



ANNUAL REPORT 2013

ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2013



**AUSTRALIAN
MASTERS
YIELD**

FUND No 2 LIMITED

ABN 48 144 883 509

DIRECTORY

The Company's shares are quoted on the official list of the Australian Securities Exchange Limited (ASX).
Home Exchange is Sydney.
ASX code is AYH.

DIRECTORS

Mr Maximilian Walsh (Non-Executive Chairman)
Mr Daryl Dixon (Non-Executive Director)
Mr Alan Dixon (Non-Executive Director)
Mr Christopher Brown (Non-Executive Director)
Mr Alexander MacLachlan (Non-Executive Director)

COMPANY SECRETARIES

Ms Hannah Chan
Ms Karen Luu

REGISTERED OFFICE

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PRINCIPAL OFFICE

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BANKS

Macquarie Bank
ANZ Bank

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

CONTENTS

Chairman's Letter	i
Corporate Governance Statement	1
Directors' Report	5
Auditor's Independence Declaration	16
Statement of Profit or Loss and Other Comprehensive Income	17
Statement of Financial Position	18
Statement of Changes in Equity	19
Statement of Cash Flows	20
Notes to the Financial Statements	21
Directors' Declaration	43
Independent Auditor's Report	44
Additional Securities Exchange Disclosures	46

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

CHAIRMAN'S LETTER

FOR THE YEAR ENDED 30 JUNE 2013

Welcome to the Annual Report for the Australian Masters Yield Fund No 2 Limited ('**AMYF2**' or the '**Company**') for the financial year ended 30 June 2013 (**FY13**). The Company is part of the Australian Masters Yield Fund Series ('**AMYF Series**' or '**the Funds**').

OVERVIEW

As at 30 June 2013, the Company was invested in six different fixed income securities issued by Australian and international companies totalling \$39.9 million face value. At the time of purchase, the fixed income securities had gross yields to maturity (**YTM**) of between 9.1% and 11.0%.

The profit of the Company after providing for income tax amounted to \$1,924,760 (2012: \$2,364,165). The net asset value per share of the Company at 30 June 2013 was \$100.52 (30 June 2012: \$100.75). The earnings per share (**EPS**) was calculated as \$4.53 (2012: \$5.56).

During the year, the Company paid four fully franked dividends of \$1.35, \$1.20, \$1.15 and \$1.05 in July 2012, October 2012, February 2013 and May 2013 respectively. The Company also announced a fully franked dividend of \$1.00 that was paid in August 2013.

The table below outlines the holdings of the Company at 30 June 2013. All fixed income securities continue to perform in line with expectations.

ISSUER	CALL DATE	MATURITY	FACE VALUE
IMB BUILDING SOCIETY	16-Sep-16	16-Sep-21	\$10,000,000
GENWORTH FINANCIAL	30-Jun-16	30-Jun-21	\$6,000,000
BANK OF QUEENSLAND	10-May-16	10-May-21	\$10,000,000
HBOS PLC (LLOYDS)		1-May-17	\$2,000,000
BANK OF AMERICA		14-Feb-17	\$6,900,000
ROYAL BANK OF SCOTLAND		27-Oct-14	\$5,000,000

The expected maturity of the Company is no later than 30 June 2022, after which it is anticipated the Company will be wound up, with all capital returned to shareholders.

AMYF SERIES ACTIVITY

Over the year, AMYF3 became fully invested. The Fund has invested approximately \$94 million across 11 different issuers and 13 different securities with gross yields to maturity on underlying investments ranging from 7.1% to 13.1%, at the time of investment.

AMYF4 made a number of attractive purchases in both the primary and secondary market over FY13. The Fund is now fully invested, having invested approximately \$97 million across 12 different issuers and 14 different securities. The securities have gross yields to maturity ranging from 6.1% to 12.4%, at the time of investment.

AMYF5 was launched in December 2012, raising approximately \$101.1 million from shareholders. Over FY13, AMYF5 had made investments in seven issues with gross yields to maturity ranging from 6.1% to 12.4%, at the time of the investment. AMYF5 is now approximately 65% invested. Extensive due diligence by the Manager has been, and continues to be, conducted on a number of attractive primary and secondary market opportunities.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

CHAIRMAN'S LETTER

FOR THE YEAR ENDED 30 JUNE 2013

During the course of the year, no securities matured nor were any called back by the issuer across the AMYF series.

All existing fixed income securities held within the portfolios of the AMYF Series continue to perform as expected.

GLOBAL MARKETS SUMMARY & OUTLOOK

The global macroeconomic backdrop and the ongoing central bank activism remained the primary focus for financial markets during FY13. However, it became increasingly evident that economic circumstances varied greatly across regions.

The US economy has stabilised and is on a course to recovery. The iterations of the Federal Reserve's quantitative easing programs appear to have provided sufficient recovery impetus. In nominal terms, most asset classes have benefited from this liquidity, as investors added additional risk exposures to bolster returns in a low yielding environment. The Federal Reserve stimulus has resulted in not only US Treasury yields trading at record lows but a material rally in risk assets, such as equities and credit. It is for this reason that financial markets have begun to shift their attention and have displayed a more heightened level of nervousness, as per the small correction across US Treasury, credit and equity markets during the months of May and June, around the central bank's initial comments on the taper of these monetary programs.

On the other side of the Atlantic a different story is being played out. European Central Bank (ECB) President Mario Draghi recently reassured markets that ongoing stimulus for the region would continue indefinitely, ensuring that there would be minimal impact on yields as a result of other central government initiatives, such as the US Federal Reserve's bond purchase tapering signals. Southern Eurozone members such as Greece and Cyprus still remain economically stressed, with the likes of Spain, Portugal and Italy continuing to remain under pressure. UK's recent external ratings downgrades by Moody's and Fitch provide a clear indication as to the slow progress of the nation's road to recovery.

China and Japan continue to be the main focus for markets in the Asia-Pacific region. The managed slow down in China and fall in demand for resources by the country, prompted analysts to call the end of the Australian mining boom. While structural concerns around the shadow banking system exist, China's central authorities have reassured the markets that it is likely to continue to grow at 7% plus GDP rates for the foreseeable future.

Conversely, the Japanese government continues its attempts to jump start the economy with ongoing stimulus. The recent round, labelled Abenomics (after the current Japanese Prime Minister) involved a new round of quantitative easing, representing ¥13 trillion per month of bond purchases.

DOMESTIC MARKET SUMMARY & OUTLOOK

The Reserve Bank of Australia (RBA) has reduced the official cash rate four times over the course of FY13, totalling cuts of 1.00%. The RBA official cash rate of 2.50% is a historical low. Recent statements by the RBA's Governor indicate an accommodative stance, with a primary focus on being directly supportive to a structural transition away from the mining sector.

Despite credit spreads being influenced by central bank policy, credit fundamentals remain positive as corporate default rates remain low and balance sheets robust.

Year-to-date, domestic bond issuance remains on track to have similar issuance levels to the 2012 calendar year. At July 2013, total domestic and kangaroo bond issuance was \$51.4 billion, compared to total 2012 issuance of \$92.9 billion. However, domestic corporate bond issuance remains down compared to 2012 numbers, with government debt being more dominant this year. Corporates are raising debt capital to manage maturity profiles and refinance into cheaper debt. Generally, there is little evidence to suggest that capital is being raised to finance growth related activities.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

CHAIRMAN'S LETTER

FOR THE YEAR ENDED 30 JUNE 2013

On a ratings perspective, new bond issuance has primarily been focussed on high grade companies. 79% of domestic corporate bond issuance has come from companies externally rated at single A or better and 60% of kangaroo bond issuance has come from AAA rated sovereign/supranational entities. This lack of supply by lower rated issuers has resulted in corporate credit spreads in this part of the ratings curve trade relatively tighter throughout the year. As a result, investment opportunities that reflect appropriate risk adjusted returns and offer attractive yields have been limited.



Mr Maximilian Sean Walsh

Chairman

27 August 2013

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2013.

