



# PROSPECTUS

**PROSPECTUS FOR THE OFFER OF 500,000**  
FULLY PAID ORDINARY SHARES AT AN  
OFFER PRICE OF \$100 TO RAISE UP TO  
\$50,000,000 WITH THE ABILITY TO  
ACCEPT OVERSUBSCRIPTIONS

THE INVESTMENTS OF **AUSTRALIAN  
MASTERS YIELD FUND NO 2 LIMITED**  
WILL BE MANAGED BY DIXON ADVISORY  
& SUPERANNUATION SERVICES LIMITED  
**THIS OFFER IS NOT UNDERWRITTEN**



**AUSTRALIAN  
MASTERS  
YIELD**  
FUND No 2 LIMITED

# DIRECTORY

## DIRECTORS

Maximilian Walsh (Chairman)  
Alex MacLachlan  
Chris Brown  
Daryl Dixon  
Alan Dixon

## COMPANY SECRETARY

Hannah Chan

## INVESTIGATING ACCOUNTANTS

**Deloitte Touche Tohmatsu**  
Grosvenor Place, 225 George Street  
Sydney NSW 2000  
T +61 2 9322 7000  
F +61 2 9322 7001  
[www.deloitte.com.au](http://www.deloitte.com.au)

## MANAGER & ISSUE MANAGER

**Dixon Advisory & Superannuation Services Limited**  
AFS Licence Number: 231143  
Level 15, 100 Pacific Highway  
North Sydney NSW 2060  
T +61 2 9432 3000  
F +61 2 9460 6881  
[www.dixon.com.au](http://www.dixon.com.au)

## SHARE REGISTRAR

**Registries Limited**  
Level 7, 207 Kent Street  
Sydney NSW 2000  
T +1300 737 760 (Australia)  
T +61 2 9290 9600 (International)  
F +61 2 9279 0664  
[www.registries.com.au](http://www.registries.com.au)

## REGISTERED OFFICE

Level 15, 100 Pacific Highway  
North Sydney NSW 2060  
T +1300 454 801  
F +1300 457 349  
[www.amyf.com.au/amyf2](http://www.amyf.com.au/amyf2)

## AUDITORS

**Deloitte Touche Tohmatsu**  
Grosvenor Place, 225 George Street  
Sydney NSW 2000  
T +61 2 9322 7000  
F +61 2 9322 7001  
[www.deloitte.com.au](http://www.deloitte.com.au)

## SOLICITORS TO THE OFFER

**Watson Mangioni Lawyers Pty Limited**  
Level 13, 50 Carrington Street  
Sydney NSW 2000  
T +61 2 9262 6666  
F +61 2 9262 2626  
[www.wmlaw.com.au](http://www.wmlaw.com.au)

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# IMPORTANT NOTICES

## ABOUT THIS PROSPECTUS

This Prospectus is dated 23 March 2011 and has been lodged with the Australian Securities & Investments Commission (**ASIC**) on that date. It is issued by Australian Masters Yield Fund No 2 Limited (ACN 144 883 509) (**Company**) and is an invitation to apply for up to 500,000 Shares at an issue price of \$100 per Share to raise up to \$50,000,000. The Company reserves the right to accept oversubscriptions of up to a further 1,000,000 Shares at an issue price per Share of \$100.

No responsibility for the contents of this Prospectus is taken by the ASIC or any of its officers.

This document is important and requires your immediate attention. It should be read in its entirety. You may wish to consult your professional adviser about its contents.

No Shares will be issued on the basis of this Prospectus later than the expiry date of this Prospectus, being the date 13 months after the date of this Prospectus.

## LICENSED DEALERS

Offers under this Prospectus will be made pursuant to an arrangement between the Company and Australian Financial Services Licensees (**Licensees**) pursuant to Section 911A(2)(b) of the Corporations Act. The Company will only authorise Licensees to make offers to people to arrange for the issue of Shares by the Company under the Prospectus and the Company will only issue Shares in accordance with such offers if they are accepted.

Dixon Advisory & Superannuation Services Limited (**Issue Manager**) will deposit and deal with the Application Monies pursuant to this Prospectus. Any Application Form received which does not bear a Licensee's stamp will be forwarded to the Issue Manager.

The Issue Manager's function should not be considered as an endorsement of the Offer nor a recommendation of the suitability of the Offer for any investor. The Issue Manager does not guarantee the success or performance of the Company or the returns (if any) to be received by investors. Neither the Issue Manager nor any other Licensee is responsible for, or caused the issue of, this Prospectus. The Company reserves the right to enter into similar arrangements to those with the Issue Manager with other Licensees.

The Company will pay a Handling Fee equal to 1.55% (excluding GST) of the Application Monies provided with Application Forms bearing a Licensee's stamp. The Issue Manager may stamp all unstamped Applications and receive a 1.55% Handling Fee on such Applications. The Issue Manager will also receive a Structuring Fee of 0.25% (excluding GST) of gross proceeds raised under this Prospectus.

## EXPOSURE PERIOD

The Corporations Act prohibits the issue of Shares in the period of 7 days after the date of lodgement of this Prospectus with ASIC. This period may be extended by ASIC by up to a further 7 days. This period is an exposure period to enable this Prospectus to be examined by market participants prior to the raising of funds. Applications received during the exposure period will not be processed until after the expiry of that period. No preference will be conferred on Applications received during the exposure period.

## INVESTMENT DECISION

Applicants should read this Prospectus in its entirety before deciding to apply for Shares. This Prospectus does not take into account your individual investment objectives, financial situation or any of your particular needs. You should seek independent legal, financial and taxation advice before making a decision whether to invest in the Company.

An investment in this Company carries risks. An outline of some of the risks that apply to an investment in the Company is set out in Section 5. Applicants are urged to consider this Section of the Prospectus carefully before deciding to apply for Shares.

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not so contained or taken to be contained may not be relied on as having been authorised by the Company in connection with the Offer.

## FORWARD LOOKING STATEMENTS

This Prospectus contains forward looking statements. Forward looking statements are not based on historical facts, but are based on current expectations of future results or events. These forward looking statements are subject to risks, uncertainties and assumptions which could cause actual results or events to differ materially from the expectations described in such forward looking statements. While the Company believes that the expectations reflected in the forward looking statements in this Prospectus are reasonable, no assurance can be given that such expectations will prove to be correct. The risk factors set out in Section 5, as well as other matters as yet not known to the Company or not currently considered material by the Company, may cause actual results or events to be materially different from those expressed, implied or projected in any forward looking statements. Any forward looking statement contained in this Prospectus is qualified by this cautionary statement.



## ELECTRONIC PROSPECTUS

An electronic version of this Prospectus (**Electronic Prospectus**) can be downloaded from [www.amyf.com.au/amyf2](http://www.amyf.com.au/amyf2). The Offer or invitation to which the Electronic Prospectus relates is only available to persons receiving the Electronic Prospectus in Australia.

The Company will send you a copy of the paper Prospectus and paper Application Form free of charge if you ask during the application period.

If you download the Electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form. The Shares offered under the Offer to which the Electronic Prospectus relates will only be issued on receipt of a printed copy of the Application Form.

## HOW TO APPLY

An Application for Shares under the Offer can only be made by completing and lodging the Application Form attached at the back of this Prospectus. Detailed instructions on completing the Application Form can be found on the back of the Application Form.

Shares issued in respect of Applications received by the Company will be issued at \$100 per Share.

Applications under the Offer must be for a minimum of 50 Shares. The Directors may extend the Offer in accordance with the Corporations Act.

## APPLICATION FORM

Applications and Application Monies for Shares under the Offer received after 5:00 p.m. (AEST) on the Closing Date will not be accepted and will be returned to potential investors.

Applications must be accompanied by payment in Australian currency.

Cheques in respect of Applications should be made payable to "Dixon Advisory Trust Account for AMYF No 2" and crossed "Not Negotiable".

No stamp duty is payable by Applicants.

Completed Application Forms, together with Application Monies, should be forwarded to the following address:

### POSTAL

Australian Masters Yield Fund No 2 Limited Share Offer  
c/- Dixon Advisory  
**GPO Box 575**  
**Canberra ACT 2601**

### HAND DELIVERED – CANBERRA

Australian Masters Yield Fund No 2 Limited Share Offer  
c/- Dixon Advisory  
**Level 1, 73 Northbourne Avenue**  
**Canberra ACT 2601**

### HAND DELIVERED – SYDNEY

Australian Masters Yield Fund No 2 Limited Share Offer  
c/- Dixon Advisory  
**Level 15, 100 Pacific Highway**  
**North Sydney NSW 2060**

### HAND DELIVERED – MELBOURNE

Australian Masters Yield Fund No 2 Limited Share Offer  
c/- Dixon Advisory  
**Level 2, 250 Victoria Parade**  
**East Melbourne VIC 3002**





## WHEN TO APPLY

Completed Applications under the Offer must be received by 5:00 pm (AEST) on the Closing Date. **The Directors may close the Offer at any time after expiry of the exposure period without prior notice or extend the period of the Offer in accordance with the Corporations Act.**

The Directors reserve the right to allocate any lesser number of Shares than those for which the Applicant has applied. Where the number of Shares allotted is fewer than the number applied for, surplus Application Monies will be refunded with interest.

## ENQUIRIES

Investors with questions on how to complete the Application Forms or who require additional copies of the Prospectus should contact:

Matt Helman  
Dixon Advisory & Superannuation Services Limited  
T: 1300 454 801

## GLOSSARY OF TERMS

Defined terms and abbreviations included in the text of this Prospectus are set out in the Glossary in Section 13.



# CHAIRMAN'S LETTER



23 March 2011

Dear Investor,

As Chairman of the Board of Directors, I am pleased to invite you to become a Shareholder in Australian Masters Yield Fund No 2 Limited.

The Company has been established to provide retail investors access to the wholesale fixed income market through a simple, cost effective corporate structure. Exposure to the fixed income market can provide investors with more predictable income streams and greater capital security than equity investments in certain circumstances, such as we have seen recently following the geopolitical events in the Middle East and Africa and natural disasters in Japan.

Much of the Australian and international fixed income market is not freely accessible to retail investors as direct access can be limited by minimum investment restrictions and regulatory requirements.

The fixed income market continues to present investors with attractive investment opportunities. Despite the tightening of credit spreads since the global financial crisis, there remain elements of the fixed income universe which present investors with attractive risk adjusted returns. Additionally, potentially stricter capital adequacy regulations arising as a result of the global financial crisis may reduce the lending capacity of the major banks. As a result some corporations will be more likely to issue bonds and other fixed income securities in order to satisfy their funding needs. These funding needs are also at historical highs. There are significant refinancing needs of corporate Australia, with an estimated \$60 billion to \$80 billion of corporate debt (outside the financial sector) expected to be refinanced this year. This is expected to have a positive impact on future issuances for investors.

The Company will be managed by Dixon Advisory & Superannuation Services Limited and has been set up to invest in a diverse range of fixed income securities offering attractive risk adjusted returns. The Manager has experience managing portfolios of fixed income securities, having successfully managed the investment portfolio of Australian Masters Yield Fund No 1 Limited to date. Since its IPO in October 2010, Australian Masters Yield Fund No 1 Limited has raised over \$90 million and is currently invested in fixed income securities from 10 unique issuers. The Manager also has had extensive experience managing portfolios of investment grade corporate bonds, having successfully managed the Australian Masters Corporate Bond Fund series (**AMCBF Series**) of companies to date. Since inception of the AMCBF Series in June 2008, the AMCBF Series has raised over \$275 million and invested in corporate bonds from over 40 unique issuers.

The Company's investment mandate allows the Manager to respond to changing market conditions to allocate capital efficiently across a number of fixed income securities. This flexibility will be an important driver in allowing the Manager to capitalise on investment opportunities and achieve attractive risk adjusted returns. The Portfolio will primarily be static in nature, however where the Manager identifies attractive opportunities, a more active strategy may be adopted.

The directors of the Company, Alex MacLachlan, Chris Brown, Daryl Dixon, Alan Dixon and I will be responsible for reviewing the selection of investments and will keep ourselves informed by considering information, research and analysis compiled by the Manager. See Sections 6.3 and 6.4 for details.

The Company expects to pay 2 franked dividends per year which will be fully franked to the extent possible. The Company will seek Shareholder approval to execute capital returns from time to time, passing capital proceeds derived from the maturity, redemption or sale of investments back to investors. Following the final return of capital, the Company will seek Shareholder approval to voluntarily wind up the Company.

The latest date of maturity, redemption or sale for securities in which the Company proposes to invest is 30 June 2022, however investments initially targeted will be in the 3 – 6 year maturity range allowing the Company to return capital earlier if it is considered to be in the best interest of Shareholders. Investors should be comfortable that they may not be able to easily dispose of their Shares and may not be able to completely exit their investment in the Shares until the Company is wound up. This is expected to be at least 2 months after all securities in the Portfolio mature, are redeemed or sold and will be subject to Shareholder approval.

The Company's objective is to invest in a Portfolio of attractive fixed income securities with a target yield to maturity of around 8% p.a. or greater. This will not necessarily reflect the dividend yield achievable on Shares issued to investors. See Section 2.8 for details regarding recent issuances in the fixed income market.

While the fixed income market continues to present investors with attractive investment opportunities, investments in the Company remain exposed to certain risks. Some of the risks associated with making an investment in Shares and, indirectly in fixed income securities through your investment in the Company, are set out in Section 5.

I encourage you to read this Prospectus carefully before making your investment decision, as it contains detailed information about the Company and the offer of Shares to investors.

I look forward to welcoming you as a Shareholder of the Company.

Yours sincerely,

A handwritten signature in black ink, appearing to read "M. S. Walsh".

