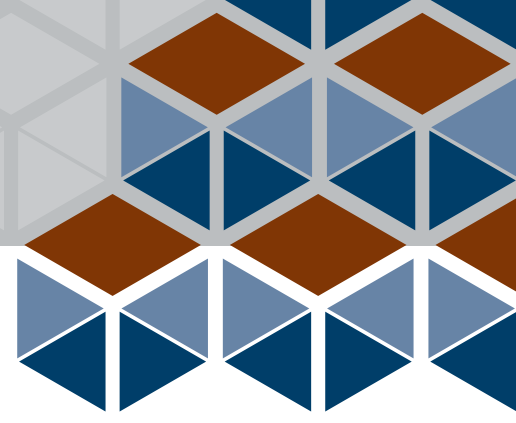




**AUSTRALIAN
MASTERS
YIELD**
FUND SERIES



QUARTERLY UPDATE

1 JANUARY 2014 – 31 MARCH 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 \$1.00 per share to be paid on 14 May 2014.
 - Australian Masters Yield Fund No 2 (AMYF2) announced a fully franked dividend of \$0.90 per share to be paid on 14 May 2014.
 - Australian Masters Yield Fund No 3 (AMYF3) announced a fully franked dividend of \$1.24 per share to be paid on 14 May 2014.
 - Australian Masters Yield Fund No 4 (AMYF4) announced a fully franked dividend of \$0.75 per share to be paid on 14 May 2014.
 - Australian Masters Yield Fund No 5 (AMYF5) announced a fully franked dividend of \$1.05 per share to be paid on 14 May 2014.
- The following capital returns have been announced:
 - Australian Masters Yield Fund No 3 (AMYF3) announced a capital return of \$7.01 per share to be paid on 14 May 2014.
 - Australian Masters Yield Fund No 4 (AMYF4) announced a capital return of \$10.04 per share to be paid on 14 May 2014.
- AMYF5 is fully invested, across 11 issuers and 13 issues.
- All existing fixed income investments held in the AMYF Series continued to perform as expected.

MARKET HIGHLIGHTS

- **Global markets:** Janet Yellen takes over as the US Federal Reserve (Fed) Chair. With the US economy showing positive signs of recovery, the tapering of the bond purchase program continues, with an expected end date of Q4 2014. Speculation now surrounds when the Fed will begin hiking interest rates. Ongoing tensions between Russia and Ukraine and concerns over the stability of China's financial system have also dominated headlines.



- **Australian rates:** Recent positive economic data for the Australian economy has been offset against volatility in emerging markets and a cold winter in the US. The Reserve Bank of Australia (RBA) has moved its focus away from the Australian dollar (AUD) to the property market, which may be showing signs of overheating. In response, the market is currently pricing in no more rate cuts. However, the market is pricing in a delay in rate hikes, with the interest rate curve flattening over the period.
- **Domestic credit:** While overall debt issuance remains robust, corporate debt issuance remains low. BBB rated bond yields continue to fall off the back of the flattening interest rate curve. However, credit spreads continue to remain range-bound over the period.

AMYF ACTIVITY

AMYF Series announced the payment of the following quarterly dividends:

FUND	DIVIDEND	FRANKED	GROSSED UP	CAPTIAL RETURN	EXPECTED PAYMENT DATE
AMYF1	\$1.00	\$0.43	\$1.43	\$0.00	14 May 2014
AMYF2	\$0.90	\$0.39	\$1.29	\$0.00	14 May 2014
AMYF3	\$1.24	\$0.53	\$1.77	\$7.01	14 May 2014
AMYF4	\$0.75	\$0.32	\$1.07	\$10.04	14 May 2014
AMYF5	\$1.05	\$0.45	\$1.50	\$0.00	14 May 2014

During the quarter, three new investments were executed for AMYF5. The fund invested in the newly launched ANZ Capital Notes II, the IAG subordinated debt issue and the PRAECO 7.13% senior fixed rate bonds. (PRAECO is a public private project. As such, it is a special purpose company that has entered into a contractual arrangement with the Commonwealth Government to build and operate a joint operation command facility for the Australian Defence Force)

AMYF5 is now fully invested.