Board Roles and Responsibilities

The Board is responsible for the overall operation, strategic direction, leadership and integrity of Australian Masters Yield Fund No 2 Limited (**Company**) and, in particular, is responsible for the Company's growth and profitability. In meeting its responsibilities, the Board shall undertake the following functions:

- providing and implementing the Company's strategic direction
- reviewing and overseeing the operation of systems of risk management ensuring that the significant risks facing the Company are identified, that appropriate control, monitoring and reporting mechanisms are in place and that risk is appropriately dealt with
- ensuring the Board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and the best standards of governance
- reviewing and overseeing internal compliance and legal regulatory compliance
- ensuring compliance with the Company's constitution and with the continuous disclosure requirements of the ASX Listing Rules and the *Corporations Act 2001*
- communicating with, and protecting the rights and interests of, all shareholders.

The responsibility for the operation and administration of the Company is delegated, by the Board, to the Manager as set out in the Board Policy and the Management Agreement. The Board ensures the Manager is appropriately qualified and experienced to discharge its responsibilities.

Board Composition

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the Directors' Report. The names of the directors of the Company are:

Mr Maximilian Sean Walsh (Non-Executive Chairman)

Mr Daryl Albert Dixon (Non-Executive Director)

Mr Alan Cochrane Dixon (Non-Executive Director)

Mr Christopher Matthew Brown (Non-Executive Director)

Mr Alexander Gen MacLachlan (Non-Executive Director)

The Company has no executives or executive directors. All directors are associated with the Manager, Dixon Advisory & Superannuation Services Limited, however the Board is of the view that given the relatively static nature of the Company's portfolio to be held and the rigid investment strategy and the size of the Company, it is not necessary for the Company to have any independent directors.

The Company recognises the ASX Recommendations with respect to establishing audit, remuneration and nomination committees as good corporate governance. However, considering the size and nature of the Company, the functions that would be performed by these committees are best undertaken by the Board. This is also in line with ASX Recommendations which recognise that "the ultimate responsibility of the integrity of a Company's financial reporting rests with the full board".

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

The Board will review its view on committees in line with the ASX Recommendations and in light of any changes to the size or nature of the Company and, if required, may establish committees to assist it in carrying out its functions.

At that time the Board will adopt a charter for such committees in accordance with the ASX Recommendations and industry best practices.

It is the Board's policy to determine the terms and conditions relating to the appointment and retirement of non-executive directors on a case-by-case basis and in conformity with the requirements of the Listing Rules and the *Corporations Act 2001*. In accordance with the corporate governance policy, directors are entitled to seek independent advice at the expense of the Company.

Code of Conduct

Board members and Company officers are made aware of the requirements to follow corporate policies and procedures, to obey the law and to maintain appropriate standards of honesty and integrity at all times. In this regard the directors have adopted a code of conduct for directors and employees. The code of conduct covers ethical operations, compliance with laws, dealings with customers and public officials, conflicts of interest, confidential and proprietary information and insider trading. A copy of the code of conduct is available on the Company website under the shareholder information section.

Diversity

The Company recognises the ASX recommendation with respect to gender diversity. Noting that the current composition of the board is all male, the directors will annually assess the progress and commercial viability in seeking to appoint a female director who can add to the skill set of the Board.

Share Trading Policy

The Company's code of conduct provides that no director or employee shall purchase or sell Company securities while in possession of material information concerning the Company or such a company that has not previously been generally disclosed to the investing public for at least two business days. Nor shall an employee inform any individual or entity of any such material information, except in the necessary course of business.

Directors are required to give prior notice to the chairman of any dealings in Company securities by themselves or their associates and to provide particulars of any transactions immediately following execution. The company secretary is to make the requisite notifications to ASX within two days of each such transaction.

Continuous Disclosure

All directors have been made aware of the continuous disclosure requirements of the ASX Listing Rules and have been provided with a copy of the relevant rules and guidance notes.

The directors have allocated responsibility to the company secretary to alert the board to any operational or regulatory matters, respectively, which they consider may require disclosure to the market under the continuous disclosure requirements of the ASX Listing Rules. The directors then consider and approve the form of any such announcement.

All Company announcements require the approval of the Board with provision for available directors, including the chairman, to approve urgent announcements. The Company Secretary is responsible for communication with ASX. The chairman is responsible for all media contact and comment.

The annual report contains a review of operations.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

Shareholder Communication

To promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- through the release of information to the market via the ASX
- through the distribution of the annual report and notices of annual general meeting
- through shareholder meetings and investor relations presentations
- by posting relevant information on the Company website.

The independent auditor attends the annual general meeting to respond to questions from shareholders on the conduct of the audit and the preparation and content of the audit report.

Rights of Shareholders

The Board of Directors has developed a strategy within its Continuous Disclosure Policy to ensure that shareholders are informed of all major developments affecting the Company's performance, activities and state of affairs. This includes having a website to facilitate communication with shareholders via electronic methods. In addition, the Company publishes regular shareholder communications, such as half-yearly and annual reports and provides shareholders with an opportunity to access such reports and other releases electronically.

The Board encourages full participation of shareholders at the Company's annual general meeting to ensure a high level of accountability and identification with the Company's strategy. The external auditor will also be invited to attend the annual general meeting of shareholders and will be available to answer any questions concerning the conduct, preparation and content of the auditor's report.

Risk Management

The Board oversees the risk management process of identification, assessment, monitoring and managing the significant areas of risk applicable to the Company and its operations. It has not established a separate committee to deal with these matters as the directors consider the size and nature of the Company and its operations to not warrant a separate committee at this time. The Board liaises with, and oversees, the Manager in the application of the risk management protocols. The Manager is responsible for monitoring the performance and risk parameters of investments and keeping the Board apprised of any market and/or Company-specific developments that may impact on the Company's investments.

The Board receives a letter half-yearly from the Company's external auditor regarding its procedures, and reporting that the financial records have been properly maintained and the financial statements comply with the Accounting Standards.

The Manager provides half-yearly declarations required by Section 295A of the *Corporations Act 2001* and confirms that in its opinion the financial statements and accompanying notes comply with the Accounting Standards and give a true and fair view, based on its review of the internal control systems, management of risk, the financial statements and the letter from the Company's external auditor.

Details of the Company's financial risk management are set out in the notes to the financial statements.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

Performance Evaluation

The Board will review its performance annually by discussion and by individual communication with the Chairman, and by reference to generally accepted Board performance standards.

Remuneration Policies

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.

In accordance with the Company's constitution, each director may be paid remuneration for ordinary services performed as a director. Under ASX Listing Rules, the maximum fees payable to directors may not be increased without the prior approval from the Company in a general meeting. Directors will seek approval from time to time as deemed appropriate.

Under the Company's constitution, each director may be paid remuneration for ordinary services performed as a director. However, Maximilian Walsh, Daryl Dixon, Alan Dixon, Christopher Brown and Alexander MacLachlan have agreed not to be paid any remuneration for the services they perform as directors.

Remuneration of the directors during the year ended 30 June 2013 is set out in the Directors' Report and in the notes to the financial statements.

Recognition of Legitimate Interests of Stakeholders

As detailed above, the Company has adopted a code of conduct which 'inter alia' deals with compliance with legal and other obligations to legitimate stakeholders. The full code of conduct is available on the Company website under the shareholder information section.

Other Information

Further information relating to the Company's corporate governance practices and policies has been made publicly available on the Company's website at www.amyf.com.au.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2013

The directors present their report, together with the financial statements of, Australian Masters Yield Fund No 2 Limited (**Company**) for the year ended 30 June 2013.

Directors

The names of the directors in office at any time during, or since the end of the year are:

Mr Maximilian Sean Walsh – Non-Executive Chairman
Mr Daryl Albert Dixon – Non-Executive Director
Mr Alan Cochrane Dixon – Non-Executive Director
Mr Christopher Matthew Brown – Non-Executive Director
Mr Alexander Gen MacLachlan – Non-Executive Director

Directors have been in office since the start of the year to the date of this report unless otherwise stated.

Company Secretaries

The names of the Company Secretaries in office at the date of this report are Ms Hannah Chan and Ms Karen Luu.