**MAXIMILIAN WALSH**  
CHAIRMAN





# HIGHLIGHTS OF THE OFFER

## KEY DATES

|   |                           |
|---|---------------------------|
| LODGEMENT OF PROSPECTUS WITH ASIC             | 23 MARCH 2011             |
| EXPECTED EXPIRY OF EXPOSURE PERIOD            | 30 MARCH 2011             |
| OFFER TO OPEN                                 | 30 MARCH 2011             |
| OFFER TO CLOSE                                | 5.00PM (AEST) 10 MAY 2011 |
| EXPECTED FINAL ALLOTMENT OF SHARES            | 17 MAY 2011               |
| EXPECTED FINAL DESPATCH OF HOLDING STATEMENTS | 19 MAY 2011               |

The above dates are indicative only and may vary, subject to the requirements of the Corporations Act. The Company reserves the right to extend the Offer or close the Offer at any time after expiry of the exposure period. The Company may issue Shares immediately after the minimum subscription is achieved. See Section 1.2 for details.

## KEY OFFER STATISTICS

|   |                  |
|---|------------------|
| MINIMUM NUMBER OF SHARES AVAILABLE UNDER THE OFFER  | 100,000 SHARES   |
| MINIMUM PROCEEDS FROM THE OFFER   | \$10,000,000     |
| MAXIMUM NUMBER OF SHARES AVAILABLE UNDER THE OFFER (IF NO OVERSUBSCRIPTIONS ARE TAKEN UP)   | 500,000 SHARES   |
| MAXIMUM NUMBER OF SHARES AVAILABLE UNDER THE OFFER (IF ALL OVERSUBSCRIPTIONS ARE TAKEN UP)  | 1,500,000 SHARES |
| ISSUE PRICE PER SHARE   | \$100            |
| Pro forma Net Asset Value (NAV) backing per Share if the minimum subscription amount is raised (based on pro forma balance sheet set out in Section 7.1). | \$98.71          |

## KEY INVESTMENT HIGHLIGHTS

Below is a summary of the key highlights of the Offer. This is a summary only and should be read in light of the other information in this Prospectus, particularly the risks that are summarised on the following pages.

|  |  |                    |
|--|--|--------------------|
| ACCESS TO ATTRACTIVE FIXED INCOME SECURITIES | The Company has been established to undertake investment in fixed income securities which are often only available to wholesale investors ( <b>Potential Investments</b> ). Potential Investments may include the following: |                    |
|  | > Senior bonds   | See Section 2.4(a) |
|  | > Subordinated debt  | See Section 2.4(b) |
|  | > Hybrid securities  | See Section 2.4(c) |
|  | > Structured income securities   | See Section 2.4(d) |
|  | > Government bonds   | See Section 2.4(e) |
|  | > Cash and cash equivalents  |                    |



|   |   |                          |
|---|---|--------------------------|
| <b>RETURNS AND EXIT PATH</b>            | <p>The Company's objective is to invest in a portfolio of attractive fixed income securities with a yield to maturity of around 8% p.a. or greater. This will not necessarily reflect the dividend yield achievable on Shares issued to investors.</p> <p>The Company intends to return cash to Shareholders when the underlying fixed income securities mature or are redeemed or sold by the Company. However, under the Manager's investment mandate, the Company is permitted to make investments in shorter duration fixed income securities. In some cases, within 5 years of the Commencement Date, the Company is permitted to reinvest the proceeds into Potential Investments where the Company is of the view that doing such would be in the best interest of Shareholders. If at the time of maturity, or redemption or sale by the Company, no attractive reinvestment opportunities exist, it is anticipated that capital will be returned to Shareholders.</p> <p>Returns of capital will be effected by way of capital returns undertaken from time to time in a cost efficient manner and within two months of the final fixed income security in the Portfolio to mature or be redeemed or sold, being no later than 30 June 2022.</p> | See Sections 2.8 and 3.3 |
| <b>EXPERIENCED BOARD AND MANAGER</b>    | <p>The Board will comprise Maximilian Walsh, Alex MacLachlan, Chris Brown, Daryl Dixon and Alan Dixon. Each member of the Board has experience in providing comprehensive financial advice services to clients.</p> <p>The Manager currently manages a portfolio of interests of 1 similarly structured company, Australian Masters Yield Fund No 1 Limited, and a portfolio of interests of 5 corporate bond funds under the banner of the AMCBF Series. It also manages the investment portfolio of Global Resource Masters Fund Limited, Australian Governance Masters Index Fund Limited and Asian Masters Fund Limited. The Manager has not previously managed a portfolio of foreign issued fixed income securities other than \$A bonds issued by foreign corporations.</p> <p>The Manager is a member of the Dixon Advisory Group which has experience in providing comprehensive administration and financial advice services to over 3,700 self-managed superannuation fund clients, with a combined superannuation asset base of \$3.5 billion.</p>  | See Sections 6.2 and 8   |
| <b>INVESTMENT STRATEGY</b>              | <p>The Manager will implement a disciplined investment process that identifies and selects a portfolio of Potential Investments. While it is proposed that most of the Portfolio will be static in nature, the Manager will monitor the Portfolio and retain the authority to exit investments and re-invest as appropriate.</p>  | See Section 4.3          |
| <b>BOND PARTICIPATION IN MANAGEMENT</b> | <p>The Manager may not make or implement any investment decision in respect of investments with a value in excess of \$2 million without first obtaining the approval of the Board and must act in accordance with written guidelines issued by the Board from time to time. Subject to this, the Manager has discretion to manage the Portfolio in accordance with the investment strategy set out in Section 4.</p>   | See Section 6.4          |

## KEY INVESTMENT RISKS

The key risks highlighted below, together with other risks, are more particularly described in Section 5.

|                  |  |                    |
|------------------|--|--------------------|
| <b>LIQUIDITY</b> | <p>It is presently intended that the Company will not be listed on the ASX. There may not be a ready market for the Shares.</p> <p>It is intended that fixed income securities will be held to maturity unless market conditions or opportunities provide superior returns for disposal prior to maturity. The latest date of maturity, redemption or sale for a fixed income security held by the Company is 30 June 2022.</p> <p>There is no restriction on the transfer of Shares if you find your own buyer. Investors should be comfortable that they may need to hold their Shares and may not be able to exit the entirety of their investment in Shares until the Company is wound up.</p> | See Section 5.1(d) |
|------------------|--|--------------------|





|                                       |   |                    |
|---------------------------------------|---|--------------------|
| <b>DEFAULT RISK</b>                   | <p>If counterparties to contracts with the Company such as fixed income security issuers do not meet their responsibilities (including as a result of insolvency, financial distress or liquidation of the counterparty) this may have an effect on the performance of the Company.</p> <p>In particular, issuers of fixed income securities may be unable to repay debt on maturity and so may default on repayment of principal on maturity. Issuers may also be unable to pay interest on fixed income securities due to, among other things, adverse financial conditions and adverse financial and/or operating performance of the issuer and its related parties. Any such default will have an adverse impact on the financial performance of the Company.</p>   | See Section 5.1(b) |
| <b>DELAY IN INVESTING CASH RAISED</b> | <p>The Company's investment strategy includes the ability of the Manager to hold cash or delay investments to take advantage of new investment opportunities. There remains a risk that there may not be any attractive issues to invest in immediately or shortly after raising of the cash under this Prospectus. This may impact on returns to the Company in the first year.</p>  | See Section 5.1(e) |
| <b>MARKET RISK</b>                    | <p>Investment returns are influenced by market factors. In particular, market prices for fixed income securities have in recent times experienced wide fluctuations, which in many cases may reflect a diverse range of non-entity specific influences including changes in the economic (e.g. changes in interest rates), legislative and political environment, as well as changes in investor sentiment.</p>   | See Section 5.1(a) |
| <b>FINANCIAL MARKET VOLATILITY</b>    | <p>A fall in global equity markets, global bond markets or material movements in the market value of the Australian dollar may negatively impact the value of the Portfolio.</p>  | See Section 5.1(l) |
| <b>FIXED INCOME INVESTMENT TERMS</b>  | <p>The terms of fixed income securities that are included in the Portfolio may be unsecured obligations of the issuers. It is likely that secured debt obligations of the issuers will rank ahead of the Company's investments and therefore in a default event, the secured lenders would be repaid prior to the unsecured obligations of the issuer.</p> <p>An investment in fixed income securities will usually be an investment in a wholesale investment product and therefore it is not regulated nor subject to the same protections that a security available to retail investors would have. The fixed income security terms may allow the issuer to repay the principal prior to maturity at their election. This may occur, particularly if interest rates drop during the term. If this occurs the return on an investment in the Company is likely to decrease. Conversely, an issuer may elect not to call a security at a call date and this may result in the Company having to hold that security longer than anticipated or sell that security at a price lower than its face value.</p> | See Section 5.1(f) |
| <b>HIGH YIELD SECURITIES</b>          | <p>The Company may invest in high yield securities. Compared to higher grade securities, high yield securities tend to be more sensitive to changes in the economy. Higher yield securities generally offer a higher return than higher grade securities but are subject to greater risks due to lower credit quality and liquidity.</p>  | See Section 5.1(g) |
| <b>STRUCTURED INCOME SECURITIES</b>   | <p>The Company may invest in or gain exposure to structured debt securities such as Asset Backed Securities. These securities usually package together a range of debts owed by various entities with the aim of providing an income stream to the security holder. The indebted entities may display varying levels of creditworthiness, with lower rated entities typically expected to pay a higher premium and hence a higher return to security holders for funding. The value of these investments may be affected by factors including, but not limited to, the performance of the structured debt sector generally, prevailing financing rates, credit premiums, as well as general market conditions and sentiment.</p>  | See Section 5.1(h) |



|                                    |  |                                |
|------------------------------------|--|--------------------------------|
| <b>PROJECT SPECIFIC DEBT</b>       | The Company may invest in project specific debt. In addition to the risks associated with investing in other forms of fixed income, project specific debt has its own risks. Generally, project specific debt is non-recourse to the issuer and repayment depends entirely upon the cash flow generated by the project when completed. As a result, project specific debt may be exposed to specific risks such as construction completion risk, technical risk, environmental risk and refinancing risk.  | See Section 5.1(j)             |
| <b>OFFSHORE OPERATIONS RISK</b>    | Some issuers or parent companies of issuers in whose fixed income securities the Company will invest have substantial offshore operations. Future government actions in the relevant country or region concerning the economy, financial market government intervention, dealing with foreign entities, repatriation of funds, changes to corporate policies, taxation policies, environmental policies and change in political conditions could have an impact on the financial position and creditworthiness of these entities. Defaults may have a significant effect on the Company. | See Sections 5.1(m) and 5.1(o) |
| <b>FOREIGN CORPORATIONS</b>        | There may be additional issues in assessing a foreign corporation's or their Australian subsidiary's accounts and creditworthiness due to possible differences in laws, reporting obligations and policies, financial and operating requirements and, in some cases, accounting standards, which may differ from those in Australia.   | See Sections 5.1(n) and 5.1(o) |
| <b>PARENT GUARANTORS</b>           | For Australian dollar denominated fixed income securities issued by Australian subsidiaries of foreign corporations which are guaranteed by their parent corporation and to which credit ratings depend on such guarantee, any changes to the guarantee arrangements or the guarantor's financial position may impact on the credit rating of that issue. This in turn may affect the value of the securities.   | See Section 5.1(p)             |
| <b>POOR INVESTMENT PERFORMANCE</b> | The Company may not achieve its performance objectives or produce returns that are positive or compare favourably against its peers on a relative basis.   | See Section 5.1(q)             |
| <b>PERFORMANCE HISTORY</b>         | The Company has no financial, operating or performance history.<br>The Manager is a member of the Dixon Advisory Group which has extensive experience in managing investments of self-managed superannuation fund clients, managing equity portfolios, approximately \$340 million of fixed income securities and approximately \$300 million of other investment companies. The Manager also has experience in advising and investing in other fixed income securities, including 1 similarly structured fixed income fund, Australian Masters Yield Fund No 1 Limited.                 | See Sections 5.1(s) and 6.2    |
| <b>INTEREST RATE INCREASES</b>     | If interest rates in Australia increase above present levels, by investing in the Company, which is an illiquid investment, investors will have foregone the opportunity to receive the benefit of those increased interest rates to the extent the Portfolio is made up of fixed interest rate securities.  | See Section 5.1(c)             |
| <b>FAILURE TO RETURN CAPITAL</b>   | As the Company does not currently propose to seek listing on the ASX or another financial market, opportunities for investors to exit their investment are limited.<br>The Company's strategy to return capital to Shareholders following maturity, redemption or sale by the Company of the Potential Investments held depends on majority votes of 50% or more cast by Shareholders.   | See Section 5.1(k)             |





# OFFER SUMMARY

This is a summary only. This Prospectus should be read in full before making any decision to apply for Shares.