All existing fixed income securities held within the portfolios of the AMYF Series continued to perform 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

The era of Federal Reserve (Fed) Chairman Ben Bernanke came to a close with the baton being passed on to Janet Yellen. A known 'dove', it came as a surprise to markets during her first Federal Open Market Committee (FOMC) meeting that she was quite hawkish around interest rates. However, Yellen has subsequently taken a softer tone providing market assurances that interest rates will remain low until the economy is much stronger. Yellen's first order of business was to take a more qualitative approach to data interpretation and intended guidance around Fed policy. Gone is the hardline, forward-looking guidance, which has been replaced by a multi-faceted and qualitative assessment of economic health.

Despite a cold winter season, it appears that the US economy remains on the road to recovery. However, risk assets, such as equities, remain volatile as it adjusts to life without central bank liquidity and a higher interest rate environment. The Q114 reporting season will be the first indicator as to how corporate America is faring through the initial stages of this transition, with results being mixed so far.

While Europe's recovery still remains wobbly, most of the focus during the quarter was on the emerging market space. There was an increase in volatility as a sell-off ensued during the months of January and February, with investors seeking to pull money out of the system in light of growing concerns over political tensions between Russia and the Ukraine and worries over China's property market and stability of its financial system. However, emerging markets have settled, clawing back some of those losses.



AUSTRALIAN FINANCIAL MARKETS UPDATE

Australian financial markets have had a lacklustre quarter, with better than expected domestic economic data being offset by global issues outlined earlier.

The latest domestic economic data was robust with employment data showing strength, despite a marginal rise in unemployment. Strong data prints with respect to new jobs and full-time jobs were interpreted as a sign of economic resilience as the economy continues to transition and reinvent itself post-mining boom. The tick up in the unemployment rate was, to some extent, driven by a positive driver, which was the increase in participation rate from 64.5% to 64.8% between the months of February and March.

Other data, such as GDP, retail sales and building approvals, have also remained robust, based on most recent releases.

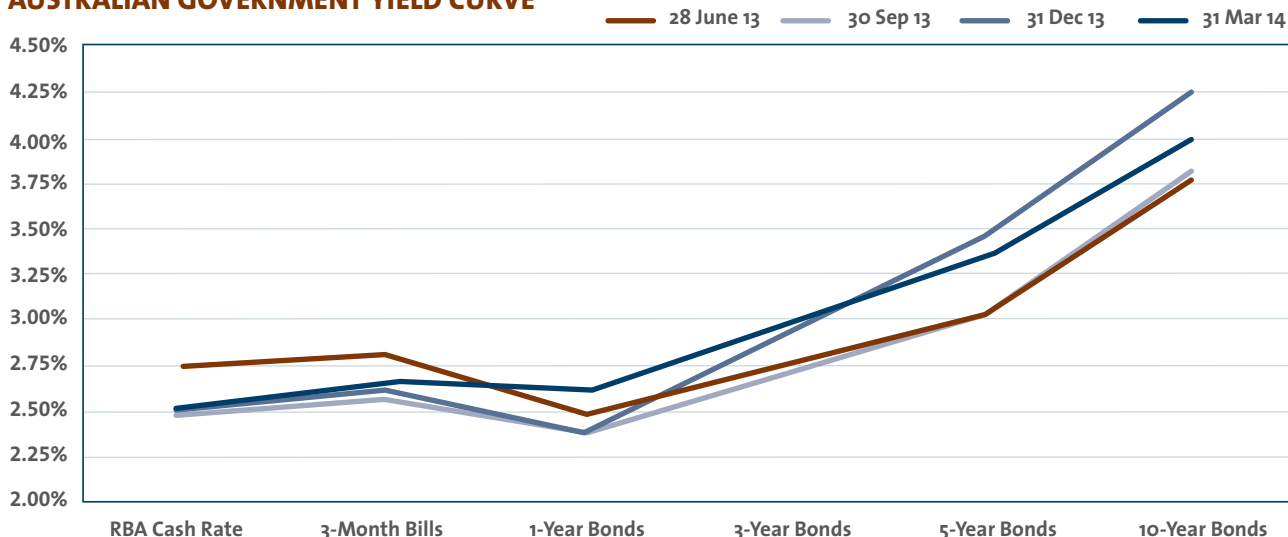
DOMESTIC RATES

The Australian interest rate curve flattened over the course of the quarter, with the RBA keeping the cash rate at 2.50%. The central bank's approach is less to do with comfort regarding the country's economic stability and inflation and more to do with the high currency versus frothy property market conundrum. In recent months, the RBA moved from a hard line for the AUD of 85 US cents to an 85c-90c range and has subsequently shifted its attention to the Australian property market. This has resulted in the AUD trending up again, with most recent highs of circa. 94 US cents.