Principal Activities and Significant Changes in Nature of Activities

The principal activity of the Company during the financial year was investing in Australian dollar denominated securities. There were no significant changes in the nature of these activities of the Company during the year.

Results and Review of Operations

The Company has fully invested in a portfolio of Australian dollar denominated income securities with a face value of \$39,900,000.

The profit of the Company for the year ended 30 June 2013, after providing for income tax, declined to \$1,924,760 (2012: \$2,364,165). The decline in the Company's profit was primarily driven by the fall in interest received from floating rate investments following the Reserve Bank of Australia (**RBA**) decision to cut official cash rates during the financial year.

During the year the Company has distributed, or provided for, fully franked dividends of \$4.75 per share, the net asset value per share was \$100.52 at 30 June 2013 (2012: \$100.75).

The weighted average number of ordinary shares for the year was 425,102 (2012: 425,102). The basic and diluted earnings per share after tax was \$4.53 compared to \$5.56 for the previous year.

Further details are included in the Chairman's Letter which forms part of this financial report

Dividends Paid or Recommended

During the year, the Company paid four fully franked dividends of \$1.35 per share on 25 July 2012, \$1.20 per share on 31 October 2012, \$1.15 per share on 13 February 2013 and \$1.05 per share on 8 May 2013. The total amount of the dividends paid during the year was \$2,019,235.

Significant Changes in State of Affairs

The Company was admitted to the official list of the Australian Securities Exchange Limited (**ASX**) on 28 November 2012.

There were no other significant changes in the state of affairs of the Company which occurred during the year ended 30 June 2013.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2013

After Balance Date Events

On 2 August 2013, the Company announced a fully franked dividend of \$1.00 per share. The dividend was paid to shareholders on 22 August 2013.

There has not been any other event of a material and unusual nature likely, in the opinion of the Directors, to significantly affect the operations of the Company, the result of those operations, or the state of affairs of the Company in future financial years.

Future Developments, Prospects and Business Strategies

The Company is fully invested and will continue to hold all existing investments until maturity. The Company may seek shareholder approval from time to time to return capital derived from the maturity of its investments to shareholders.

Environmental Issues

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Options

No options over issued shares or interests in the Company were granted during, or since the end of, the financial year, and there were no options outstanding at the date of this report.

Indemnifying Officers or Auditor

Indemnities have been given during, or since the end of, the year for all of the Directors of the Company.

No indemnities have been given or insurance premiums paid during, or since the end of, the year for the auditor of the Company.

Proceedings on Behalf of Company

No person has applied for leave of the Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all, or any part of, those proceedings.

The Company was not a party to any such proceedings during the year.

Directors' Meetings

Attendance of individual directors at board meetings held during the year ended 30 June 2013 was as follows:

	Meetings Held	Meetings Attended
Maximilian Walsh	4	4
Daryl Dixon	4	4
Alan Dixon	4	3
Christopher Brown	4	4
Alexander MacLachlan	4	4

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2013

Information on Directors

Maximilian Sean Walsh AM, BEc (USyd)

Non-Executive Chairman

Max is regarded as one of Australia's leading economists and business journalists. He has specialised experience in the areas of business, economics and politics in a journalistic career spanning nearly 50 years. Among numerous previous executive roles, he was editor and managing editor of *The Australian Financial Review* and Editor-in-Chief of *The Bulletin*. He also served on the board of Northern Star TV (predecessor to Channel Ten).

Max is currently Deputy Chairman of Dixon Advisory & Superannuation Services Limited and Chairman of the Australian Masters Corporate Bond Fund Series, Australian Masters Yield Fund No 1 Limited, and Australian Masters Yield Fund No 3 Limited. He serves as Non-Executive Chairman of Asian Masters Fund Limited and Global Resource Masters Fund Limited.

Max also serves as a director of Australian Governance Masters Index Fund Limited. He is Deputy Chairman of the responsible entity for US Masters Residential Property Fund and US Select Private Opportunities Fund I and sits on the advisory board of Emerging Markets Masters Fund and US Select Private Opportunities Fund II.

- Max was appointed as director and non-executive chairman on 28 June 2010.
- He directly holds 1 and beneficially holds 3,000 fully paid ordinary shares in the capital of the Company.
- During the past three years, he has acted as either a non-executive director or a director of the responsible entity of the following Australian listed public entities:
 - Asian Masters Fund Limited
 - Australian Governance Masters Index Fund Limited
 - Australian Masters Corporate Bond Fund No 1 Limited
 - Australian Masters Corporate Bond Fund No 2 Limited
 - Australian Masters Corporate Bond Fund No 3 Limited
 - Australian Masters Corporate Bond Fund No 4 Limited
 - Australian Masters Corporate Bond Fund No 5 Limited
 - Australian Masters Yield Fund No 1 Limited
 - Global Resource Masters Fund Limited
 - US Masters Residential Property Fund
 - US Select Private Opportunities Fund.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2013

Daryl Albert Dixon MA (Hons) (Cambridge), BA (Hons) (UQ)

Non-Executive Director

Daryl is a graduate in economics of Cambridge and Queensland Universities and the founder of Dixon Advisory. He has extensive experience in the areas of taxation, retirement incomes and social welfare policy and he is known in Australia as a leading financial expert, particularly in the area of superannuation.

With special expertise in personal and self managed super fund strategies, Daryl also has extensive experience as a direct share investor in his own right. Daryl has worked previously for the International Monetary Fund, the Federal Treasury, Department of Finance and the Social Welfare Policy Secretariat. Daryl was also a member of the Fraser Government's Occupational Superannuation Task Force.

Daryl is a Director of the Australian Masters Corporate Bond Fund Series, Australian Masters Yield Fund No 1 Limited and Australian Masters Yield Fund No 3 Limited.

Daryl is Executive Chairman of Dixon Advisory & Superannuation Services, a financial advisory firm he founded in 1986 which has now over \$4 billion of funds under administration. Dixon Advisory & Superannuation Services Limited is the Manager of the Australian Governance Masters Index Fund Limited, Asian Masters Fund Limited, Global Resource Masters Fund Limited, Australian Masters Corporate Bond Fund Series, Australian Masters Yield Fund Series and the Responsible Entity for US Masters Residential Property Fund and the US Select Private Opportunities Fund.

- Daryl was appointed as non-executive director on 8 February 2011.
- He beneficially holds 500 fully paid ordinary shares in the capital of the Company.
- During the past three years, he has acted as either a non-executive director or a director of the responsible entity of the following Australian listed public entities:
 - Asian Masters Fund Limited since 10 October 2007 until 31 December 2010
 - Australian Masters Corporate Bond Fund No 1 Limited
 - Australian Masters Corporate Bond Fund No 2 Limited
 - Australian Masters Corporate Bond Fund No 3 Limited
 - Australian Masters Corporate Bond Fund No 4 Limited
 - Australian Masters Corporate Bond Fund No 5 Limited
 - Australian Masters Yield Fund No 1 Limited
 - US Masters Residential Property Fund
 - US Select Private Opportunities Fund.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2013

Alan Cochrane Dixon BCom (ANU), CA

Non-Executive Director

Alan Dixon has been providing financial advisory services to corporations, institutions and individuals for the last 15 years. Until December 2000, he worked for various investment banks, including ABN AMRO, where he was the Associate Director in Mergers and Acquisitions and Equity Capital Markets, and Ord Minnett Corporate Finance. From January 2001, he was Managing Director of the Dixon Advisory Group before becoming Managing Director & Chief Executive Officer at Dixon Advisory USA, Inc in 2012.

Alan has a Bachelor of Commerce from the Australian National University and is a Member of the Institute of Chartered Accountants in Australia. He is also a SPAA Accredited SMSF Specialist Advisor.

Alan currently serves as a director of the Australian Masters Corporate Bond Fund Series, Australian Masters Yield Fund No 1 Limited and Australian Masters Yield Fund No 3 Limited.