## ABOUT THE OFFER

| Question  | Answer   | More info       |
|---|--|-----------------|
| <b>WHO IS THE ISSUER OF THE SHARES AND THIS PROSPECTUS?</b> | Australian Masters Yield Fund No 2 Limited (ACN 144 883 509).  | See Section 1.1 |
| <b>WHAT IS THE OFFER?</b>                                   | The Offer is for Shares at an issue price of \$100 per Share to raise up to \$50,000,000.<br>The Company will offer to issue up to 500,000 Shares, with the ability to accept oversubscriptions for a further 1,000,000 Shares. The Offer is subject to the Company raising a minimum of \$10,000,000. | See Section 1.1 |
| <b>WHAT IS THE PURPOSE OF THE OFFER?</b>                    | The Company is seeking to raise funds for the purpose of investing in fixed income securities.<br>The net proceeds of the Offer will be used by the Company to undertake investments consistent with its investment objectives and guidelines.   | See Section 2   |
| <b>IS THERE A COOLING-OFF PERIOD?</b>                       | No.  |                 |
| <b>HOW CAN FURTHER INFORMATION BE OBTAINED?</b>             | Please contact Matt Helman on 1300 454 801 if you have questions relating to the Offer.<br>If you are uncertain as to whether an investment in the Company is suitable for you, please contact your stockbroker, financial adviser, accountant, lawyer or other professional adviser.                  |                 |

## ABOUT THE COMPANY

| Question   | Answer  | More info       |
|--|---|-----------------|
| <b>WHAT WILL THE COMPANY INVEST IN?</b>              | The Company will invest in the Potential Investments.   | See Section 2   |
| <b>WHAT ARE THE COMPANY'S INVESTMENT OBJECTIVES?</b> | <ul style="list-style-type: none"> <li>&gt; To provide investors with an attractive rate of income and consistent franked dividends, which will be fully franked to the extent possible, and the potential to receive capital returns throughout the life of the Company.</li> <li>&gt; To minimise default risk by investing in issuers of sound credit quality.</li> <li>&gt; To minimise costs of the Company.</li> </ul>  | See Section 4.1 |
| <b>WHO IS THE MANAGER?</b>                           | Dixon Advisory & Superannuation Services Limited (ACN 103 071 665) (AFS Licence: 231143).   | See Section 6   |
| <b>ARE THERE ANY INDEPENDENT DIRECTORS?</b>          | No. All of the Directors of the Company are associated with the Manager and so there will be no independent review of investment decisions.   | See Section 8.6 |
| <b>WHAT ARE THE DIRECTORS PAID?</b>                  | The current Directors have agreed not to be paid any remuneration for the services they perform as Directors.   |                 |
| <b>WHAT IS THE INVESTMENT PHILOSOPHY AND FOCUS?</b>  | <ul style="list-style-type: none"> <li>&gt; To invest in a portfolio of attractive fixed income securities of sound credit quality with a target yield to maturity of approximately 8% or greater.</li> <li>&gt; To provide investors with consistent income via the Company's dividend policy.</li> <li>&gt; To actively manage the cash component of the Portfolio and return excess cash to investors when and if in the best interest of Shareholders.</li> </ul> | See Section 4.2 |



| Question   | Answer  | More info                  |
|--|---|----------------------------|
| <b>WHAT ARE THE KEY TERMS OF THE MANAGEMENT AGREEMENT?</b>                     | <p>The Management Agreement provides for the appointment of the Manager for an initial term of 5 years to manage the Portfolio and for the payment of a management fee. Unless terminated during the initial term, the Management Agreement will be automatically extended for successive further terms of 1 year each. The Company may terminate the Management Agreement after the initial 5 year period on 3 months written notice.</p> <p>The Manager will be responsible for the provision of the financial services under the Management Agreement.</p>   | See Section 11.1           |
| <b>WHAT FEES WILL THE MANAGER RECEIVE?</b>                                     | <p>The Manager will receive an annualised management fee of 0.59% (excluding GST), calculated with reference to the value of the Company's Portfolio. The first management fee will be payable based on 0.59% (excluding GST) of gross proceeds raised under this Prospectus for the period from the Commencement Date to 30 June 2011. The fee will be payable as at the allotment date pursuant to this Prospectus on a pro rata basis. The management fee for each successive financial year will be payable in advance within 10 Business Days of each 30 June during the term of the Management Agreement.</p> <p>In addition, in respect of any financial year where there is an issue of Shares other than under this Prospectus, the Manager will receive a management fee of 0.59% per annum of the increase in value of the Portfolio as a result of that further issue on a pro rata basis.</p> <p>There are no performance fees payable to the Manager.</p> | See Sections 11.1 and 12.7 |
| <b>WHAT FEES WILL THE ISSUE MANAGER RECEIVE?</b>                               | <p>For the performance of its obligations under the Issue Manager Agreement, the Issue Manager will charge:</p> <ul style="list-style-type: none"> <li>&gt; a Handling Fee equal to 1.55% (excluding GST) of the Application Monies provided with Application Forms bearing its stamp. The Issue Manager may stamp all unstamped Applications and receive a 1.55% Handling Fee on such Applications; and</li> <li>&gt; a Structuring Fee of 0.25% (excluding GST) of the gross proceeds raised under this Prospectus.</li> </ul>  | See Sections 11.2 and 12.7 |
| <b>WHAT COSTS OF THE COMPANY WILL BE MET BY THE MANAGER AND ISSUE MANAGER?</b> | <p>The Issue Manager will meet all start-up costs of the Company such as legal, accounting, marketing and all associated costs of the Offer under this Prospectus.</p> <p>The Company will be responsible for the on-going operating costs, such as registry, audit valuation and accounting fees, stamp duty, brokerage and other acquisition, custodian and disposal costs of the Potential Investments within the Portfolio.</p> <p>In addition, other costs borne by the Company include those associated with the calling and holding of general meetings, software licensing, fees payable to ASIC or any other regulatory bodies, insurance premiums, undertaking distributions, returns of capital, raising additional capital, share buy backs or other reductions of capital and with any winding up of the Company.</p>  | See Section 11.2           |
| <b>WHAT ARE THE SIGNIFICANT POTENTIAL BENEFITS?</b>                            | There are a number of potential benefits of the Offer which are outlined on the first page of the Highlights of the Offer and in Section 3.1  | See Section 3.1            |
| <b>WHAT ARE THE SIGNIFICANT RISKS?</b>   | <p>An investment in the Company involves a number of risks. While the Directors and Manager intend to use prudent management techniques to minimise the risks to Shareholders, no assurances can be given by the Company as to the success or otherwise of its business. The performance of the Company is not guaranteed by the Company, the Manager, the Issue Manager or any adviser to the Company.</p> <p>Investors should consider the risk factors identified in this Prospectus, particularly those identified in Section 5, before applying for Shares.</p>  | See Section 5              |





| Question  | Answer   | More info        |
|---|--|------------------|
| <b>WHAT IS THE COMPANY'S GEARING LEVEL?</b>                                   | At the time of the Offer the Company will have no borrowings and the Company does not intend to gear the Portfolio.  | See Section 4.10 |
| <b>WHAT ARE THE SIGNIFICANT TAX IMPLICATIONS OF INVESTING IN THE COMPANY?</b> | Some tax implications of investing in the Company are outlined in Section 9. Investors should seek tax advice based on their own specific circumstances prior to making a decision to invest in the Company. | See Section 9    |

## INVESTING IN THE COMPANY

| Question  | Answer  | More info                        |
|---|---|----------------------------------|
| <b>WHO CAN PARTICIPATE IN THE OFFER?</b>                          | Members of the general public who have a registered address in Australia.   | See Sections 1.1 and 1.6         |
| <b>CAN SUPERANNUATION FUNDS INVEST?</b>                           | Yes, subject to the investment mandate of the particular fund and the trustee's general powers and duties.  |                                  |
| <b>HOW DO I APPLY FOR SHARES?</b>                                 | The procedures for making an investment in the Company are described in Section 1.3. The Issue Manager may be required to obtain identification information from Applicants. The Company reserves the right to reject an Application if that information is not provided upon request.  | See Section 1.3                  |
| <b>WILL THE COMPANY PAY DIVIDENDS AND WHEN CAN I EXPECT THEM?</b> | To the extent it is able, the Company expects to pay dividends on a 6 monthly basis, which will be fully franked to the extent possible.  | See Section 4.9                  |
| <b>WHAT ARE THE FEES AND COSTS OF THE OFFER?</b>                  | The Issue Manager will charge a Structuring Fee of 0.25% (excluding GST) of the gross proceeds raised under this Prospectus, for the performance of its obligations under the Issue Manager Agreement.<br><br>The Company will pay a Handling Fee equal to 1.55% (excluding GST) of the Application Monies provided with Application Forms bearing a Licensee's stamp. The Issue Manager may receive this Handling Fee.<br><br>The Manager will charge an annual management fee of 0.59% (excluding GST) of the gross value of the Portfolio of the Company | See Sections 11.1, 11.2 and 12.8 |
| <b>IS THE OFFER UNDERWRITTEN</b>                                  | No.   |                                  |





# 1. INFORMATION FOR INVESTORS

This is a summary only. This Prospectus should be read in full before making any decision to apply for Shares.

## 1.1 THE OFFER

The Company is offering for subscription up to 500,000 Shares at an offer price of \$100 to raise up to \$50,000,000.

To participate in the Offer your Application Form must be received by the Company by 5:00pm (AEST) on the Closing Date.

Under the Offer, the Company reserves the right to accept oversubscriptions of up to a further 1,000,000 Shares.

The Offer will only be made to members of the general public who have a registered address in Australia.

## 1.2 MINIMUM SUBSCRIPTION

The Minimum Subscription for the Offer is \$10,000,000, being the receipt of valid Applications for not less than 100,000 Shares. If this Minimum Subscription is not achieved by the date 4 months after the Opening Date, the Company will repay all money received from Applicants within 7 days from the completion of 4 months.

The Company reserves the right to issue Shares under this Prospectus immediately after the Minimum Subscription is achieved. If this occurs, the Company may issue Shares in 2 tranches; when the Minimum Subscription is achieved for Applications received up to that date and following close of the Offer. No dividend will be declared in the period between the 2 issues and there will be no change to the issue price for these issues.

## 1.3 APPLICATIONS

### APPLICATION FORM

Applications under the Offer must be made and will only be accepted on the Application Form issued with and attached to this Prospectus.

Shares issued in respect of Applications received by the Company will be issued at the relevant Application Price.

Applications under the Offer must be for a minimum of 50 Shares.

Applications and Application Monies for Shares under the Offer received after 5:00 p.m. (AEST) on the Closing Date will not be accepted and will be returned to potential investors. The Directors may extend the Closing Date. Applications must be accompanied by payment in Australian currency.

Cheques in respect of Applications should be made payable to "Dixon Advisory Trust Account for AMYF No 2" and crossed "Not Negotiable".

No stamp duty is payable by Applicants.

Completed Application Forms, together with Application Monies, should be forwarded to the following address:

### POSTAL

Australian Masters Yield Fund No 2 Limited Share Offer  
c/- Dixon Advisory  
**GPO Box 575**  
**Canberra ACT 2601**

### HAND DELIVERED – CANBERRA

Australian Masters Yield Fund No 2 Limited Share Offer  
c/- Dixon Advisory  
**Level 1, 73 Northbourne Avenue**  
**Canberra ACT 2601**

### HAND DELIVERED – SYDNEY

Australian Masters Yield Fund No 2 Limited Share Offer  
c/- Dixon Advisory  
**Level 15, 100 Pacific Highway**  
**North Sydney NSW 2060**

### HAND DELIVERED – MELBOURNE

Australian Masters Yield Fund No 2 Limited Share Offer  
c/- Dixon Advisory  
**Level 2, 250 Victoria Parade**  
**East Melbourne VIC 3002**

A binding contract to issue Shares will only be formed at the time Shares are allotted to Applicants.

Application Forms will be accepted at any time after the issue of this Prospectus and prior to the close of the offer.

The Directors may close the Offer at any time after expiry of the exposure period without prior notice or extend the period of the Offer in accordance with the Corporations Act.

## 1.4 LICENSED DEALERS

Offers under this Prospectus will be made pursuant to an arrangement between the Company and Licensees pursuant to Section 911A(2)(b) of the Corporations Act. The Company will only authorise Licensees to make offers to people to arrange for the issue of Shares by the Company under the Prospectus and the Company will only issue Shares in accordance with Applications made pursuant to such offers if they are accepted. The Company has entered into such an agreement with the Issue Manager.

The Issue Manager holds an appropriate AFS Licence. The Issue Manager will deposit and deal with the Application Monies pursuant to this Prospectus.

The Company will pay Handling Fees equal to 1.55% (excluding GST) of the gross proceeds raised under this Prospectus pursuant to Licensees (including the Issue Manager) who submit Application Forms bearing that Licensee's stamp.



## 1.5 ALLOTMENT

No allotment of Shares will be made until the Minimum Subscription has been received. It is expected that allotment of the Shares under the Offer will take place on or about 7 days after the Closing Date. If the Manager considers that attractive investment opportunities are available and it is in the best interest of the Company to do so, the Company may undertake an issue of Shares after the Minimum Subscription is satisfied. Applications received after that issue are expected to be processed and Shares issued within 7 days after the Closing Date. Application Monies will be held in a separate account until allotment. This account will be established and kept by the Issue Manager on behalf of the Applicant. The Issue Manager may retain any interest earned on the Application Monies held on trust pending the issue of Shares to successful Applicants.

The Application constitutes an offer by the Applicant to subscribe for Shares on the terms and subject to the conditions set out in this Prospectus. Where the number of Shares allotted is less than the number applied for or where no allotment is made, the surplus Application Monies will be returned by cheque within 7 days of the Closing Date. The Issue Manager will pay all interest earned on such refunded Application Monies to Applicants.

The Board of the Company reserves the right to accept or reject any Application, including for any oversubscriptions, in its absolute discretion.

## 1.6 OVERSEAS SHAREHOLDERS

The Offer is an offer to Australian investors. The Offer does not constitute an offer in any place in which, or to any person to whom, it would be unlawful to make such an offer.

## 1.7 PRIVACY

When you apply to invest in the Company, you acknowledge and agree that:

- a) you are required to provide the Company with certain personal information to:
  - i) facilitate the assessment of an Application;
  - ii) enable the Company to assess the needs of Applicants and provide appropriate facilities and services for Applicants; and
  - iii) carry out appropriate administration;
- b) the Company may be required to disclose this information to:
  - i) third parties who carry out functions on behalf of the Company, including marketing and administration functions, on a confidential basis; and
  - ii) third parties if that disclosure is required by law; and
  - iii) related bodies corporate (as that term is defined in the Corporations Act) which carry out functions on behalf of the Company.

Under the Privacy Act 1988 (Cth), Applicants may request access to their personal information held by (or on behalf of) the Company. Applicants may request access to personal information by telephoning or writing to the Manager.

## 1.8 ANTI-MONEY LAUNDERING/ COUNTER-TERRORISM FINANCING ACT 2006

The Company or the Issue Manager may be required under the Anti-Money Laundering/Counter-Terrorism Financing Act 2006 (Cth) or any other law to obtain identification information from Applicants. The Company reserves the right to reject any Application from an Applicant who fails to provide identification information upon request.



## 2. OVERVIEW OF POTENTIAL INVESTMENTS

### 2.1 INTRODUCTION TO FIXED INCOME SECURITIES

Fixed income securities are financial obligations of an entity to pay a specified sum of money at future dates. Typically, these payments can be linked to a fixed interest rate or can be linked via a set margin over a variable interest rate benchmark. Fixed income securities fall into 2 general categories: debt obligations and preferred equity/hybrid securities, which both typically rank ahead of claims of ordinary shareholders in the event of insolvency. The specific structure of a fixed income security can vary significantly depending on the issuer, structure, term, coupon type and level of subordination.