The market is not expecting any official cash rate moves in the short to medium term. A cut seems unlikely amid the RBA's concerns regarding the property market and inflation being at the upper end of the target 2% to 3% range, while a rate rise also appears improbable given ongoing volatility in the emerging markets, the slow burn recovery being experienced in the US and Europe continuing to struggle through its woes, together with a degree of uncertainty with domestic condition trends.

The RBA is likely to influence short-term market behaviour through the strength of its conviction around the economy, and will convey this through its rhetoric. Action appears to be focused more on the longer term at present.

AUSTRALIAN GOVERNMENT YIELD CURVE



Source: Bloomberg

DOMESTIC CREDIT

Despite 2014 year-to-date domestic debt issuance remaining marginally down from the same period in 2013, actual primary corporate debt issuance has been low. Primary issuance has been dominated by sovereign and supranational entities, as well as financial institutions. In March, two corporates came to market, totalling \$750 million in issuance volume. This is compared to \$8.5 billion of total debt issuance during the month.

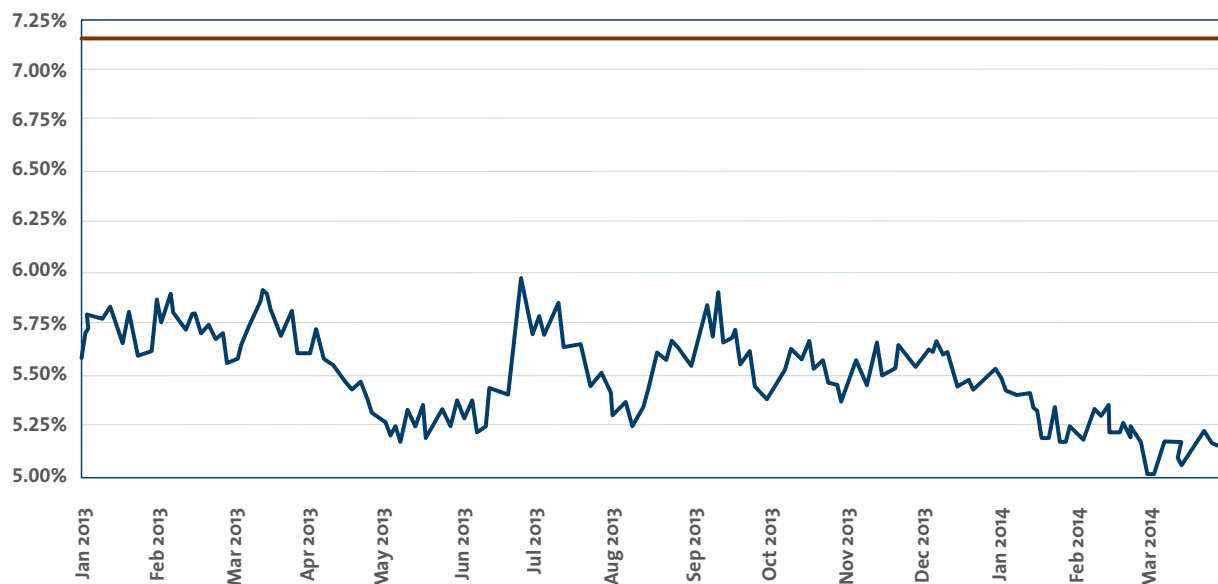
Despite expectations by the market that 2014 would once again be a robust year for new issuance volumes, corporate debt issuance via the capital markets has remained tempered.



In part, financial institutions are responsible. Australian banks have become very well capitalised post-global financial crisis (GFC) and, as a result, they are scrambling to deploy idle balance sheets, with lending executed at tight spreads for relationship-driven reasons. While a lot of the reinforcement of Tier 1 and overall capital bases by banks is in anticipation of a stricter regulatory framework, the unusual anomaly where high funding costs, especially high retail deposit rates, and the post-GFC corporate deleveraging experience, has resulted in banks needing to support net interest margins through a more aggressive lending strategy.