Alan is presently a director of Dixon Advisory & Superannuation Services Limited. Dixon Advisory & Superannuation Services Limited is the Manager of the Australian Governance Masters Index Fund Limited, Asian Masters Fund Limited, Global Resource Masters Fund Limited, Australian Masters Corporate Bond Fund Series, Australian Masters Yield Fund No 1 Limited to Australian Masters Yield Fund No 4 Limited and the Responsible Entity for US Masters Residential Property Fund and US Select Private Opportunities Fund.

- Alan was appointed as non-executive director on 8 February 2011.
- He beneficially holds 1,000 fully paid ordinary shares in the capital of the Company.
- During the past three years, he has acted as either a non-executive director or a director of the responsible entity of the following Australian listed public entities:
 - Asian Masters Fund Limited from 10 October 2007 until 31 December 2010
 - Australian Masters Corporate Bond Fund No 1 Limited
 - Australian Masters Corporate Bond Fund No 2 Limited
 - Australian Masters Corporate Bond Fund No 3 Limited
 - Australian Masters Corporate Bond Fund No 4 Limited
 - Australian Masters Corporate Bond Fund No 5 Limited
 - Australian Masters Yield Fund No 1 Limited
 - US Masters Residential Property Fund
 - US Select Private Opportunities Fund
 - van Eyk Three Pillars Limited from 29 September 2009 until 31 October 2011.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2013

Christopher Matthew Brown BChem Eng (Hons) (USyd), BCom (USyd)

Non-Executive Director

Chris Brown serves as Managing Director and Chief Executive Officer at Dixon Advisory Australia. Prior to joining Dixon Advisory, Chris was an Executive Director at UBS AG in the Investment Banking Division in Sydney. Over his eight years at UBS, he provided capital markets and mergers & acquisitions advice to many different public and private companies in Australia and overseas. Chris specialised in providing this advice to industrial, utility, infrastructure, property and financial companies. Chris spent several years in the UBS Mergers & Acquisitions Group in New York, working on transactions in chemicals, health care, consumer products, media, telecoms, technology, insurance and utilities. Before joining UBS, Chris worked in the Investment Banking division of ABN AMRO where he focused on mergers & acquisitions along with capital markets advice to companies in the Australian property sector.

Before his career in investment banking, Chris worked for a Sydney-based property funds management company and a chemical engineering and design company. Chris has a Bachelor of Chemical Engineering with 1st class honours and a Bachelor of Commerce both from Sydney University.

Chris is a director of the Australian Masters Corporate Bond Fund Series, Australian Masters Yield Fund Series and a director of Dixon Advisory & Superannuation Services Limited. Dixon Advisory & Superannuation Services Limited is the Manager of the Australian Governance Masters Index Fund Limited, Asian Masters Fund Limited, Global Resource Masters Fund Limited, Australian Masters Corporate Bond Fund Series, Australian Masters Yield Fund No 1 Limited to Australian Masters Yield Fund No 4 Limited and the Responsible Entity for US Masters Residential Property Fund and US Select Private Opportunities Fund.

- Chris was appointed as non-executive director on 28 June 2010.
- He beneficially holds 50 fully paid ordinary shares in the capital of the Company.
- During the past three years, he has acted as either a non-executive director or a director of the responsible entity of the following Australian listed public entities:
 - Australian Masters Corporate Bond Fund No 1 Limited
 - Australian Masters Corporate Bond Fund No 2 Limited
 - Australian Masters Corporate Bond Fund No 3 Limited
 - Australian Masters Corporate Bond Fund No 4 Limited
 - Australian Masters Corporate Bond Fund No 5 Limited
 - Australian Masters Yield Fund No 1 Limited
 - US Masters Residential Property Fund
 - US Select Private Opportunities Fund
 - van Eyk Three Pillars Limited from 29 September 2009 until 31 October 2011.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2013

Alexander Gen MacLachlan BA (Cornell), MBA (Wharton)

Non-Executive Director

Alex MacLachlan is Managing Director, Chief Executive Officer – Funds Management at Dixon Advisory. He is Chairman of the responsible entity for Emerging Markets Masters Fund and US Select Private Opportunities Fund II and Managing Director of Global Resource Masters Fund Limited. Alex is a director of the Australian Masters Corporate Bond Fund Series and Asian Masters Fund Limited. He is also a director of the responsible entity for US Masters Residential Property Fund and US Select Private Opportunities Fund.

Before joining Dixon Advisory, Alex was an investment banker specialising in the natural resources sector, most recently serving as Head of Energy, Australasia, for UBS AG in Sydney and prior to that as an investment banker at Credit Suisse First Boston. During his career as an investment banker, Alex advised many of Australia's and the world's leading natural resources companies, working on over \$100 billion in announced mergers and acquisitions and capital markets transactions for over 30 leading Australian and international natural resources companies.

Before specialising in natural resources investment banking, Alex worked in the Japanese Government Bond Derivative securities markets in London, New York and Sydney. Alex has a Bachelor of Arts from Cornell University and a Masters of Business Administration from The Wharton School, University of Pennsylvania.

- Alex was appointed as non-executive director on 28 June 2010.
- He beneficially holds 50 fully paid ordinary shares in the capital of the Company.
- During the past three years, he has acted as either a non-executive director or a director of the responsible entity of the following Australian listed public entities:
 - Asian Masters Fund Limited
 - Australian Masters Corporate Bond Fund No 1 Limited
 - Australian Masters Corporate Bond Fund No 2 Limited
 - Australian Masters Corporate Bond Fund No 3 Limited
 - Australian Masters Corporate Bond Fund No 4 Limited
 - Australian Masters Corporate Bond Fund No 5 Limited
 - Australian Masters Yield Fund No 1 Limited
 - Global Resource Masters Fund Limited
 - Emerging Markets Master Fund
 - US Masters Residential Property Fund
 - US Select Private Opportunities Fund
 - US Select Private Opportunities Fund II
 - van Eyk Three Pillars Limited from 29 September 2009 until 31 October 2011.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2013

Information on Company Secretaries

Hannah Chan BCom (UNSW), MCom (USyd), CA
Company Secretary

Hannah has a Bachelor of Commerce degree in Finance from the University of NSW and a Master of Commerce degree in Accounting from the University of Sydney. She is also a Chartered Accountant with the Institute of Chartered Accountants in Australia. Prior to joining the Manager, Hannah gained extensive audit experience while working with Deloitte Touche Tohmatsu and Ernst & Young.

Hannah was appointed as Company Secretary on 28 June 2010.

Karen Luu BEc (UNSW), CA
Company Secretary

Karen has a Bachelor of Economics degree, majoring in Accounting and Economics, from the University of NSW. She is a Chartered Accountant with the Institute of Chartered Accountants in Australia. Karen is concurrently the Company Secretary of Australian Masters Corporate Bond Fund No 5 Limited, Australian Masters Yield Fund Series, Australian Governance Masters Index Fund Limited, Asian Masters Fund Limited and Global Resources Masters Fund Limited.

Karen was appointed as Company Secretary on 1 February 2012.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2013

Remuneration Report

(a) Remuneration Policy

Under the Company's constitution, each director may be paid remuneration for ordinary services performed as a director. However, Maximilian Walsh, Daryl Dixon, Alan Dixon, Christopher Brown and Alexander MacLachlan have agreed not to be paid any remuneration for the services they perform as directors. Aside from the directors there are no other key management personnel.

Maximilian Walsh, Daryl Dixon, Alan Dixon, Christopher Brown and Alexander MacLachlan are also directors of the Manager and Issue Manager, Dixon Advisory & Superannuation Services Limited.

(b) Key Management Personnel Remuneration

Details of remuneration paid during the year to directors and officers are set out in the table below.

2013						
Directors	Salary, fees and commission \$	Superannuation Contributions \$	Cash bonus \$	Non-cash benefits \$	Other \$	Total \$
Maximilian Walsh	-	-	-	-	-	-
Daryl Dixon	-	-	-	-	-	-
Alan Dixon	-	-	-	-	-	-
Christopher Brown	-	-	-	-	-	-
Alexander MacLachlan	-	-	-	-	-	-
Total	-	-	-	-	-	-

2012						
Directors	Salary, fees and commission \$	Superannuation Contributions \$	Cash bonus \$	Non-cash benefits \$	Other \$	Total \$
Maximilian Walsh	-	-	-	-	-	-
Daryl Dixon	-	-	-	-	-	-
Alan Dixon	-	-	-	-	-	-
Christopher Brown	-	-	-	-	-	-
Alexander MacLachlan	-	-	-	-	-	-
Total	-	-	-	-	-	-

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2013

Remuneration Report (cont.)