Debt obligations are contracts where the borrower undertakes to make payments of interest and principal to the lender in return for an initial principal advance from the lender (usually referred to as the face value). Debt obligations include securities such as senior bonds and subordinated debt.

Preferred equity/hybrid securities are securities that feature characteristics of both debt and equity capital. Income is paid to the preferred equity holder as a dividend and represents a distribution by the company usually out of profits. Owners of preferred equity usually have contractually fixed dividend payments, have priority over payments that are made to equity holders and often include the possibility of a conversion or redemption in equity.

Further descriptions of the categories of fixed income securities in which the Company may invest are set out in Section 2.4.

### 2.2 CHARACTERISTICS OF FIXED INCOME: RISK AND RETURN

Credit risk is the risk of loss of principal and is often associated by reference to credit ratings issued by a third party ratings agency. Not all debt securities are rated and ratings issued by different ratings agencies may not be directly comparable. With the greater scrutiny of ratings agencies following the global financial crisis and increased regulation, some ratings agencies have ceased to rate debt securities available for investment by retail investors.

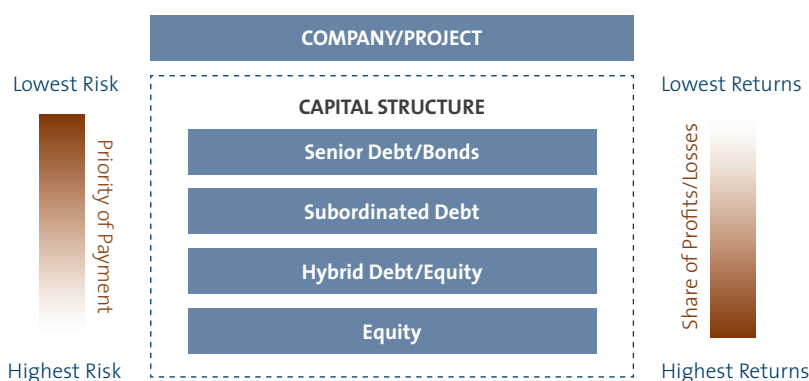
Throughout Section 2, references to ratings include references to unrated instruments, with a risk profile that, in the opinion of the Manager and the Company, is comparable to that of a rated product. For example, a reference to a “high rating” includes an unrated instrument that has a comparably lower risk profile than an instrument with a lower rating.

Where an investment sits in the debt and equity structure of an entity is a key determinant of whether the return adequately compensates the investor for the risk involved. Equities are considered the highest risk and should provide the greatest potential returns. In contrast, debt securities all sit higher in the debt/equity structure of an entity and have preferential treatment for returns and in the event of liquidation, as debt holders have a claim on assets before equity holders.

The risk of a particular debt issuance is directly related to the ability of a holder to make claims on the assets of the issuer relative to other debt obligations, as well as the underlying creditworthiness of the issuer. The more senior an instrument’s claim on the underlying assets of the issuer, the higher the associated credit worthiness of the investment and the lower the risk.

The diagram below is an illustrative capital structure of a company or project and the hierarchy of each capital component in terms of priority of payments, access to assets in the event of liquidation and implied risk.

**FIGURE 1**



Whether a fixed income instrument is issued by a company or other entity, the risk and return of that particular instrument is predominantly affected by the creditworthiness of the company or asset, the tenor of the issue and the potential for recovery on default.

Generally, the higher the risk of investment the greater the expected return. Investing a high proportion of funds in a high risk asset class such as equities can expose a portfolio to loss in a cyclical downturn. Fixed income securities are usually lower risk as they sit higher in the debt/equity structure and generally lower the risk of an overall portfolio, helping to preserve capital.



## 2.3 WHY INVEST IN FIXED INCOME?

From an investor's perspective, the fixed income asset class can provide a lower level of capital risk and a more reliable income stream than equity investments. Fixed income securities may offer investors the following benefits:

### A) CAPITAL STABILITY

One of the key characteristics of most fixed income securities is the repayment of the initial investment at maturity, or in some cases, over the life of the security. Fixed income securities include a spectrum of issuers with different risks, however, assuming the government, corporation or the issuer of the security remains solvent and does not default or go into liquidation, investors in most cases will receive repayment at maturity.

One of the lowest risk fixed income securities in Australia are government bonds issued by the Commonwealth Government of Australia. Due to this level of risk, the returns on Australian Government bonds are typically the lowest available in the Australian fixed income market. Higher risk securities like subordinated debt and preferred equity offer higher returns than Australian Government bonds. Therefore, analysis on the underlying credit quality of the issuer is important to determine an appropriate risk adjusted return on the security.

### B) ATTRACTIVE RISK ADJUSTED RETURNS

Many investors use at call cash and term deposits to provide interest income. The same institution may have other fixed income securities with a higher level of risk which consequently yields a higher level of return. One of many strategies investors can employ is to invest in higher risk assets issued by the same institution which offer higher returns. By undertaking this strategy, the investor retains exposure to the same issuer (assured of its credit quality and ongoing viability) but improves overall returns by taking a subordinated position within the overall capital structure of the issuer. See Figure 1 explaining capital structure above. It is important to determine an appropriate risk adjusted return on each instrument.

### C) REGULAR INCOME

Fixed income securities provide a regular income stream through coupon (interest) or dividend payments that typically must be paid prior to any return to equity. The dates and amount of the income payable are defined at the time the security is issued. The frequency of payments is typically annual, semi-annual or quarterly. Some securities also make payments monthly and other securities can have highly customised periods to match desired cash flows. A portfolio of fixed income securities can be tailored to meet investors' cash flow requirements.

### D) DIVERSIFICATION

The fixed income asset class allows diversification away from the other asset classes such as equities, commodities and property. It offers a broad spectrum of securities, risks, returns and maturities to provide a diversified and balanced portfolio solution for investors. Fixed income securities can counterbalance higher risk investments and reduce portfolio volatility.

### E) ABILITY TO DIVERSIFY THE RANGE OF PORTFOLIO MATURITIES

Debt obligations and preferred equity redemptions/conversions typically vary between 1 and 10 years although most are tradable securities in the wholesale market and can be traded before maturity. The investment return in this instance may differ from the initial yield to maturity.

Investment in fixed income securities is subject to risk. See Section 5 for details.

## 2.4 CATEGORIES OF FIXED INCOME

The intention of the Company is to invest in fixed income securities that offer attractive risk adjusted returns. In selecting Potential Investments for the Portfolio, the Manager will have particular regard to the credit quality of the issuer, the applicable rating of the instrument (if any), the term and maturity, coupon type, nature of the securities, level of subordination and level of returns.

The fixed income security investments which may form a part of the Portfolio include, but are not limited to:

- > Senior bonds
- > Subordinated debt
- > Hybrid securities
- > Structured income securities
- > Government bonds
- > Cash and cash equivalents

This list is not exhaustive and should not be taken to constitute the final construction of the investment Portfolio. Fixed income securities which are not listed above may be included in the final Portfolio.

Product structures evolve over time to address new financing needs and demands of financial conditions and regulatory environments.

The above classes of fixed income securities may be listed on an exchange such as the ASX but are typically unlisted and traded as an over-the-counter (OTC) instrument. In some cases there may be no secondary market for the fixed income security.

The fixed income classes identified above, with the exception of some hybrid securities, are not usually available to retail investors. Minimum parcel sizes of \$500,000 and above are usually an inhibiting factor limiting retail investors' access to such issues and investment may be expressly limited to wholesale investors. An investment in the Company allows access to these investments through a simple, cost effective vehicle.

The above fixed income classes are discussed in further detail below.

### A) SENIOR BONDS

Senior bonds are debt securities issued by companies and other entities to investors in order to raise capital. The issuer (or borrower) pays interest (coupons) to the investor (or lender) through the life of the bond at fixed periods. Senior bonds are generally medium to long term fixed income securities with a term of more than 1 year. They may be secured against specific assets or unsecured with the investor relying on the creditworthiness and reputation of the issuer.





Interest payments and repayment of the face value on maturity are contractual obligations of the issuer and are not subject to directors of the issuer approving the payment. In the event that a payment is missed, the investor may have certain default event rights and, depending on the subordination of the bond, these rights may include the appointment of a receiver to take control of the assets of the issuer to effect repayment of the corporate bonds. Senior bonds are typically lower risk investments, due to their low level of subordination.

The senior bond universe includes Australian companies issuing in the domestic debt market, Australian dollar denominated senior bonds issued by non-Australian corporations or Australian subsidiaries of such foreign corporations, commonly referred to as “kangaroo bonds”, and international senior bonds, which are senior bonds issued by companies in the international debt markets.

## **B) SUBORDINATED DEBT**

Subordinated debt comprises debt obligations which rank behind other forms of senior debt of the borrower and is generally not secured against assets of the borrower. Subordinated debt ranks behind the claims of senior creditors, where assets are returned to investors in order of seniority in the event of liquidation. In the event of a credit default by an issuer, secured debt followed by unsecured debt is repaid first, followed by subordinated debt, mezzanine debt and, in the event of surplus funds being available, preferred equity and ordinary equity. Subordinated debt allows investors to access higher yields in exchange for an increase in credit risk.

Interest payments and repayment of the face value on maturity are contractual obligations of the issuer and are not subject to the directors of the board of the issuer approving the payment. In the event that a payment is missed, the investor may have certain default event rights.

Financial institutions are large issuers of subordinated debt in Australia. Some of these issues provide the issuer with the ability to call the issue initially at 5 years, or allow the debt to roll over and mature at 10 years.

## **C) HYBRID SECURITIES**

There are 2 broad categories of hybrid securities, preferred equity and convertible notes. Typically, hybrid securities pay defined income in the form of dividends for a certain period at which point the holder may have a number of options including the ability to convert the securities into the underlying shares of the issuer provided certain conditions are met.

Dividends payable on hybrids are generally either expressed as a fixed percentage of the face value of the instrument, or may be payable at a margin over a floating reference rate such as the Bank Bill Swap Rate (**BBSW**). Dividends paid may also have the benefit of franking credits, which has obvious tax advantages which can be passed to individual investors. Investors also benefit in seniority of dividend payments in that payments on hybrid securities rank ahead of ordinary shareholders and in the event of insolvency, hybrid securities also rank ahead of the claims of ordinary shareholders in the recovery of capital. Investors may also have the opportunity to receive a capital gain derived from investments purchased in the secondary market at a discount to face value.

## **Preferred Equity**

Preferred equity exhibits features of both debt and equity. It pays a regular defined income stream in the form of dividends and generally has a fixed maturity date in similar fashion to debt securities. It generally converts into ordinary equity at a future date depending on the specific type and structure of the security.

The term “preference” indicates that holders rank ahead of the issuing company’s ordinary shareholders for the payment of dividends, and have a prior claim on the company’s assets if the company is wound up. However, holders rank behind the company’s creditors.

At maturity, depending on the type and structure of security, they are either redeemed for cash or convert into ordinary shares of the issuer. The number of shares received depends on the applicable conversion mechanism. Most preferred equity converts into a fixed dollar value of ordinary shares. Typically, holders receive the face value of the preferred equity in the form of ordinary shares.

## **Convertible Notes**

Convertible notes are similar to bonds in that they pay a defined income stream and they repay the face value at a specified future date while also including a conversion feature allowing the holder to convert the note into ordinary shares in the company at specified times. If the holder does not elect to convert convertible notes into ordinary shares, they will receive the face value of the security in cash when the note matures. Investors also benefit in seniority of dividend payments in that payments on convertible notes rank ahead of ordinary shareholders and in the event of insolvency, convertible notes rank ahead of the claims of ordinary shareholders in the recovery of capital.

Interest payments on convertible notes are set at the time of issue and must be paid before dividends are paid to shareholders. However, the rights of the issuer may vary significantly between issuers. For example, the terms of an issue may give the issuer the right to defer interest payments, meaning holders will receive no payments in the deferral period. The issuer may also have the right to issue shares to holders in lieu of paying interest in cash.

## **D) STRUCTURED INCOME SECURITIES**

Structured income securities are typically financial obligations that are linked to a single asset or pool of assets. The pool of assets is typically a group of assets that have similar financial characteristics. Pooling assets in this manner allows them to be sold to investors and allows the risk of investing in the underlying assets to be diversified as each security represents only a fraction of the total value of the underlying asset pool. Structured income securities can be tranching into instruments with different risk and return profiles which allow them to be invested in by entities with different risk appetites and time horizons.

An example of a class of structured income securities are asset backed securities (**ABS**). An ABS is an instrument whose value and income payments are derived from a specified pool of underlying assets. The pool of assets is generally assets of corporations which have been sold to the issuing entity. The pool of underlying assets can include common business receivables, auto loans and mortgage loans, cash flows from aircraft leases or royalty payments. Interest on an ABS is typically paid quarterly or semi-annually at a fixed or variable rate and the principal paid at the maturity of the facility.



## E) GOVERNMENT BONDS

Governments, like corporates, are able to raise funds by issuing bonds. The term Government bonds is used to refer to bonds issued by central, state and local governments and the entities they create.

Government bonds issued by a central government are referred to as sovereign bonds. Sovereign bonds can be issued in either the domestic currency of the issuing government or a foreign currency.

Historically, sovereign bonds issued in a foreign currency are higher risk investments than bonds issued in the domestic currency of the issuing government.

Government bonds issued by state and local governments are generally backed by the issuing government's general taxing power or the revenues generated by a specific tax the issuing government has levied.

## 2.5 DIRECT AND INDIRECT INVESTMENTS IN FIXED INCOME SECURITIES

The Company may invest directly in fixed income securities. Alternatively, the Company may invest in fixed income securities indirectly by investing in fixed income funds or other investment structures. One potential advantage of the Manager investing via fixed income funds is that the Company can access expertise in highly specialised sectors of the fixed income market while also achieving greater diversification.