Thus, new corporate bond issuance continues to remain low and well bid as demand continues to outstrip supply. Corporate BBB rated yields have continued to trend lower.

AUSTRALIAN BBB 5YR CORPORATE BOND YIELDS



Source: Bloomberg

As displayed in the graph below, Australian investment grade credit spreads, as per the iTraxx Australian CDS index, continued to trade in a tight range. While we did experience some volatility off the back of the recent sell off in emerging market equities and US markets, volatility settled during the month of March, with the iTraxx Australian CDS index continuing to trade in and around the 1% level

ITRAXX AUSTRALIAN CREDIT SPREADS



Source: Bloomberg

In the context of the current tight yields resulting from a low interest rate environment, credit spreads, while tight, are trading around fair value. At current levels, they remain around 0.25% from pre-GFC tights, with the corporate default rates close to historical lows. Overall corporate leverage remains at the lower end of the historical range (around 26%), debt interest coverage is at more than acceptable levels (about 8 times) and profit margins, while they have shifted down from the highs experienced in 2011/12, remain strong (around 15%). Therefore, all the major components of credit – low default environment, balance sheet strength, liquidity and profitability – remain healthy for corporates in Australia, justifying the current credit spread levels.

HYBRID MARKET

The hybrid market had a relatively quiet start to the year. Financial institutions were the primary contributors to the robust issuance levels of hybrid issuance during 2013. However, it is expected that in 2014, most of the Tier 1 capital issuance undertaken by financial institutions will be more to replace/refinance maturing issues.

Most of the new issuance by banks and insurance companies this year has taken the form of Tier 2 capital and senior debt as these institutions seek to bolster and diversify overall capital bases.

The only Tier 1 issue during the quarter was the ANZPE capital notes. This was issued as a perpetual instrument that had a six-year non-call period and an eight-year mandatory conversion date. The issue size was \$1.61 billion with a margin of 3.25%.



MARCH QUARTER DIVIDENDS & CAPITAL RETURNS**

FUND	CASH	FULLY FRANKED	CAPITAL RETURNS
AMYF#1	\$1.00	\$0.43	\$0.00
AMYF#2	\$0.90	\$0.39	\$0.00
AMYF#3	\$1.24	\$0.53	\$7.01
AMYF#4	\$0.75	\$0.32	\$10.04
AMYF#5	\$1.05	\$0.45	\$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
HBOS Plc (Lloyds)	1-May-17	1-May-12	\$15,000,000	\$12,631,391	Diversified Financials
Royal Bank of Scotland	27-Oct-14		\$21,900,000	\$19,086,932	Diversified Financials
HSBC Bank (Australia)	26-Nov-20	26-Nov-15	\$3,000,000	\$3,000,000	Diversified Financials
Bank of America	14-Feb-17		\$10,100,000	\$8,797,248	Diversified Financials
Wachovia Bank (Wells Fargo)	25-May-17		\$7,000,000	\$6,023,630	Diversified Financials
DBNGP Finance	29-Sep-15		\$5,000,000	\$5,109,000	Utilities
Adelaide Airport	20-Sep-16		\$1,000,000	\$899,130	Transportation
Bank of Queensland	14-Apr-21		\$20,000,000	\$20,000,000	Diversified Financials
Mirvac Group Finance	16-Sep-16		\$8,500,000	\$8,642,990	Real Estate
			\$95,360,100	\$87,865,030	

COUPONS RECEIVED

JANUARY	FEBRUARY	MARCH
0	0	0
0	0	0
0	\$128,955	0
\$192,372	0	0
0	\$40,770	0
0	\$75,652	0
0	\$52,314	0
0	0	\$70,390
0	0	\$7,073
\$306,751	0	0
0	0	\$340,000
\$499,123	\$297,691	\$417,463

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
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
Royal Bank of Scotland	27-Oct-14		\$5,000,000	\$4,381,050	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

JANUARY	FEBRUARY	MARCH
0	0	0
0	0	0
0	\$157,774	0
0	0	\$110,647
\$43,921	0	0
0	0	\$164,256
0	\$51,683	0
0	\$17,194	0
\$43,921	\$226,651	\$274,903