(c) Service Agreements

The Company does not presently have formal service agreements or employment contracts with any of the key management personnel.

(d) Directors Protection Deeds

The Company has agreed to provide access to board papers and minutes to current and former directors of the Company while they are directors and for a period of 7 years after they cease to be directors.

The Company has agreed to indemnify, to the extent permitted by the *Corporations Act 2001*, each officer in respect of certain liabilities, which the director may incur as a result of, or by reason of (whether solely or in part), being or acting as a director of the Company.

(e) Beneficial and Relevant Interest of Directors in Shares

At the date of this report, details of directors who hold shares for their own benefit or who have an interest in holdings through a third party and the total number of such shares held are listed as follows:

Director	No. of shares
Maximilian Walsh	3,001
Daryl Dixon	500
Alan Dixon	1,000
Christopher Brown	50
Alexander MacLachlan	50

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

Non-Audit Services

During the year, Deloitte Touche Tohmatsu, the Company's auditor was engaged as the Investigating Accountants for the review of the Company's Information Memorandum issued in connection with the listing of Company's shares on ASX Limited. Deloitte Private Pty Ltd, a related party of the Company's auditor, performed tax review services for the Company.

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Board of Directors prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to Deloitte Touche Tohmatsu and its related party for non-audit services provided for the year ended 30 June 2013.

	\$
Tax Compliance	2,100
Assurance Services	8,000
	10,100

Auditor's Independence Declaration

A copy of the lead auditor's independence declaration for the year ended 30 June 2013 as required under Section 307C of the *Corporations Act 2001* is set out on page 16.

Made in accordance with a resolution of the board of directors made pursuant to Section 298(2) of the *Corporations Act 2001*.



Mr Maximilian Sean Walsh

Chairman

27 August 2013

The Board of Directors
Australian Masters Yield Fund No 2 Limited
Level 15
100 Pacific Highway
NORTH SYDNEY NSW 2060

27 August 2013

Dear Board Members

Australian Masters Yield Fund No 2 Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Australian Masters Yield Fund No 2 Limited.

As lead audit partner for the audit of the financial statements of Australian Masters Yield Fund No 2 Limited for the financial year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Michael Kaplan
Partner
Chartered Accountants

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 \$	2012 \$
Revenue	2	3,117,529	3,527,460
Gain on disposal of financial asset		-	165,964
Management fee		(259,767)	(252,477)
Accounting and audit fees		(31,525)	(29,333)
Registry fees		(15,848)	(9,853)
Listing fees		(31,819)	-
Other expenses		(28,913)	(24,383)
Profit before income tax		2,749,657	3,377,378
Income tax expense	3	(824,897)	(1,013,213)
Profit for the year		1,924,760	2,364,165
Other comprehensive income		-	-
Total other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		1,924,760	2,364,165
Earnings per share			
Basic earnings per share	12	4.53	5.56
Diluted earnings per share	12	4.53	5.56

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the financial statements.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2013

	Notes	2013 \$	2012 \$
Assets			
<i>Current</i>			
Cash and cash equivalents	5	4,254,076	4,866,651
Other receivables	6	33,516	24,566
Total Current Assets		4,287,592	4,891,217
<i>Non-Current</i>			
Financial assets	7	38,558,747	38,087,777
Deferred tax assets	8	99,338	146,290
Total Non-Current Assets		38,658,085	38,234,067
Total Assets		42,945,677	43,125,284
Liabilities			
<i>Current</i>			
Other payables	9	20,046	17,102
Current tax liabilities	10	193,167	281,243
Total Current Liabilities		213,213	298,345
Total Liabilities		213,213	298,345
Net Assets		42,732,464	42,826,939
Equity			
Issued capital	11	41,961,083	41,961,083
Retained earnings		771,381	865,856
Total Equity		42,732,464	42,826,939

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	Issued capital \$	Retained earnings \$	Total \$
Balance at 1 July 2011		41,961,083	219,103	42,180,186
Profit for the year		-	2,364,165	2,364,165
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	2,364,165	2,364,165
Dividends paid	4		(1,717,412)	(1,717,412)
Balance at 30 June 2012		41,961,083	865,856	42,826,939
Balance at 1 July 2012		41,961,083	865,856	42,826,939
Profit for the year		-	1,924,760	1,924,760
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	1,924,760	1,924,760
Dividends paid	4	-	(2,019,235)	(2,019,235)
Balance at 30 June 2013		41,961,083	771,381	42,732,464

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 \$	2012 \$
Cash flows from operating activities			
Interest received from investments		2,482,434	2,632,299
Interest received from bank		153,843	660,034
Management fees paid		(278,774)	(270,951)
Payments to suppliers		(108,940)	(58,484)
Net tax paid		(841,903)	(656,431)
Net cash flows provided by operating activities	13(a)	1,406,660	2,306,467
Cash flows from investing activities			
Proceeds from disposal of investments		-	7,075,090
Payments for purchase of investments		-	(29,425,080)
Net cash flows (used in) investing activities		-	(22,349,990)
Cash flows from financing activities			
Dividends paid	4	(2,019,235)	(1,717,412)
Net cash flows (used in) financing activities		(2,019,235)	(1,717,412)
Net (decrease) in cash and cash equivalents		(612,575)	(21,760,935)
Cash and cash equivalents at beginning of year		4,866,651	26,627,586
Cash and cash equivalents at end of the year	13(b)	4,254,076	4,866,651

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

The financial report covers Australian Masters Yield Fund No 2 Limited (**Company**) as an individual entity. Australian Masters Yield Fund No 2 Limited is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange Limited (**ASX**).

The financial report has been approved for issue in accordance with a resolution of the directors on 27 August 2013.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report.

1. Summary of Significant Accounting Policies

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (**AASB**) and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. For the purposes of preparing the financial statements, the Company is a for-profit entity.

The comparative period is for the year from 1 July 2011 to 30 June 2012.

New Accounting Standards and Interpretations

Standards affecting presentation and disclosure

Amendments to AASB 101 'Presentation of Financial Statements'

AASB 2011-9 'Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income' introduce new terminology for the statement of comprehensive income and income statement.

The amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section:

- a) items that will not be reclassified subsequently to profit or loss and
- b) items that may be reclassified subsequently to profit or loss

when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

1. Summary of Significant Accounting Policies (cont.)

New Accounting Standards and Interpretations (cont.)

Standards and Interpretations affecting the reported results or financial position

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reported results or financial position.

Accounting Standards and Interpretations issued but not yet effective

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The potential impact of the new or revised Standards and Interpretations has not yet been determined, but is not expected to be material.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 10 'Consolidated Financial Statements', AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	30 June 2014
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2013	30 June 2014

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

1. Summary of Significant Accounting Policies (cont.)

New Accounting Standards and Interpretations (cont.)

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2012-3 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	1 January 2013	30 June 2014
AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'	1 January 2013	30 June 2014
AASB 2013-3 'Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets'	1 January 2014	30 June 2015
Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine' and AASB 2011-12 'Amendments to Australian Accounting Standards arising from Interpretation 20'	1 January 2013	30 June 2014
Interpretation 21 'Levies'	1 January 2014	30 June 2015
At the date of authorisation of the financial statements, the following IASB was also in issue but not effective, although an Australian equivalent Standard has not yet been issued:		
None		

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

1. Summary of Significant Accounting Policies (cont.)

(a) Income Tax

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantively enacted, at the end of the reporting period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted, or substantively enacted, at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off of current tax assets and liabilities exists and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1. Summary of Significant Accounting Policies (cont.)

(b) Financial Instruments

Financial Instruments, incorporating financial assets and financial liabilities, are recognised when the Company becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by market place convention.