If the Manager invests on behalf of the Company in fixed income funds, fund managers other than the Manager will be entitled to receive fees associated with their management function. These fees may include entry fees, transaction fees, exit fees, ongoing management fees and performance fees. The Company will be responsible for payment of these fees. Investing in fixed income funds may therefore result in the Company paying a higher level of fees than if the Company invested directly in the assets held by the underlying funds as fees are payable at an additional level of management.

The Company will only invest in fixed income funds when it considers that the benefits associated with investing in fixed income funds outweigh the potential for increased fees. In addition, the Company considers that the scale of any investment undertaken by the Company in fixed income funds will likely provide the Manager with an opportunity to negotiate with individual fund managers to reduce such fees.

## 2.6 CREDIT SPREADS AND MARKET COMMENTARY

A credit spread is the difference between the yield on a particular fixed income security and the yield on a risk free asset with equivalent duration. Historically, government issued bonds have been used to approximate a risk free asset with the additional yield investors require to take on the risk of a particular fixed income instrument representing the credit spread. Factors other than risk can also affect credit spreads, including supply and demand factors driven by structural changes in the market.

Credit spreads across all classes of fixed income securities widened significantly during the recent global financial crisis.

This was primarily caused by an increase in perceived default risk of borrowers, which included all companies to a varying degree and certain governments, along with a global contraction in capital by investors. Following the collapse of US investment bank Lehman Brothers in September 2008 and prior to March 2009, credit spreads reached exceptionally high levels reflecting the amount of risk aversion and capital contraction in the financial markets at that time. This corresponded with an economic downturn across the globe which some commentators would later state was the most severe since the Great Depression.

From March 2009, global economic conditions improved and this recovery continued throughout 2010, and into 2011, albeit with some volatility and instability, particularly in Europe. During this time, the confidence level of investors increased and credit spreads across all classes of fixed income securities narrowed, although the degree to which spreads have narrowed amongst various classes of fixed income has not been uniform.

Credit spreads for investment grade fixed income securities have tightened substantially as global economic conditions have improved and spreads on these securities have reduced to levels closer to pre-crisis levels. For example, based on Bloomberg trading data<sup>1</sup> Australian investment grade BBB rated corporate bonds traded at an average of around 100 bps in the 5 years prior to August 2007, reached a height of 396 bps in 2008 and are trading at the date of this Prospectus at around 290 bps.

The global financial crisis has also had heightened impact on credit spreads within particular sectors of the fixed income market, such as the subordinated debt market. For example, Bendigo and Adelaide Bank issued a tranche of Tier II subordinated debt securities in May 2007 at 85 bps over BBSW. This compares to a similar issue of Tier II subordinated debt issued post the global financial crisis in December 2010 at 400 bps over BBSW.

ABS spreads increased by more than other fixed income securities during the global financial crisis. In particular, secondary spreads on Australian residential mortgage backed securities (**RMBS**) increased significantly as distressed leveraged foreign investors liquidated their positions, rising from around 20 bps in July of 2007 to over 450 bps by March 2009. However, unlike their global counterparts, the quality of RMBS in Australia remained high throughout the financial crisis with no substantial losses being borne by an investor in a rated tranche of an Australian RMBS. Credit spreads for RMBS have narrowed substantially since March 2009 although spreads remain high by historical standards with the highest rated tranches of recent primary issues pricing between 65bps and 130bps over BBSW.

Currently, there are a number of factors that are likely to impact the pricing and volume of new issuances in the fixed income market. The latest accords from the Basel Committee on Banking Supervision, the global governing body of international banking standards, are nearing finalisation and are expected to impose stricter capital adequacy regulations on financial institutions. These changes, if implemented by the Australian Prudential Regulation Authority, may reduce the lending capacity of Australia's major banks. As a result, some Australian corporations may be more likely to issue bonds or other fixed incomes securities in order to satisfy their funding needs.

1. Bloomberg has not consented to the inclusion of trading data attributed to it in this Prospectus.



Apart from the widening of credit spreads, another impact of the global financial crisis was the limited availability of longer duration debt (as described in Section 2.7) and lower volumes of debt as financial institutions attempted to de-risk their lending book. Companies were forced to refinance debt on short tenures. This has resulted in significant refinancing needs in the 2011 and 2012 financial years as this short term debt matures. It is estimated that there is between \$60 billion and \$80 billion of corporate debt (outside the financial sector) expected to be refinanced this year. This refinancing need is likely to have a positive impact on future issuances for investors in fixed income securities.

Global equity markets are currently experiencing increased volatility as a result of natural disasters in Japan and geopolitical events in North Africa and the Middle East. Fixed income markets have been much less volatile than equities in response to these events, with the most notable effects being a slight decrease in certain government bond yields including Australia.

The key to determining whether the underlying credit spread for a certain fixed income security represents an attractive risk adjusted return is sound credit and market analysis.

## 2.7 RECENT FIXED INCOME MATURITY PROFILES

Prior to the financial crisis, the average maturity for Australian unsecured bonds was close to 6 years. Between 2007 and 2009, due to increased uncertainty, investors were reluctant to commit funds for long periods, resulting in a significant reduction in the maturity profile of many bonds. Nearly 30% of bonds issued between July 2007 and December 2008 were at maturities of 1 to 2 years compared with 8% of bonds issued between January 2005 and June 2007. More recently, the maturity profile of bonds has lengthened as uncertainty has decreased allowing corporations to issue bonds at longer terms. In the second half of 2010, approximately 4% of Australian denominated domestic bond issuances matured within 2 years of issue with around 62% of bonds issued having a duration of 4 years or more.

## 2.8 RECENT ISSUANCES

Below is a table of selected fixed income securities that have been issued since March 2010 which fall within some of the fixed income instrument asset classes outlined in Section 4.3.

| ISSUER                             | ANNOUNCEMENT DATE | SIZE (\$M) | MATURITY DATE                                    | ISSUE COUPON/MARGIN              | TYPE              |
|------------------------------------|-------------------|------------|--|----------------------------------|-------------------|
| <b>BENDIGO &amp; ADELAIDE BANK</b> | 14/12/2010        | 250        | 15/12/2020                                       | BBSW + 400bps                    | Subordinated Debt |
| <b>HSBC BANK AUSTRALIA</b>         | 22/11/2010        | 200        | 26/11/2015 (first call)<br>25/11/2020 (maturity) | BBSW + 280bps                    | Subordinated Debt |
| <b>GOODMAN FUNDING</b>             | 5/11/2010         | 325        | 20/11/2020                                       | 6.38% (fixed over US Treasuries) | Subordinated Debt |
| <b>MIRVAC GROUP FINANCE</b>        | 22/09/2010        | 200        | 16/09/2016                                       | 8.00% (fixed)                    | Senior Bond       |
| <b>DBNGP FINANCE<sup>1</sup></b>   | 22/09/2010        | 500        | 29/09/2015                                       | BBSW + 300bps                    | Senior Bond       |
| <b>LLOYDS BANK</b>                 | 07/09/2010        | 2,000      | 14/09/2020                                       | 6.50% (fixed over Treasuries)    | Subordinated Debt |
| <b>PRIMARY HEALTHCARE</b>          | 24/08/2010        | 152        | 28/09/2015                                       | BBSW + 400bps                    | Retail Bond       |
| <b>APA GROUP</b>                   | 15/07/2010        | 300        | 22/07/2020                                       | 7.75% (fixed)                    | Senior Bond       |
| <b>SYDNEY AIRPORT FINANCE</b>      | 28/06/2010        | 175        | 6/07/2015  | 8.00% (fixed)                    | Senior Bond       |
| <b>BANK OF QUEENSLAND</b>          | 30/06/2010        | 45         | 12/06/2012 (conversion)<br>10/06/2020 (maturity) | BBSW + 400bps                    | Convertible Bond  |
| <b>DEXUS FINANCE</b>               | 15/04/2010        | 180        | 21/04/2017                                       | 8.75% (fixed)                    | Senior Bond       |
| <b>ALE PROPERTY TRUST</b>          | 24/03/2010        | 125        | 20/08/2014                                       | BBSW + 400bps                    | Retail Bond       |
| <b>MIRVAC GROUP FUNDING</b>        | 19/03/2010        | 150        | 15/03/2015                                       | 8.25% (fixed)                    | Senior Bond       |

1. Dampier to Bunbury National Gas Pipeline Finance

This is neither a comprehensive list of all fixed income securities available for subscription at the time of this Prospectus nor a forecast of likely yields for future issues of similar fixed income securities. The offer periods for all of the investments outlined above have closed. However, the Company may be able to acquire these investments through the secondary market. The yield to maturity for such investments changes frequently and so the yield to maturity, at the time of investment, cannot be predicted. Past performance is no indicator of future performance.

Structured income securities generally have less profile in the issuance market than the other fixed income securities outlined above and so a sample of issues of these types of securities has not been included in this table. The Company may also invest in such products, either by subscription or secondary purchase.





## 3. OVERVIEW OF THE COMPANY

### 3.1 ABOUT THE COMPANY

The Company has been established to provide investors with exposure to a portfolio of fixed income securities. The Company is not a managed investment scheme. Investors will hold Shares in the Company and will receive the benefit of income and profits generated by the Company by way of dividends rather than distributions (see Section 4.9 for details of the Company's proposed dividend policy).

The Company will invest in fixed income securities that may be issued either in Australia or internationally. It intends to provide Australian investors with the opportunity to gain exposure to fixed income securities with attractive risk adjusted returns. Fixed income security investments made by the Manager may include, but are not limited to:

- > Senior bonds
- > Subordinated debt
- > Hybrid securities
- > Structured income securities
- > Government bonds
- > Cash and cash equivalents

Australian retail investors in the past have encountered difficulties in gaining access to a diversified exposure of fixed income securities. Reasons for this include:

- > many fixed income securities trade in the OTC market with relatively few institutions prepared to make a market for retail investors;
- > standard minimum parcel size for many fixed income securities is \$500,000 and preferred trading is in multiples of more than \$1,000,000; and
- > alternative structured offerings are usually 'open ended' which can be less efficient due to managers being forced to buy and sell fixed income securities at unsuitable times.

The Manager will implement a disciplined investment process that identifies, selects and manages a portfolio of fixed income securities. The Company will aim to invest in a portfolio of attractive fixed income securities of sound credit quality with a target yield to maturity for the Portfolio of around 8% or greater providing investors with consistent income and capital stability.

Key advantages of investing in the Company include:

- > Exposure to a range of fixed income securities issued by both Australian and/or international entities;
- > An attractive targeted yield to maturity on fixed income securities. The Company targets buying fixed income securities so that the average yield of securities in the Portfolio will be around 8% p.a. or greater. This will not necessarily reflect the dividend yield achievable on Shares issued to investors;
- > Access to consistent cash flow through franked dividend payments and capital returns; and
- > A low management fee of around 0.59% per annum. (See Section 3.4 for further details).

### 3.2 TERM OF THE COMPANY

The Company will invest in fixed income securities with a range of durations. The Company will target investments that fall within a 3 to 6 year duration, however some or all of the investments may fall outside this range depending on the opportunities available in the market. The latest date of maturity, redemption or sale for securities held by the Company is 30 June 2022.

Investments may be undertaken in the primary and secondary markets. This provides the Manager with added flexibility to select securities with a suitable term.

To an extent, the term of fixed income securities will dictate the effective life of the Company. Some classes of fixed income securities permit early redemption by the issuer. For example, subordinated debt securities issued by financial institutions commonly have a term of 10 years but include a right for the issuer to bring forward maturity of that instrument after an initial 5 year term. Accordingly, the anticipated maturity of some investments may be shorter than the Company's target 3 to 6 year duration. The term of the Management Agreement of 5 years may be extended in increments of 1 year to take account of this. See Section 11.1 for details.

### 3.3 RETURN OF CAPITAL/ EXIT STRATEGY

The Company intends to return cash to Shareholders when the fixed income securities mature, are redeemed or are sold by the Company. However, for shorter duration fixed income securities that mature or are sold within 5 years of the Commencement Date, the Manager will consider reinvesting the proceeds into Potential Investments where the Company is of the view that doing so would be in the best interest of Shareholders. If at the time of maturity, no attractive reinvestment opportunities exist, it is anticipated that capital will be returned to Shareholders.

Returns of capital will be undertaken from time to time and within 2 months of the maturity, redemption or sale by the Company of the longest dated underlying fixed income instrument. This is expected to be no later than 30 June 2022.

Undertaking a capital return will be subject to Shareholders in a general meeting approving the capital return by ordinary resolution and compliance with Corporations Act procedures. Although it is anticipated that the capital return will be recommended by the Board, there is no guarantee that Shareholders will approve the capital return. If a capital return is not approved, excess cash will be retained by the Company or utilised as the Board considers appropriate, or distributed to Shareholders by way of dividends.

Following the final capital return, the Board will put to Shareholders the option of undertaking a voluntary winding up of the Company. This will be subject to Shareholders in a general meeting approving the winding up by special resolution (being 75% of votes cast being in favour of the resolution) and otherwise in accordance with Corporations Act requirements. It is anticipated that liquidators' fees required to effect a solvent voluntary winding up of the Company will be in the order of \$20,000.



(plus GST and disbursements). Although it is anticipated that the voluntary winding up of the Company will be recommended by the Board, there is no guarantee that the Shareholders will approve the voluntary wind up resolution. If the voluntary wind up resolution is not approved, any assets held will be retained by the Company and the Board will consider what options are, at the time, available to the Company in the Shareholders' best interest.

As dividends are expected to be paid semi-annually, the Manager will attempt to place excess cash in short dated, high yielding term deposits and at call accounts. Cash will be managed to maximise the return until excess cash can be returned to Shareholders through either dividends or capital returns. The Manager will ensure sufficient cash is retained only to the extent that it is required to meet tax liabilities, the Manager's fees and other costs and as required by relevant laws and regulations.

### 3.4 OPERATING EXPENSES OF THE COMPANY

Minimising operating expenses will assist in maximising the potential returns to investors, as even relatively small differences in operating expenses can impact on the overall return, particularly for medium to long-term investors. Investors should note that the higher the expenses of the Company, the greater the impact on the return of their Shares.