AMYF#3

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY
Royal Bank of Scotland	27-Oct-14		\$6,100,000	\$5,015,789	Diversified Financials
Royal Bank of Scotland*	17-Feb-17	17-Feb-12	\$4,000,000	\$2,982,720	Diversified Financials
Bank of America	14-Feb-17		\$17,400,000	\$14,001,455	Diversified Financials
Bank of Queensland	22-Mar-22	22-Mar-17	\$15,000,000	\$15,000,000	Diversified Financials
FKP Property Group*	05-Jan-16	5-Jan-14	\$4,000,000	\$3,867,611	Real Estate
Morgan Stanley	22-Feb-17		\$7,000,000	\$6,205,450	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
Loy Yang Power Projects	12-Nov-15		\$10,464,705	\$9,941,470	Utilities
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

JANUARY	FEBRUARY	MARCH
\$53,583	0	0
\$23,210	0	0
0	\$130,331	0
0	0	\$256,732
\$160,000	0	0
0	\$55,074	0
0	0	0
0	\$46,424	0
0	0	0
0	0	\$137,556
0	\$105,019	0
0	0	\$64,504
0	0	\$103,340
\$236,793	\$336,848	\$562,132

AMYF#4

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY
IMB Building Society	29-Jun-22	29-Jun-17	\$4,500,000	\$4,500,000	Diversified Financials
Morgan Stanley	29-Sep-16		\$3,600,000	\$3,774,500	Diversified Financials
Morgan Stanley	22-Feb-18		\$10,000,000	\$10,354,499	Diversified Financials
McAleese Finance*	03-Apr-15		\$10,000,000	\$10,000,000	Mining Services
Loy Yang Power Projects	12-Nov-15		\$21,114,242	\$20,196,856	Utilities
AMIT	09-Nov-22	9-Nov-17	\$3,500,000	\$3,500,000	Diversified Financials
Sydney Airports	20-Nov-20		\$6,200,000	\$7,514,834	Airline Infrastructure
AMP Bank	21-Dec-22	21-Dec-17	\$4,500,000	\$4,500,000	Diversified Financials
BIS Industries	21-Dec-15		\$7,500,000	\$7,500,000	Mining Services
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
UPMG	30-Jun-18		\$5,250,000	\$5,000,000	Industrials
			\$96,164,242	\$96,825,839	

COUPONS RECEIVED

JANUARY	FEBRUARY	MARCH
0	0	\$77,375
0	0	\$126,000
0	\$737,500	0
0	0	0
0	\$211,760	0
0	0	\$56,441
0	\$74,455	0
0	0	\$62,004
\$116,071	\$35,422	0
0	0	\$24,978
0	0	\$25,108
0	0	0
0	0	0
\$116,071	\$1,060,138	\$371,905



AMYF#5

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY
BIS Industries	21-Dec-15		\$7,500,000	\$7,500,000	Mining Services
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
Sydney Airports	20-Nov-20		\$6,000,000	\$7,516,200	Airline Infrastructure
Lend Lease	13-May-20		\$25,000,000	\$24,975,250	Infrastructure
UPMG	30-Jun-18		\$15,750,000	\$15,000,000	Industrials
ANZ	01-Sep-23	01-Sep-21	\$4,541,000	\$4,541,000	Diversified Financials
Mirvac Group Finance	18-Sep-20		\$10,000,000	\$9,875,000	Real Estate
Anglo American	27-Sep-18		\$10,500,000	\$10,381,350	Mining
NAB	19-Dec-22	17-Dec-20	\$1,384,000	\$1,384,000	Diversified Financials
ANZ	15-Mar-24	15-Mar-22	\$5,000,000	\$5,000,000	Diversified Financials
IAG	19-Mar-40	19-Mar-19	\$3,000,000	\$3,000,000	Diversified Financials
PRAECO	28-Jul-22	28-Jul-20	\$4,710,000	\$4,862,912	Private Public Project
			\$97,885,000	\$98,535,712	

COUPONS RECEIVED

JANUARY	FEBRUARY	MARCH
\$116,071	\$35,422	0
0	0	\$19,982
0	0	\$25,108
0	\$73,021	0
0	0	0
0	\$192,822	0
0	0	107,962
0	0	287,500
0	0	0
0	0	13,951
0	0	0
0	0	0
0	0	0
\$116,071	\$301,265	\$454,502

* 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.