The Company has elected to early adopt "AASB 9 Financial Instruments", which was issued on 7 December 2009. AASB 9 includes requirements for the classification and measurement of financial assets. Adoption of this standard has had no effect on the reported results or financial position of the Company.

(i) Financial assets

Initial recognition and measurement

When financial assets are recognised initially, they are measured at fair value, plus in the case of financial assets not at fair value through profit and loss, directly attributable transaction costs.

The Company determines the classification of its financial assets at initial recognition.

Subsequent measurement

Financial assets are subsequently measured at amortised cost using the effective interest rate method, only if the following conditions are met, otherwise they are measured at fair value:

- a) where the financial asset is held within a business model with the objective to collect contractual cash flows; and
- b) contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The effective interest rate method is used to allocate interest income or interest expenses over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

(ii) Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

1. Summary of Significant Accounting Policies (cont.)

(iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as derivative and non-derivative instruments, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at amortised cost.

Subsequent measurement

Non-derivative instruments are subsequently measured at amortised cost using the effective interest rate method.

(iv) Fair value

Fair value is the amount for which an asset could be sold or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Fair value is determined based on the bid price for all quoted investments in an active market. Valuation techniques are applied to determine the fair value for all unlisted securities and securities in markets that are not active, including recent arm's length transactions with reference to similar instruments and valuation techniques commonly used by market participants.

(c) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of the entity is measured using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in profit or loss.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

1. Summary of Significant Accounting Policies (cont.)

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(e) Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income

Interest income is recognised in profit or loss using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(f) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

In most cases, the Company qualifies for Reduced Input Tax Credits (RITCs) at a rate of 75%; hence expenses have been recognised in profit or loss net of the amount of GST recoverable from the Australian Taxation Office.

The net amount of GST recoverable from the Australian Taxation Office is included in Other Receivables in the Statement of Financial Position.

Cash flows are presented in the Statement of Cash Flows on a gross basis.

(g) Trade and Other Payables

Trade payables and other payables are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services. The balance is unsecured and is recognised as a current liability with the amount normally paid within 30 days of recognition of the liability.

(h) Provisions

Provisions are recognised where the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

1. Summary of Significant Accounting Policies (cont.)

(i) Earnings Per Share

Basic earnings per share is determined by dividing the profit/(loss) after income tax excluding any cost of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year. Diluted earnings per share is the same because there are no dilutive potential ordinary shares.

(j) Operating Segments

The Company is engaged in investing activities conducted in Australia and derives revenue from both fixed and variable interest financial assets.

(k) Share Capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(l) Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and within the Company.

(m) Key Estimates and Judgements – Impairment

The Investment Committee regularly reviews the investments held in the Company's portfolio and where it believes that impairment has occurred, or is likely to occur, it will normally seek to exit the position.

The Company follows the guidance of AASB 139 Financial Instruments: Recognition and Measurement in determining when a financial asset is impaired. This determination requires significant judgement.

In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of, and near-term business outlook for, the investee including industry and sector performance and operational and financing cash flows.

No impairment has been recognised in respect of financial assets.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

2. Revenue

	2013	2012
	\$	\$
Interest from investments in financial assets	2,953,404	3,084,585
Interest from banks	153,940	414,032
Other income	10,185	28,843
	3,117,529	3,527,460

3. Income Tax Expense

(a) The components of tax expense comprise:

Current tax	777,945	968,268
Deferred tax	46,952	44,945
	824,897	1,013,213

(b) Prima facie tax on profit from ordinary activities
before income tax at 30%

	824,897	1,013,213
	824,897	1,013,213

Applicable weighted average effective tax rate	30%	30%
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AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

4. Dividends Paid

	2013	2012
	\$	\$
Dividends paid		
Fully franked dividend \$2.60 per share paid on 16 December 2011	-	1,105,265
Fully franked dividend \$1.44 per share paid on 19 April 2012	-	612,147
Fully franked dividend \$1.35 per share paid on 25 July 2012	573,888	-
Fully franked dividend \$1.20 per share paid on 31 October 2012	510,123	-
Fully franked dividend \$1.15 per share paid on 13 February 2013	488,867	-
Fully franked dividend \$1.05 per share paid on 08 May 2013	446,357	-
	2,019,235	1,717,412
Total dividends per share for the year	4.75	4.04

The tax rate at which paid dividends have been franked is 30% (2012: 30%).

Franking credit balance

The amount of franking credits available for the subsequent financial year are:

- Franking account balance at the end of the financial year at 30%	1,470	833
- Franking credits that will arise from payment of income tax payable at the end of the financial year	193,167	281,243
- Franking debits that will arise from payment of dividends at the end of the financial year	-	-
	194,637	282,076

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

5. Cash and Cash Equivalents

	2013	2012
	\$	\$
Current		
Cash at bank and in hand	4,254,076	4,866,651
	4,254,076	4,866,651

The weighted average interest rate on cash at bank is 3.00% (2012: 3.75%) at year-end.

6. Other Receivables

Current		
GST receivable	723	2,055
Interest receivable	32,793	22,511
	33,516	24,566

There are no balances above that contain assets that are impaired and past due. All the receivables above are non-interest bearing.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

7. Financial Assets

					2013
					\$
Non-Current					
Amortised Cost					
a) Corporate Bonds	Maturity Date	Coupon Rate	Face Value	Amortised Cost	
<i>Floating Rate</i>					
Royal Bank of Scotland	27-Oct-14	BBSW+0.87%	5,000,000	4,775,133	
Bank of America	14-Feb-17	BBSW+0.38%	6,900,000	5,942,420	
HBOS plc (Lloyds)	01-May-17	BBSW+0.26%	2,000,000	1,676,153	
Bank of Queensland	10-May-21	BBSW+3.75%	10,000,000	10,121,372	
Genworth Financial Inc	30-Jun-21	BBSW+4.75%	6,000,000	6,004,551	
IMB Limited	16-Sep-21	BBSW+4.00%	10,000,000	10,039,118	
			39,900,000	38,558,747	

					2012
					\$
Non-Current					
Amortised Cost					
a) Corporate Bonds	Maturity Date	Coupon Rate	Face Value	Amortised Cost	
<i>Floating Rate</i>					
Royal Bank of Scotland	27-Oct-14	BBSW+0.87%	5,000,000	4,595,874	
Bank of America	14-Feb-17	BBSW+0.38%	6,900,000	5,717,855	
HBOS plc (Lloyds)	01-May-17	BBSW+0.26%	2,000,000	1,605,572	
Bank of Queensland	10-May-21	BBSW+3.75%	10,000,000	10,123,358	
Genworth Financial Inc	30-Jun-21	BBSW+4.75%	6,000,000	6,004,914	
IMB Limited	16-Sep-21	BBSW+4.00%	10,000,000	10,040,204	
			39,900,000	38,087,777	

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

8. Deferred Tax Assets

	2013	2012
	\$	\$
Non-Current		
Deferred tax assets comprise:		
Transaction costs on equity issue	94,118	141,176
Other	5,220	5,114
	99,338	146,290

9. Other Payables

Current		
Accrued liabilities	20,046	17,102
	20,046	17,102

10. Current Tax Liabilities

Current		
Current tax liabilities	193,167	281,243
	193,167	281,243

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

11. Issued Capital

	2013	2012
	\$	\$
(a) Issued capital		
Balance at beginning of the year	41,961,083	41,961,083
Balance at the end of the year	41,961,083	41,961,083
 (b) Movement in ordinary shares		
	No.	No.
Balance at beginning of the year	425,102	425,102
Balance at the end of the year	425,102	425,102

Holders of ordinary shares participate in dividends and the proceeds on the winding up of the Company in proportion to the number of shares held.

At shareholder meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

Capital Management

The Company's objective in managing capital is to continue to provide shareholders with dividends and capital appreciation over the long term.

The Company's capital may fluctuate with prevailing market movements and it may undertake a buyback of its shares in the event that they trade at a sizable discount to NTA backing.