The Company will have a management fee of 0.59% (excluding GST) per annum. This management fee is payable to the Manager under the Management Agreement for the ongoing management of the Company. In return for this fee the Manager will:

- > invest in a Portfolio of underlying fixed income securities;
- > manage the cash position of the Company;
- > monitor the Portfolio of underlying fixed income securities; and
- > make any necessary changes to the underlying Portfolio of fixed income securities.

Some additional expenses of the Company include:

- a) accounting and tax advice fees;
- b) audit and registry fees;
- c) all stamp duties, financial institutions duty, bank account debits tax and taxes incurred in connection with the acquisition or sale of any of the Company's investments or proposed investments, receipt of income or other investments of the entitlements from the Portfolio;
- d) legal fees incurred in relation to complying with all regulatory obligations;
- e) costs of calling and holding general meetings of the Company;
- f) fees payable to ASIC or any other regulatory body;
- g) outgoings in relation to the Portfolio (for example, insurance premiums, rates, levies, duties and taxes);
- h) 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

- i) any software licensing or software subscription fees in connection with risk monitoring, valuation purposes and investment research specifically in relation to the Portfolio incurred by the Manager and approved by the Board.

For further details of the Company's expenses, see Section 12.8.

### 3.5 HANDLING FEE AND STRUCTURING FEE

The Company will pay to the Issue Manager a Handling Fee of 1.55% (excluding GST) of the Application Monies provided with Application Forms bearing its stamp and a Structuring Fee of 0.25% (excluding GST) of the gross proceeds raised under this Prospectus. The Issue Manager Agreement provides for the above fees to be payable to the Manager in consideration for acting as issue manager to the Offer and for assuming all costs and expenses associated with the Offer (being the initial arrangements required for ordinary operation of the Company) including costs, fees and expenses incurred in relation to:

- a) preparation and lodgement of the Prospectus and obtaining all advisory services including legal and accounting services;
- b) initial share registry fees;
- c) typesetting and graphic design; and
- d) printing.

See Section 11.2 for more details.





## 4. INVESTMENT OBJECTIVES AND PROCESS

### 4.1 INVESTMENT OBJECTIVES

The 3 key investment objectives of the Company are:

- > To provide investors an attractive rate of income and consistent dividends, which will be fully franked to the extent possible, and the potential to receive capital returns throughout the life of the Company.
- > To minimise default risk by investing in securities from issuers of sound credit quality.
- > To minimise costs of the Company.

### 4.2 INVESTMENT PHILOSOPHY AND FOCUS

The Company and the Manager believe that the range of Potential Investments, among other opportunities, will deliver attractive risk adjusted returns.

Given the above, the investment philosophy and focus of the Company and the Manager is:

- > To invest in a Portfolio of attractive fixed income securities issued by entities of sound credit quality with a target yield to maturity of around 8% or greater. This will not necessarily reflect the dividend yield achievable on Shares issued to investors.
- > To provide investors with consistent income via the Company's dividend policy.
- > To actively manage the cash component of the Portfolio and return excess cash to investors when and if it is in the best interest of Shareholders.

The Manager will implement a disciplined investment process that identifies, selects and manages a Portfolio of attractive risk adjusted fixed income securities.

Flexibility to take advantage of changing market conditions is key to this investment philosophy and focus. The Manager will typically adopt a passive investment strategy and for direct investments will hold securities until their maturity. However, it is open to the Manager to actively trade investments or devote a significant proportion of the Portfolio to a limited number of types of fixed income securities to take advantage of attractive market opportunities. As a result, diversification restrictions for the Portfolio are limited. See Section 4.6 for further details.

### 4.3 PERMITTED INVESTMENTS AND STRATEGY

Under the Management Agreement, the Manager is permitted to undertake investments on behalf of the Company in consultation with the Company's Board and in accordance with the Corporations Act, the investment policies and any written guidelines issued by the Board from time to time. Investments with a value in excess of \$2,000,000 require prior approval from the Board. See Section 6.4 for details. The initial investment policies, guidelines and criteria issued by the Board are summarised in this Section 4.3.

The Manager proposes to select fixed income securities that comply with the following investment criteria:

- > Primary and secondary market fixed income securities.
- > Rated or unrated fixed income securities.

Fixed income security investments made by the Manager may include, but are not limited to:

- > Senior bonds
- > Subordinated debt
- > Hybrid securities
- > Structured income securities
- > Government bonds
- > Cash and cash equivalents

If the Manager is unable to identify investments that meet the criteria at attractive prices, the Manager may elect to hold cash, term deposits and cash equivalents including interests in cash management trusts.

Under the Management Agreement, the Manager may only undertake investments in accordance with the above criteria.

The Manager is authorised by an AFS Licence under which it operates to deal in the permitted investments outlined under the Company's investment strategy.

The Manager aims to invest the cash raised within 3 months of the Commencement Date. However it may take up to 6 to 12 months to invest the cash raised so as to identify the most attractive risk adjusted returns available in the market. It will focus on primary and secondary market fixed income securities issued by Australian companies, international corporations and their Australian subsidiaries offering attractive risk adjusted returns.



## 4.4 SAMPLE PORTFOLIO COMPOSITION

The composition of the initial Portfolio will depend on prevailing market conditions and the availability of attractive fixed income securities when Application Monies have been received by the Company. Due to the dynamic nature of the fixed income instrument market, an accurate indication of the portfolio composition cannot be given.

For illustrative purposes only, the portfolio of Australian Masters Yield Fund No 1 Limited is presented below. Australian Masters Yield Fund No 1 Limited has a similar investment mandate to that proposed for the Company, however fixed income securities in the portfolio of the Company may have a maturity date up to 30 June 2022 compared with 31 December 2021 for Australian Masters Yield Fund No 1 Limited. The table below sets out the portfolio of fixed income securities acquired by Australian Masters Yield Fund No 1 Limited over the period of October 2010 to the date of this Prospectus and the respective yield to maturity (YTM) at which each security was purchased.

| ISSUER   | MATURITY DATE                              | YTM WHEN PURCHASED <sup>1</sup>        | TYPE                       |
|--|--|--|----------------------------|
| ADELAIDE AIRPORT                                 | 20/09/2016                                 | 8.7%                                   | Senior Bond                |
| BANK OF AMERICA                                  | 14/02/2017                                 | 9.5%                                   | Subordinated Debt          |
| DBNGP FINANCE <sup>2</sup>                       | 29/09/2015                                 | 9.1%                                   | Senior Bond                |
| GENERATOR INCOME TRUST                           | 08/10/2011                                 | 13.5%                                  | Structured Income Security |
| HBOS PLC (LLOYDS)                                | 01/05/2012 (call)<br>01/05/2017 (maturity) | 20.9% (to call)<br>10.4% (to maturity) | Subordinated Debt          |
| HSBC BANK (AUSTRALIA)                            | 26/11/2015 (call)<br>25/11/2020 (maturity) | 8.9% (to call)<br>9.0% (to maturity)   | Subordinated Debt          |
| MIRVAC GROUP FINANCE                             | 16/09/2016                                 | 8.5%                                   | Senior Bond                |
| ROYAL BANK OF SCOTLAND                           | 27/10/2014                                 | 11.2%                                  | Subordinated Debt          |
| SOUTHERN CROSS AIRPORTS CORPORATION HOLDINGS LTD | 01/01/2012 (call)<br>20/12/2016 (maturity) | 10.5% (to call)<br>10.4% (to maturity) | Subordinated Debt          |
| WACHOVIA BANK (WELLS FARGO BANK)                 | 25/05/2017                                 | 9.4%                                   | Subordinated Debt          |

1. The yields are set out above for illustration purposes only. The fixed income securities market is dynamic and the yield at purchase will vary from the applicable yield at maturity. The yields are in no way indicative of the yields for the above fixed income securities at maturity.

2. Dampier to Bunbury National Gas Pipeline Finance

The above yields are illustrative only and not a forecast as to the potential returns on the Portfolio.

The Manager will invest in the sectors of the fixed income market which it perceives as offering the most attractive risk adjusted returns and this may differ substantially from the sectors which were invested in when the portfolio of Australian Masters Yield Fund No 1 Limited was assembled. Given this, investors should be aware that the composition of the Portfolio may differ substantially from the portfolio of Australian Masters Yield Fund No 1 Limited.

Investors should note that the Company will be required to pay tax on the interest and dividend income that it receives and although this will be passed on to investors to the extent possible through the payment of franked dividends, this may create a reduction in the final yield received by investors due to timing differences, the payment of foreign withholding tax which may reduce the Company's ability to pay fully franked dividends and the ability of investors to realise the value of the franking credits. Investors are reminded that past performance is not necessarily a reliable indicator of future performance. Due to the dynamic nature of the fixed income market, there can be no assurance that yields indicated will be achieved when the Manager is investing the Portfolio or that sufficient bonds could be acquired to attain the yields stated.



## 4.5 INVESTMENT PROCESS

The Manager will be responsible for reviewing the investment universe to identify and establish a relationship with the appropriate market makers who deal in the Potential Investments.

Following the receipt of Application Monies and issue of Shares under the Offer, the Manager may engage market makers to propose a set of investments, or alternatively, may seek to internally identify attractive primary or secondary market issuances that adhere to the investment criteria of the Company. The Manager will consider this information, with particular regard to cash flow, maturity profile, credit quality, single company exposure, and total yield to maturity.

The Manager will liaise with the Board about details of the investment opportunities available. The Board will review the information and select the preferred set of investment opportunities.

The Manager is charged with the responsibility of executing the Board's investment decisions. The Manager will liaise with market makers and or other parties to negotiate the optimal pricing for all of the Company's investments and attempt to secure those selected by the Board.

The current Board members are all associated with the Manager. Accordingly there will be no independent review of investment decisions.

The Manager will report to the Board regularly on the progress in establishing the desired investments, and the availability of any new investment opportunities, until the portfolio is fully invested.

The Manager will be responsible for collecting all interest income that is paid by the underlying portfolio and directing this to the appropriate at call cash account, or from time to time, short dated term deposits.

The Manager will be responsible for monitoring the performance and risk parameters of investments and keeping the Board apprised of any market and/or company specific related developments that may impact on the investment.

## 4.6 RISK MANAGEMENT

The Portfolio will not be subject to diversification restrictions across asset classes. It will be open to the Manager to invest all or any part of the Company's funds in any of the Potential Investments.

Market conditions may change rapidly and the Manager retains an overall discretion to take advantage of opportunities as and when they arise, subject only to the limitations outlined below.

The Manager and the Board will apply the following management guidelines, including Portfolio restrictions:

- > Diversification limits – the Company must have a portfolio of underlying fixed income securities issued by at least 5 different issuers once fully invested.
- > Investment criteria – proposed investments must meet all of the key investment criteria set out in Section 4.3.
- > Portfolio construction limits – no more than 30% exposure to any single issuer once fully invested.

- > Cash management limits – the Manager is to place all cash in appropriate short dated term deposits or at call accounts and return excess cash to Shareholders during the next dividend payment period should such actions be in the best interest of Shareholders. Sufficient cash to pay taxes, management fees and other costs will be retained in the Portfolio.

## 4.7 MANAGER SPONSORED ISSUES

The Manager is presently considering opportunities to act as sponsor for wholesale debt issues to be undertaken for financial institutions. Such debt securities fall within the class of investments available to the Company for subscription.

If the Manager proceeds with such an issue, it may present the Company with the opportunity to participate in such an issue. Any such investment will be subject to prior approval by the Board of the Company.

## 4.8 CHANGES TO THE INVESTMENT STRATEGY

The investment policies, guidelines, and strategy outlined in Section 4 are expected to be implemented for at least an initial 12 month period. Thereafter, the Company and the Manager will consult with regard to implementing any changes to these policies, strategies and guidelines.

## 4.9 DIVIDEND POLICY

The Board intends to declare and distribute franked dividends every 6 months, at its discretion. As permitted in the Company's investment strategy, the Manager may take up to 6-12 months to invest cash raised. This may impact on the returns of the Company in its first year.

As a default, the Board intends to make dividend payments to Shareholders with the proceeds of interest payments, dividends and any capital gains received on investments, after allowing for tax and other costs, as soon as practical after they have been paid to the Company. (See Section 3.4 which sets out the costs incurred by the Company and the Manager).

Any dividends declared by the Company will be franked to the extent that available franking credits permit. These interest payments provided to the Company through the investments will be taxed in accordance with Australian taxation law. The effect of the Company paying tax is that, to the extent that such tax is paid, Australian franking credits may be generated. The Company intends to make these franking credits available to Shareholders, under Australian corporate law, by distributing them with declared dividends.

The Company intends to return cash to Shareholders by way of a capital return once the underlying investments mature, are redeemed or sold by the Company. A capital return cannot occur unless and until the Shareholders in a general meeting approve the terms of such capital return.

The Manager anticipates there will be a final capital return when the Company is wound up, following the maturity, redemption or sale by the Company of the longest dated investment.



It is anticipated that following the receipt of the final repayment amount from the longest dated investment, and the return of the bulk of those proceeds to Shareholders by way of the final capital return, the Board will seek to voluntarily wind up the Company. The Company will retain sufficient money to pay the costs of that voluntary winding up.

There will be no dividend reinvestment plan.

#### **4.10 GEARING POLICY**

The Company does not presently intend to gear the Portfolio.

Circumstances may occur whereby short term borrowing is deemed beneficial and, should this eventuate, the Company may borrow. The Company intends that borrowing and non-debt liabilities will be limited to 10% of the total tangible assets of the Company.

#### **4.11 RAISING FURTHER CAPITAL**

The Company may, at a future date, decide to raise further capital in the Company. A further issue may be contemplated if there is significant demand for investment in the Company, there are attractive fixed income instrument opportunities of which the Manager can take advantage with additional capital and it is beneficial to existing Shareholders. If such action is taken, it is not anticipated that this will have any effect on the anticipated end date of the Company.

