$0.00
AMYF#3	\$1.20	\$0.51	\$0.00
AMYF#4	\$0.85	\$0.36	\$0.00
AMYF#5	\$1.20	\$0.51	\$0.00

AMYF#1

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY
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
Bank of Queensland	14-Apr-21		\$20,000,000	\$20,000,000	Diversified Financials
			\$95,360,100	\$87,865,030	

COUPONS RECEIVED

APRIL	MAY	JUNE
o	o	o
o	o	o
\$188,638	o	o
o	o	\$70,992
o	\$39,757	o
o	o	o
o	o	\$7,322
o	\$74,252	o
o	\$120,315	o
o	\$51,867	o
\$302,795	o	o
\$491,433	\$286,191	\$78,315

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

COUPONS RECEIVED

APRIL	MAY	JUNE
o	o	o
o	o	o
\$43,068	o	o
o	\$159,188	o
o	o	\$111,369
o	o	\$165,670
o	\$50,726	o
o	\$16,042	o
\$43,068	\$225,956	\$277,039

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

COUPONS RECEIVED

APRIL	MAY	JUNE
0	0	0
0	0	0
\$52,543	0	0
0	0	0
0	\$127,919	0
0	\$255,668	0
0	0	\$258,228
0	0	0
0	\$43,313	0
0	0	0
0	0	\$138,519
0	0	\$65,769
0	0	\$111,319
\$52,543	\$426,900	\$573,835

AMYF#4

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY
McAleese Finance*	03-Apr-15		\$10,000,000	\$10,000,000	Mining Services
UPMG*	30-Jun-18		\$5,250,000	\$5,000,000	Industrial
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
			\$96,164,242	\$96,825,839	

COUPONS RECEIVED

APRIL	MAY	JUNE
0	0	0
0	0	0
0	\$205,823	0
0	0	0
0	0	0
0	0	\$77,917
0	0	\$57,548
0	0	\$66,791
0	0	0
0	0	\$25,783
0	0	\$25,825
0	\$450,000	0
0	\$76,189	0
0	\$732,012	\$253,864



AMYF#5

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY
UPMG*	30-Jun-18		\$15,750,000	\$15,000,000	Industrial
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
NAB	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	\$4,862,912	Private Public Project
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
NAB	19-Dec-22	17-Dec-20	\$1,384,000	\$1,384,000	Diversified Financials
ANZ	01-Sep-23	01-Sep-21	\$4,541,000	\$4,541,000	Diversified Financials
ANZ	15-Mar-24	15-Mar-22	\$5,000,000	\$5,000,000	Diversified Financials
			\$97,885,000	\$98,535,712	

COUPONS RECEIVED

APRIL	MAY	JUNE
0	0	0
0	0	0
0	\$301,875	0
0	0	\$20,626
0	0	\$25,825
0	0	\$41,324
0	\$750,000	0
\$83,986	0	0
0	0	0
0	\$73,732	0
0	0	\$14,395
0	0	0
\$83,986	\$1,125,607	\$102,170

* 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.