The Company's capital consists of shareholders' equity plus financial liabilities. The movement in equity is shown in the Statement of Changes in Equity. At 30 June 2013, financial liabilities were \$2,646 (2012: \$2,102). There are no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

12. Earnings per share

(a) Calculated earnings per share

	2013	2012
	\$	\$
Basic earnings per share	4.53	5.56
Diluted earnings per share	4.53	5.56

(b) Earnings used in calculating earnings per share

Profit from continuing operations used to calculate basic and diluted earnings per share	1,924,760	2,364,165
--	-----------	-----------

(c) Weighted average number of shares

	No.	No.
Weighted average number of ordinary shares outstanding during the year used to calculate basic earnings per share	425,102	425,102
Effect of dilution	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	425,102	425,102

There are no instruments that could potentially dilute basic earnings per share in the future.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

13. Cash Flow Information

(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax

	2013	2012
	\$	\$
Profit after tax	1,924,760	2,364,165
Add/(less):		
Accrued interest on financial assets	(470,970)	(452,286)
Gain on disposal of financial assets	-	(165,964)
Changes in assets and liabilities:		
(Increase)/decrease in receivables	(8,950)	277,104
Decrease in deferred tax assets	46,952	44,945
Increase in other payables and accruals	2,944	7,102
(Decrease)/increase in income taxes payable	(88,076)	231,401
Cash flows from operations	1,406,660	2,306,467

The Company does not have any formal loan facilities in place at the date of these financial statements.

(b) Reconciliation of Cash

For the purpose of the Statement of Cash Flows, cash includes:

- (i) cash at bank and in hand; and
- (ii) investments in money market instruments with 30 days or less maturity.

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash at bank and in hand	4,254,076	4,866,651
	4,254,076	4,866,651

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

14. Related-Party Transactions

The names of the persons who were directors of the Company at any time during the year, and to the date of, these financial statements are:

Mr Maximilian Sean Walsh – Non-Executive Chairman
 Mr Daryl Albert Dixon – Non-Executive Director
 Mr Alan Cochrane Dixon – Non-Executive Director
 Mr Christopher Matthew Brown – Non-Executive Director
 Mr Alexander Gen MacLachlan – Non-Executive Director

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated and are as follows:

Dixon Advisory & Superannuation Services Limited

Mr Maximilian Walsh, Mr Daryl Dixon, Mr Alan Dixon, Mr Christopher Brown and Mr Alexander MacLachlan are directors of the Company, the Manager and Issue Manager, Dixon Advisory & Superannuation Services Limited.

(a) Key Management Personnel Related Entity Transaction

Key management personnel and their related entities hold directly, indirectly or beneficially at the reporting date the following interests in the Company:

	Ordinary shares	
	Direct	Indirect
Maximilian Walsh	1	3,000
Daryl Dixon	-	500
Alan Dixon	-	1,000
Christopher Brown	-	50
Alexander MacLachlan	-	50

(b) Management Fee

The Manager is entitled to receive an annualised management fee of 0.59% (exclusive of GST) of the value of the Portfolio. The management fee paid or payable to Dixon Advisory & Superannuation Services Limited for the year was \$278,774 (2012: \$270,951), inclusive of GST. No management fees are outstanding to the Manager at year-end.

(c) Transaction Costs

In connection with the provision of services as Issue Manager, the Issue Manager is entitled to receive structuring and handling fees of 1.80% of the total funds raised in share placements. There were no structuring and handling fees paid for the year ended 30 June 2013 (2012: nil). No transaction costs were paid or are payable to the Manager at year-end.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

15. Key Management Personnel

Names and positions held by key management personnel in office at any time during the financial year are:

Mr Maximilian Sean Walsh – Non-Executive Chairman
 Mr Daryl Albert Dixon – Non-Executive Director
 Mr Alan Cochrane Dixon – Non-Executive Director
 Mr Christopher Matthew Brown – Non-Executive Director
 Mr Alexander Gen MacLachlan – Non-Executive Director

Key Management Personnel Remuneration

Maximilian Walsh, Daryl Dixon, Alan Dixon, Christopher Brown and Alexander MacLachlan have agreed not to be paid any remuneration for the services they perform as directors.

Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.

Number of shares held by key management personnel

	Balance at 1 July 2012	Received as remuneration	Net change other	Balance at 30 June 2013
Directors	No.	No.	No.	No.
Maximilian Walsh	3,001	-	-	3,001
Daryl Dixon	500	-	-	500
Alan Dixon	1,000	-	-	1,000
Christopher Brown	50	-	-	50
Alexander MacLachlan	50	-	-	50
Total	4,601	-	-	4,601

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

16. Financial Risk Management

(a) Financial Risk Management Policies

The Company's financial instruments consist mainly of deposits with banks and investments in fixed income securities. The main risks the Company is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

(i) Interest rate risk

Exposure to interest rate risk arises on financial assets recognised at the reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Company is also exposed to earnings volatility on floating rate instruments.

Interest rate risk is managed using a mix of fixed and floating rate financial assets. At 30 June 2013, 100% of the financial assets were at a floating rate.

(ii) Liquidity risk

Liquidity risk arises from the financial liabilities of the Company and the Company's subsequent ability to meet its obligations to repay its financial liabilities when they fall due.

The Company's exposure to liquidity risk is minimal. The Company had no borrowings at 30 June 2013 and cash inflows from coupons from the underlying financial assets are received at regular intervals to meet the obligations of the Company. Financial assets can be traded in the over-the-counter market, in the event the Company needs to convert investments into cash to realise underlying financial positions.

(iii) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at the balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements. The Company does not have any material credit risk exposure to a single receivable or group of debtors under financial instruments entered into by the Company.

There are no amounts of collateral held as security at 30 June 2013.

(b) Financial Instruments

(i) Financial instrument composition and maturity analysis

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. The amounts will not reconcile to the Statement of Financial Position.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

16. Financial Risk Management (cont.)

	2013	Weighted Average
	\$	Effective Interest
Financial Assets		Rate
Cash and cash equivalents	4,254,076	3.00%
Other receivables	33,516	-
Investment in financial assets	55,691,688	7.32%
	59,979,280	
	2012	Weighted Average
	\$	Effective Interest
Financial Assets		Rate
Cash and cash equivalents	4,866,651	3.75%
Other receivables	24,566	-
Investment in financial assets	59,982,243	8.43%
	64,873,460	

30 June 2013	Within 1 year	1 to 5 years	Over 5 years	Total
Financial Assets	\$	\$	\$	\$
Cash and cash equivalents	4,254,076	-	-	4,254,076
Other receivables	33,516	-	-	33,516
Investment in financial assets	2,248,130	21,917,608	31,525,950	55,691,688
Total Financial Assets	6,535,722	21,917,608	31,525,950	59,979,280

30 June 2012	Within 1 year	1 to 5 years	Over 5 years	Total
Financial Assets	\$	\$	\$	\$
Cash and cash equivalents	4,866,651	-	-	4,866,651
Other receivables	24,566	-	-	24,566
Investment in financial assets	2,527,430	23,397,963	34,056,850	59,982,243
Total Financial Assets	7,418,647	23,397,963	34,056,850	64,873,460

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

16. Financial Risk Management (cont.)

(ii) Net fair values

The net fair values of:

- financial assets measured at amortised cost are determined by their redemption price at the balance date or, where this is not available, by applying valuation techniques with reference to recent arm's length transactions, similar instruments and pricing models. The aggregate net fair value is \$39,718,833 at 30 June 2013 (2012: \$37,694,346);
- other assets and other liabilities approximate their carrying value.

(iii) Sensitivity analysis

Interest rate risk

The Company has performed sensitivity analysis relating to its exposure to its interest rate risk at the balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks on financial asset balances at year-end that have a variable interest rate.

At 30 June 2013, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2013	2012
	\$	\$
Change in profit before tax and equity		
Increase in interest rate by 1%		
- Cash at bank	42,541	48,675
- Financial assets	398,527	346,066
Decrease in interest rate by 1%		
- Cash at bank	(42,541)	(48,675)
- Financial assets	(398,560)	(346,127)

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

17. Auditor's Remuneration

The auditor of the Company is Deloitte Touche Tohmatsu. The fee in connection with the audit and review of the financial statements of the Company received or receivable by Deloitte Touche Tohmatsu is \$24,100 for the year ended 30 June 2013 (2012: \$23,500). Tax and other services for the year ended 30 June 2013 amounted to \$10,100 (2012: \$5,091).