#### **4.12 REPORTS TO SHAREHOLDERS**

The Manager intends to provide investors with quarterly performance updates in addition to the Annual Report and Half-yearly report of the Company. In order to minimise costs, the Manager will provide those documents to investors in electronic form unless a particular investor requires paper copies.

#### **4.13 COSTS – WORKED EXAMPLE**

The following is an example only of the impact of the cost structure of the Company on potential returns to investors. It is not intended to be definitive nor is it a forecast of returns for investors.

The Company anticipates that it will pay expenses for the ordinary operation of the Company (assuming there are no extraordinary actions, such as litigation involving the Company or the holding of extraordinary general meetings), of approximately \$40,000 per annum, representing 40 cents per Share if a subscription of \$10,000,000 is raised under the Offer at an issue price of \$100. This cost, per Share, will reduce as the amount raised under the Offer increases.

The Company will also pay an annual management fee of 0.59% (excluding GST) of the value of the Company's Portfolio, equivalent to a maximum of 59 cents per Share, assuming there is no change to the value of the Portfolio. Further, the Company will initially pay to the Manager a Handling Fee of 1.55% (excluding GST) of Application Monies provided with Application Forms bearing its stamp and a Structuring Fee of 0.25% (excluding GST) of the gross proceeds raised under this Prospectus. Assuming that a subscription of \$10,000,000 is achieved and that all Application Forms bear a Licensee's stamp (including the Issue Manager's stamp), the Handling Fee and the Structuring Fee are equivalent to a maximum of \$180,000 (excluding GST) and \$1.80 per Share respectively.





## 5. RISKS

### 5.1 GENERAL RISK FACTORS

The value of securities can change considerably over time and the value of an investment in the Company can increase and decrease with the value of the Portfolio. The fluctuation in value is known as volatility and the level of volatility depends on the type of investment, the performance of the asset and the overall economic conditions at a given point in time. Generally, in order of risk of asset classes, shares are the riskiest, followed by fixed income, then cash. As with most investments, performance is not guaranteed. These risks may result in loss of income and principal invested.

Investors can undertake a number of things to help minimise the impact of risk. First, get professional advice suited to their personal investment objectives, financial situation and particular needs. Nothing in this Prospectus can replace or offer that. Second, invest for at least the time frame recommended by their professional adviser.

The Company's investments may include, but are not limited to:

- > Senior bonds
- > Subordinated debt
- > Hybrid securities
- > Structured income securities
- > Government bonds
- > Cash and cash equivalents

The Company and Manager do not guarantee the return of capital or any rate of return in terms of income or capital or investment performance of the Company. The value of the Shares will reflect the performance of the investments selected by the Manager and current market conditions. There can be no certainty that the Manager will select investments that will generate returns to the satisfaction of the investor.

It is not possible to identify every risk associated with investing in the Company, however, the following provides a list of significant risks associated with the Company. There may be other risks associated with the Company.

#### A) MARKET RISK

Investment returns are influenced by market factors. In particular, fixed income securities market prices have in recent times experienced wide fluctuations, which in many cases may reflect a diverse range of non-entity specific influences including changes in the economic (e.g. changes in interest rates), legislative and political environment, as well as changes in investor sentiment. In addition, exogenous shocks, natural disasters and acts of terrorism can (and sometimes do) add to fixed income securities market volatility as well as impact directly on issuers, guarantors and associated operating entities. As a result, no guarantee can be given in respect of the future earnings of the Company or the earnings and capital maintenance of the Company's investments.

#### B) DEFAULT RISK

If counterparties to contracts with the Company, such as issuers of the relevant investments, do not meet their responsibilities (including as a result of the insolvency, financial distress or liquidation of the counterparty) this may have an effect on the performance of the Company.

In particular, issuers of fixed income securities may be unable to refinance debt on maturity of those securities and so may default on repayment of principal, in part or in whole, on maturity. Issuers may also be unable to pay interest or, in the case of hybrid securities, dividends due to, among other things, adverse financial conditions and adverse financial and/or operating performance of the issuer and its related parties.

Any such default will have an adverse impact on the financial performance of the Company.

#### C) INTEREST RATES

Any variation in short and long term interest rates could materially affect the operating results of the Company.

As the Portfolio will likely consist of some fixed income securities acquired shortly after the allotment of Shares under the Prospectus and as they will likely be an illiquid investment, any subsequent increase in interest rates in Australia may mean better yields could be achievable from investments in other products and capital losses could be incurred on those fixed income securities.

#### D) LIQUIDITY RISK

As the Company is unlisted, there is no active or liquid secondary market in which the Shares can be bought and sold, and there is no assurance that a Shareholder will be able to locate a willing buyer for the Shares. Even if a willing buyer is located, the buyer may not be prepared to pay the full value of the Share to the Shareholder who wishes to sell their investment, and any amount paid by the buyer may be less than the value that would have been achieved if there had been an active secondary market in which the Shares could have been traded.

#### E) POTENTIAL DELAY IN INVESTING CASH RAISED

The Company's investment strategy permits the Manager to hold cash or delay investments to take advantage of new investment opportunities. There remains a risk that there may not be any attractive issues to invest in immediately or shortly after raising of the cash under this Prospectus. This may impact on returns to the Company in the first year.

#### F) FIXED INCOME SECURITY TERMS

The terms of fixed income securities that are included in the Portfolio may be unsecured obligations of the issuers. It is likely secured debt obligations of the issuers will rank ahead of the Company's investments and therefore in a default event, the secured lenders would be repaid prior to the unsecured obligations of the issuer. There may be a deficiency in the assets of the issuer which may result in some of the obligations to the Company being unable to be met.

An investment in fixed income securities will usually be an investment in a wholesale investment product and therefore it is not regulated nor subject to the same protections as a security available to retail investors. By way of example, unlike debentures available for subscription by retail investors, there is no obligation under the Corporations Act for a wholesale bond issuer to appoint a trustee to hold the benefit of undertakings given by the issuer.



The fixed income security terms may allow the issuer to repay the principal prior to maturity at their election. This may occur, particularly if interest rates fall during the term. If this occurs the return on an investment in the Company may decrease and the company may be wound up earlier than anticipated. Conversely, an issuer may elect not to call a security at a call date and this may result in the Company having to hold that security longer than anticipated and potentially sell that security at a price lower than its face value.

#### **G) HIGH YIELD SECURITIES**

At any one time, some or all of the Company's Portfolio may be invested directly or indirectly in securities that are high yield securities.

High yield securities generally offer a higher current yield than that available from higher grade issuers, but typically involve greater risk. The market values of high yield securities tend to be more sensitive to issuer-specific developments and changes in economic conditions than higher rated securities. Issuers of these securities often are highly leveraged, and their ability to service their debt obligations during an economic downturn or periods of rising interest rates may be more readily impaired than issuers of higher rated securities. Issuers of high yield securities may not have access to more traditional methods of financing, and may be unable to repay their debt obligations at maturity by refinancing. As a result, high yield securities are especially subject to adverse changes in general economic conditions, to changes in the financial condition of their issuers and to price fluctuation in response to changes in interest rates. The risk of loss due to default in payment of interest or principal by these issuers is significantly greater than with higher rated securities because medium and lower rated securities generally are unsecured and subordinated to senior debt. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the values and liquidity of high yield securities especially in a market characterised by a low volume of trading.

#### **H) STRUCTURED INCOME SECURITIES-RELATED RISKS**

The Company may invest in or gain exposure to structured income securities such as ABS. These securities package together a range of debts owed by various entities with the aim of providing an income stream to the security holder. The indebted entities may display varying levels of creditworthiness, with lower rated entities typically expected to pay a higher premium and hence a higher return to security holders for funding. The value of these investments may be affected by factors including, but not limited to, the performance of the structured debt sector generally, prevailing financing rates, credit premiums, as well as general market conditions and sentiment.

Structured income securities may involve a party other than the borrower and lender. To the extent a particular structured income security's return is dependent on the creditworthiness or solvency of a third party, that security will be subject to third party risk.

#### **I) RMBS-RELATED RISKS**

The Company may invest in or gain exposure to RMBS. The value of these investments may be affected by factors including, but not limited to, property values (both actual and expected), levels of default in residential mortgages, borrowing rates, refinancing and pre-payment rates and the availability of mortgage lending.

The value of RMBS may be further affected by factors such as the

quality of mortgages within the security, the level of subordination in the security (both initially and over the life of the security) and general market performance and sentiment. The Company may also be subject to the performance of the RMBS sector generally. There is no guarantee that this sector will provide positive returns in the future. Observed trades in the market, whether connected with the Company's trading or otherwise, may also impact on the market price of the Company's investment in these securities.

#### **J) PROJECT SPECIFIC DEBT-RELATED RISKS**

The Company may invest in project specific debt. In addition to the risks associated with investing in other forms of fixed income, project specific debt has its own unique risks. Generally, project specific debt is non recourse and repayment depends entirely upon the cash flow generated by the project when completed. As a result, project specific debt may be exposed to specific risks such as construction completion risk, technical risk, environmental risk and refinancing risk.

#### **K) FAILURE TO RETURN CAPITAL**

As the Company does not propose to seek listing on ASX or another financial market, opportunities for investors to exit their investment are limited. The principal exit path for Shareholders comprises progressive reductions of capital as the Potential Investments mature or are redeemed or sold by the Company.

The Company's strategy to return capital to Shareholders following the maturity, redemption or sale by the Company of the Potential Investments held depends on the requisite majority of votes of 50% or more cast by Shareholders in favour of each return of capital being achieved. The decision of Shareholders to vote in favour of such resolution is a decision for each Shareholder and is not able to be controlled by the Company or the Manager. Consequently, it is not certain that the proposed capital returns will be undertaken, in which case Shareholders may not be able to realise their interest in the Company.

#### **L) FINANCIAL MARKET VOLATILITY**

A fall in global equity markets, global bond markets or a material change in the value of the Australian dollar against other major currencies may negatively impact the market value of Potential Investments at a given point in time.

Further, a fall in global equity markets or downturn in global and/or Australian business conditions may mean that the interest or payment due on maturity or the redemption or sale by the Company of the investments is not able to be paid by one or more of the issue companies. In this event, the yield on the investment will be lower than expected and/or an investor may not be repaid the full amount of their investment.

#### **M) OFFSHORE OPERATIONS RISK**

Some issuers or parent companies of issuers whose fixed income securities the Company will invest have substantial offshore operations. Future government actions in the relevant country or region concerning the economy, government intervention in that country's banking and finance sector, dealing with foreign entities, repatriation of funds, changes to corporate policies, taxation policies, environmental policies and change in political conditions could have an impact on the financial position and creditworthiness of these entities. Defaults may have a significant effect on the Company.





#### **N) DIFFERENT ACCOUNTING STANDARDS**

Investment in fixed income securities issued by non-Australian corporations or subsidiaries of non-Australian corporations may carry comparatively greater risk for the Company than Australian issuers.

There may be additional issues in the Manager's assessment of a foreign corporation's accounts and creditworthiness due to possible differences in accounting standards adopted in that corporation's jurisdiction compared with the recognised Australian accounting standards with which the Manager is familiar.

#### **O) DIFFERENT SECURITIES MARKET REGULATION AND LAW**

Foreign corporations may be subject to continuous disclosure obligations and laws that differ from those which govern Australian companies. This may have an impact on the level, type and quality of disclosure, transparency and management of a corporation whose substantial operations are conducted outside of Australia. This may make it more difficult for the Manager to assess the creditworthiness of the offshore operations and so expose the Company to comparatively greater risk than investing in investment opportunities issued by Australia-based entities.

#### **P) PARENT GUARANTORS**

For Australian dollar denominated fixed income securities issued by Australian subsidiaries of foreign corporations which are guaranteed by their parent corporation and to which credit ratings depend on such guarantee, any changes to the guarantee arrangements or the guarantor's financial position may impact on the credit rating of that issue. This in turn may affect the value of those securities.

#### **Q) POOR INVESTMENT PERFORMANCE**

The Company may not achieve its performance objectives or produce returns that are positive or compare favourably against its peers on a relative basis.

#### **R) RESTRUCTURING RISK**

Some issuers or parent companies of issuers whose fixed income securities the Company invests may undergo corporate restructurings that could have a negative impact on the ability of the issuing entity to service its debt obligations.

#### **S) NO OPERATING OR PERFORMANCE HISTORY OF THE COMPANY**

The Company has no financial, operating or performance history. The information in this Prospectus about the investment objectives of the Company are not forecasts, projections or the result of any simulation of future performance. There is a risk that the Company's investment objectives will not be achieved.

#### **T) TAXATION RISK**

Tax laws (including Australian tax laws) are in a continual state of change and reform which may affect the Company and Shareholders. Tax liabilities are the responsibility of each individual Shareholder. The Company is not responsible either for taxation or penalties incurred by Shareholders. Shareholders should consult their own taxation advisers to ascertain the tax implications of their investment.

#### **U) REGULATORY RISK**

The Company is exposed to the risk of changes to applicable laws or their interpretation, which may have a negative effect on the

Company, its investments or returns to Shareholders or the risk of non-compliance with reporting or other legal obligations.

#### **V) INDUSTRY RISK**

There are a number of industry risk factors that may affect the future operation or performance of the Company. These factors are outside the control of the Company. Such factors include increased regulatory and compliance costs and variations in legislation and government policies generally.

#### **W) SOVEREIGN RISK**

A foreign government may be unwilling or unable to pay debt due on a government bond the Company has invested in. This may be as a result of unfavourable economic or political conditions. Unlike other fixed income securities, legal recourse against default on government bonds is usually limited and as a result the recovery of principal in the event a foreign government defaults may be lower than other fixed income securities.

#### **X) CURRENCY RISK**

To the extent the Company invests in foreign denominated fixed income securities, the Company intends to hedge any foreign denominated investments to minimise its exposure to currency risk. Hedging can either directly or indirectly expose the Company to counterparty risk. If the counterparties to the hedge were to default the Company would then be exposed to foreign currency risk which could impact the returns of the Company.

Certain fixed income funds which the Company may invest in may not hedge their exposure to currency fluctuations. To this extent, the Company will also be exposed to currency risk.