18. Contingent Liabilities

The directors are not aware of any potential liabilities or claims against the Company at the balance date.

19. Capital Commitments

The Company has no capital commitment at balance date.

20. Events After The Reporting Period

On 2 August 2013, the Company announced a fully franked dividend of \$1.00 per share. The dividend was paid to shareholders on 22 August 2013.

There has not been any other event of a material and unusual nature likely, in the opinion of the Directors, to significantly affect the operations of the Company, the result of those operations, or the state of affairs of the Company, in future financial years.

21. Company Details

The registered office of the Company is:

Australian Masters Yield Fund No 2 Limited
Level 15, 100 Pacific Highway
North Sydney NSW 2060

The principal place of business is:

Australian Masters Yield Fund No 2 Limited
Level 15, 100 Pacific Highway
North Sydney NSW 2060

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED

ABN 48 144 883 509

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2013

The directors of the Company declare that:

1. The financial report as set out in pages 17 to 42 and the additional disclosures included in the Directors' Report designated as "Remuneration Report", as set out on pages 13 to 14, are in accordance with the *Corporations Act 2001*, including:
 - a. giving a true and fair view of the Company's financial position at 30 June 2013 and of its performance, as represented by the results of the operations and the cash flows, for the financial year ended on that date;
 - b. in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements; and
 - c. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. The directors of the Manager, Dixon Advisory & Superannuation Services Limited, have declared that:
 - a. the financial records of the Company for the financial year have been properly maintained in accordance with Section 286 of the *Corporations Act 2001*;
 - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view.
3. At the date of this declaration, in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors made pursuant to Section 295(5) of the *Corporations Act 2001*.

On behalf of the Directors



Mr Maximilian Sean Walsh

Chairman

27 August 2013

Independent Auditor's Report to the members of Australian Masters Yield Fund No. 2 Limited

Report on the Financial Report

We have audited the accompanying financial report of Australian Masters Yield Fund No.2 Limited, which comprises the statement of financial position as at 30 June 2013, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 17 to 43.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Australian Masters Yield Fund No.2 Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Australian Masters Yield Fund No.2 Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 14 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Australian Masters Yield Fund No.2 Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Michael Kaplan
Partner
Chartered Accountants
Sydney, 27 August 2013

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
ADDITIONAL SECURITIES EXCHANGE DISCLOSURES
AT 31 JULY 2013

Statement of quoted securities at 31 July 2013

- There are 895 shareholders holding a total 425,102 ordinary fully paid shares.
- The 20 largest shareholders between them hold 11.493% of the total shares on issue.
- Voting rights are each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Distribution of quoted shares at 31 July 2013

Distribution of shareholders category (size of holding)	Number of shareholders
1 – 1,000	831
1,001 – 5,000	63
5,001 – 10,000	1
10,001 – 100,000	0
100,001 – and over	0
Total Holders	895

Substantial shareholdings at 31 July 2013

There are no substantial shareholders pursuant to the provisions of Section 671B of the *Corporations Act 2001*.

Directors' shareholdings

At 30 June 2013, directors of the Company held a relevant interest in the following securities on issue by the Company.

Director	Ordinary shares
Maximilian Walsh	3,001 ordinary shares
Daryl Dixon	500 ordinary shares
Alan Dixon	1,000 ordinary shares
Christopher Brown	50 ordinary shares
Alexander MacLachlan	50 ordinary shares

Restricted Securities

There are no restricted securities on issue by the Company.

Transactions

There were no transactions in securities during the reporting period.

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
ADDITIONAL SECURITIES EXCHANGE DISCLOSURES
AT 31 JULY 2013

Top 20 holders of ordinary shares

Shareholder name	Number of shares held	% of Total
NEWTON BEAVIS RET FUND A/C	6,000	1.411
P P STRICKER SUPER FUND A/C>	3,600	0.847
CIMS RETIREMENT FUND A/C	3,563	0.838
OGYGIA A/C	3,300	0.776
HAWES FAMILY SUPER FUND A/C	3,150	0.741
HUGHES BENEVOLENT FUND A/C	2,500	0.588
MC COLLS RETIREMENT PLAN A/C	2,306	0.542
E & B WATERMAN S/F A/C	2,200	0.518
HELEN & ROGER ALLNUTT SF A/C	2,000	0.470
L & S DUNLOP SUPER FUND A/C	2,000	0.470
PETTINGELL & GILLAM S/F A/C	2,000	0.470
R & D WALDRON FAMILY S/F A/C	2,000	0.470
MS & GM WALSH SUPER FUND A/C	2,000	0.470
DUMBRELL SUPER FUND A/C	1,850	0.435
DC & LY STAPLETON S/FUND A/C	1,800	0.423
MTH & BPC KWAN S/FUND A/C	1,750	0.412
A & P THOMPSON S/FUND A/C	1,750	0.412
BURGESS FAMILY S/FUND A/C	1,700	0.400
GRASSMASTER ENVIRON S/F A/C	1,700	0.400
PETER & SUSAN MOOR S/F A/C	1,700	0.400
Total held by top 20 holders of ordinary shares	48,869	11.493

AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED
ABN 48 144 883 509
ADDITIONAL SECURITIES EXCHANGE DISCLOSURES
AT 31 JULY 2013

Management Agreement

The Company's investment activities are managed on an exclusive basis by Dixon Advisory & Superannuation Services Limited (**Manager**). The management agreement is dated 21 March 2011 (**Management Agreement**).

Subject to any applicable regulations, the Company's investment policies and any written guidelines issued by the Company from time to time, the Manager will manage the portfolio and has discretion to acquire, hold and dispose of investments on behalf of the Company.

The term of the Management Agreement provides for the appointment of the Manager for a period commencing on 21 March 2011 and expiring on 21 March 2016 (**Initial Term**). Unless terminated during the initial term, the Management Agreement will be automatically extended for successive further terms of one year each.

The Manager is entitled to receive an annualised management fee of 0.59% (plus GST) of the value of the portfolio, payable annually in advance within 10 Business Days of each 30 June during the term of the Management Agreement. The Manager is not entitled to a performance fee.

The Manager is also entitled to be reimbursed by the Company for fees, costs and expenses when properly incurred in connection with the investment and management of the portfolio, the acquisition, disposal or maintenance of any investment or performance of the Manager's obligations under the Management Agreement, including costs of convening and holding a general meeting of the Company, fees payable to ASIC or any other regulatory body, outgoings in relation to the Portfolio (for example, insurance premiums, rates, levies, duties and taxes), all costs including commissions and brokerage incurred in connection with the acquisition or sale of any of the Company's investments or proposed investments and any software licensing or software subscription fees in connection with risk monitoring and investment research specifically in relation to the Portfolio incurred by the Manager approved by the Board.

The Manager may terminate the Management Agreement at any time by giving to the Company at least six months' written notice.

The Management Agreement gives the Company certain termination rights including the right to immediately terminate the Management Agreement if the Manager:

- a) becomes insolvent; or
- b) materially breaches its obligations and such breach cannot be rectified; or
- c) breaches its obligations and does not remedy that breach within 30 days after the Company has notified the Manager in writing to remedy the breach; or
- d) the value of the Portfolio falls to a level below \$1,000,000 and a notice of meeting for the Company is sent to shareholders which includes a resolution to seek approval to voluntarily wind-up the Company; or
- e) persistently fails to ensure that investments made on behalf of the Company are consistent with the Company's investment strategy.

The Company may also terminate the Management Agreement if the licence under which the Manager performs its obligations is suspended for a period of one month or more or is cancelled at any time and the Manager fails to maintain an authorisation enabling it to perform its obligations under the Agreement from a third party holder of a licence.

The Company is also entitled to terminate the Management Agreement after the expiration of the Initial Term on delivery of three months' prior written notice.



ANNUAL REPORT **FOR THE YEAR ENDED 30 JUNE 2013**

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