#### **Y) FIXED INCOME FUND RISK**

In addition to risks specific to investing directly in fixed income securities, the performance of fixed income funds may be affected by other factors such as a funds' rules, objectives, investment strategy or asset allocation. Further, the investment managers of those funds may not be able to achieve the stated aims and objectives of their funds or the underlying manager selected by the Manager may cease to manage a particular underlying fund.

A fixed income fund may employ investment strategies that seek to profit from derivatives or that invest in foreign denominated fixed income securities. To the extent the Company invests in fixed income funds with these investment strategies, the Company will be exposed to derivatives risk and currency risk.

## **5.2 INVESTOR CONSIDERATIONS**

Before deciding to subscribe for Shares, Applicants should consider whether Shares are a suitable investment.

There may be tax implications arising from the Application for Shares, the receipt of dividends (both franked and unfranked) from the Company, and the disposal of Shares. Applicants should carefully consider these tax implications and obtain advice from an accountant or other professional tax adviser in relation to the application of tax legislation.

If you are in doubt as to whether you should subscribe for Shares you should seek advice on the matters contained in this Prospectus from a stockbroker, solicitor, accountant or other professional adviser immediately.





## 6. THE MANAGER

### 6.1 BUSINESS OF THE MANAGER

The Manager holds Australian Financial Services Licence Number 231143.

The Manager is a member of the Dixon Advisory Group which provides a comprehensive administration service and, where requested, financial and investment advice to over 3,700 self-managed super fund clients with a combined superannuation asset base in excess of \$3.5 billion. The Manager provides financial advisory, full service stock broking, corporate finance, funds management, estate planning, property and personal insurance services.

### 6.2 OTHER MANDATES

The Manager currently manages the investment portfolio of Australian Masters Yield Fund No 1 Limited which raised over \$90 million between October 2010 and February 2011. The fixed income securities managed for Australian Masters Yield Fund No 1 Limited include senior debt and subordinated debt issued by both Australian and international corporations denominated in Australian dollars and structured income securities.

The investment mandate of Australian Masters Yield Fund No 1 Limited is similar in scope to the Company. Under the investment mandate of Australian Masters Yield Fund No 1 Limited the Manager may invest in senior debt, subordinated debt, hybrid securities, structured income securities and other fixed income securities.

The Manager also manages a portfolio of interests of 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 and Australian Masters Corporate Bond Fund No 5 Limited (**AMCBF Series**). These companies completed issues of shares to raise approximately \$54 million in June 2008, approximately \$35 million in September 2008, approximately \$41 million in February 2009 and approximately \$72 million in June 2009 and approximately \$77 million from December 2009 to June 2010 respectively. Of the 40 unique corporate bond issuers held across the AMCBF Series, no issuer of bonds has defaulted on any of the terms and conditions of the bonds. The bonds managed within the AMCBF Series include bonds issued by Australian and international corporations denominated in Australian dollars.

The Manager is currently managing the investment portfolio of Global Resource Masters Fund Limited and Asian Masters Fund Limited, which are ASX listed investment companies adopting a “fund of funds” investment approach. The companies give Australian investors the opportunity to gain access to leading global fund products and managers (and as at the date of this Prospectus each have a market capitalisation on ASX of approximately \$111 million and approximately \$134 million respectively). The Manager also manages the Australian Governance Masters Index Fund Limited. This investment company tracks entities included in the S&P/ASX 100 Index with a corporate governance overlay, excluding companies with poor corporate governance ratings. As at the date of this Prospectus, this company has a market capitalisation of approximately \$56 million.

The Manager has not previously managed a portfolio of foreign issued fixed income securities other than the A\$ bonds issued by foreign corporations referred to above.

The Manager has limited experience dealing with wholesale fixed income fund managers. However the manager has extensive experience selecting fund managers of Asian equity funds and natural resource funds (as set out above).

### 6.3 ROLE OF THE MANAGER

The key personnel of the Manager with primary responsibility for the Portfolio of the Company will be Alan Dixon, Alex MacLachlan, and Chris Brown.

The primary role of the Manager is to:

- > Construct the initial portfolio of fixed income securities in accordance with Section 4 of this Prospectus.
- > Review information, research and analysis compiled by the Manager with respect to the ongoing monitoring of the Portfolio and, if appropriate, make required adjustments.
- > Ensure the cash component of the Portfolio is managed and in appropriate accounts.

### 6.4 POWERS OF THE MANAGER

The Manager is not permitted to make or implement any investment decisions in respect of an investment with a value in excess of \$2,000,000 without first obtaining the approval of the Company.

Subject to the above, the Manager has the discretion to manage the Portfolio in accordance with the investment strategy set out in Section 4. The Manager must seek approval from the Company if it wishes to undertake a proposed investment that is not consistent with the investment strategy or if it wishes to amend the investment strategy.

The Manager must comply with all proper and reasonable directions and instructions given to it by the Company. However the Company cannot require the Manager to undertake duties not imposed on the Manager by the Management Agreement, to act contrary to the Management Agreement or in a manner which in the reasonable opinion of the Manager will, or is likely to result in a breach by the Manager of the terms of the Management Agreement.





## 7. FINANCIAL INFORMATION

### 7.1 PRO FORMA UNAUDITED BALANCE SHEETS

The pro forma balance sheets set out below have been prepared to illustrate the financial position of the Company following completion of the Issue and expenditure of funds associated with the Offer. These pro forma balance sheets are intended to be illustrative only and will not reflect the actual position and balances as at the date of this Prospectus or at the completion of the Issue.

The pro forma balance sheets have been prepared in accordance with the accounting policies set out in Section 7.3 below.

The pro forma balance sheets are presented in summary form only and do not comply with the presentation and disclosure requirements of Australian Accounting Standards.

| ASSETS/LIABILITIES       | MINIMUM SUBSCRIPTION<br>\$10,000,000 RAISED (\$) | MAXIMUM SUBSCRIPTION<br>\$50,000,000 RAISED (\$) | OVER SUBSCRIPTION<br>\$150,000,000 RAISED (\$) |
|--------------------------|--|--|--|
| <b>ASSETS</b>            |  |  |  |
| > CASH                   | 9,815,501  | 49,077,501                                       | 147,232,501                                    |
| > DEFERRED TAX ASSET     | 55,350   | 276,750  | 830,250  |
| <b>LIABILITIES</b>       | –  | –  | –  |
| <b>NET ASSETS/EQUITY</b> | 9,870,851  | 49,354,251                                       | 148,062,751                                    |
| <b>NAV PER SHARE</b>     | 98.71  | 98.71  | 98.71  |

See Section 7.2 for assumptions made in preparing the pro forma unaudited balance sheets.

### 7.2 NOTES TO THE PRO FORMA UNAUDITED BALANCE SHEETS AND ASSUMPTIONS

A reconciliation of the pro forma cash balances is as follows:

|   | MINIMUM SUBSCRIPTION<br>\$10,000,000 RAISED (\$) | MAXIMUM SUBSCRIPTION<br>\$50,000,000 RAISED (\$) | OVER SUBSCRIPTION<br>\$150,000,000 RAISED (\$) |
|---|--|--|--|
| <b>INITIAL SUBSCRIBER SHARES – AT \$1 EACH</b>          | 1  | 1  | 1  |
| <b>PROCEEDS OF PROSPECTUS OFFER<br/>– AT \$100 EACH</b> | 10,000,000                                       | 50,000,000                                       | 150,000,000                                    |
| <b>COSTS OF THE OFFER – REFER TO SECTION 7.2(E)</b>     | (184,500)  | (922,500)  | (2,767,500)                                    |
| <b>ESTIMATED NET CASH POSITION</b>                      | 9,815,501  | 49,077,501                                       | 147,232,501                                    |

#### ASSUMPTIONS

The pro forma unaudited balance sheets have been prepared on the basis of the following assumptions:

- Application of the proposed accounting policies set out in Section 7.3;
- In the pro forma balance sheet entitled “Minimum Subscription \$10,000,000 raised”, reference is made to the subscription of 100,000 ordinary shares by Applicants under this Prospectus at an issue price of \$100 per share;
- In the pro forma balance sheet entitled “Maximum Subscription \$50,000,000 raised”, reference is made to the subscription of 500,000 ordinary shares by Applicants under this Prospectus at an issue price of \$100 per share;
- In the pro forma balance sheet entitled “Over Subscription \$150,000,000 raised”, reference is made to the subscription of 1,500,000 ordinary shares by Applicants under this Prospectus at an issue price of \$100 per share;
- Initial expenses related to the Issue to be paid by the Company include a Structuring Fee of 0.25% of the gross proceeds raised paid to the Issue Manager, a Handling Fee of 1.55% of the Application Monies provided with Application Forms bearing a Licensee’s stamp (including the Issue Manager) and the portion of these costs not entitled to a GST input tax credit in respect of all funds raised;
- The deferred tax asset is calculated by applying a 30% tax rate to the costs of the Offer which are deductible over 5 years provided the Company complies with the conditions of deductibility imposed by the law. Deferred tax asset recognition assumes that it is probable that there will be future taxable income against which the benefits of the tax deduction can be applied;



- g) The management fee for the first financial year of the Company is payable on conclusion of the Issue of Shares following the close of the Offer pursuant to this Prospectus. The fee that would be payable in each of the 3 scenarios outlined above for the period 17 May 2011 (the anticipated allotment date under this Prospectus) to June 30 2011 would be \$7,274, \$36,370 and \$109,110 respectively. These management fees have not been included in the above pro forma balance sheets as they relate to the cost of managing the assets of the Company and are not related to the offer of Shares; and
- h) No interest is earned by the Company during the offer period.

## 7.3 SIGNIFICANT ACCOUNTING POLICIES

### A) 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.

#### 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

- > where a financial asset is held within a business model for the objective to collect contractual cash flows; and
- > 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 expense 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.

At initial recognition of equity instruments measured at fair value, the company intends to irrevocably elect to present subsequent changes in fair value (gains and losses) of equity positions not

held for trading in other comprehensive income through an asset revaluation reserve.

Gains and losses on all other financial assets at fair value are recognised 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.

#### 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, reference to similar instruments and valuation techniques commonly used by market participants.

#### v) Impairment

At each reporting date, the entity assesses in respect of financial assets measured at amortised cost whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in profit or loss.

### B) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

### C) INCOME TAX

The income tax expense comprises current and deferred tax.

Current income tax expense is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities





(assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Current and deferred tax expense (income) is charged or credited directly to equity instead of 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 between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred 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 that are 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 reporting date. 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 exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

#### **D) 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.

#### **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.

#### **Dividend income**

Dividend income is recognised when the right to receive a dividend has been established.

All revenue is stated net of the amount of goods and services tax (GST).

#### **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 expense. Receivables and payables in the Balance Sheet are shown inclusive of GST.

The Company qualifies for Reduced Input Tax Credits (RITCs) at a rate of 75%; hence expenses are recognised net of the amount of GST recoverable from the Australian Taxation Office.

#### **Critical Accounting Estimates and Judgments**

The Directors evaluate estimates and judgments incorporated into recorded financial information 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.

## **7.4 PROCEEDS OF THE ISSUE**

The proceeds of the Issue will be used for investment opportunities that meet the Company's investment objectives as set out in Section 4.



## 8. DIRECTORS & CORPORATE GOVERNANCE



### 8.1 MAXIMILIAN WALSH AM, BEC (SYDNEY)

#### Non Executive Chairman

Max is regarded as one of Australia's leading economists and business journalists. He has specialised in the areas of business, economics and politics in a journalistic career spanning nearly 50 years.

He has been 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) and is presently Chairman of Australian Masters Yield Fund No 1 Limited, the AMCBF Series, Asian Masters Fund Limited, Global Resource Masters Fund Limited and Deputy Chairman of Dixon Advisory and Superannuation Services Pty Limited. Max is also a director of the Australia Governance Masters Index Fund Limited.

Max will be the Chairman of the Board. It is expected that Board meetings will initially be held monthly and, after establishment of the Portfolio, at least quarterly and more frequently as required. His commitment of time to these activities will depend on a number of factors including the size of the Portfolio, the spread of investments in the Portfolio and the state of investment of the Portfolio.



### 8.2 ALEX MACLACHLAN BA (CORNELL), MBA (WHARTON)

#### Non Executive Director

Alex MacLachlan is Managing Director, Funds Management of Dixon Advisory & Superannuation Services Limited and Managing Director of Global Resource Masters Fund Limited, a director of Australian Masters Yield Fund No 1 Limited, the AMCBF Series, and Asian Masters Fund Limited, and is an independent director of vanEyk Three Pillars Limited.

Prior to joining the Manager, 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 derivatives 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 will attend Board meetings. It is expected that Board meetings will initially be held monthly and, after establishment of the Portfolio, at least quarterly and more frequently as required. His commitment of time to these activities will depend on a number of factors including the size of the Portfolio, the spread of investments in the Portfolio and the state of investment of the Portfolio.



### 8.3 CHRIS BROWN BChem Eng Hons (Sydney Uni), BCom (Sydney Uni)

#### Non Executive Director

Chris Brown is Managing Director, Strategy of Dixon Advisory & Superannuation Services Limited. He is a director of Australian Masters Yield Fund No 1 Limited, the AMCBF Series, and is an independent director of vanEyk Three Pillars Limited.

Prior to joining the Manager, Chris was an Executive Director at UBS AG in the Investment Banking Division in Sydney. Over his 8 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, healthcare, consumer products, media, telecoms, technology, insurance and utilities. Prior to joining UBS, Chris also 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 will attend Board meetings. It is expected that Board meetings will initially be held monthly and, after establishment of the Portfolio, at least quarterly and more frequently as required. His commitment of time to these activities will depend on a number of factors including the size of the Portfolio, the spread of investments in the Portfolio and the state of investment of the Portfolio.



#### **8.4 DARYL DIXON MA (HONS) (CAMBRIDGE), BA (HONS) (UQ)**

##### **Non Executive Director**

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

Daryl is Executive Chairman of Dixon Advisory & Superannuation Services Limited, a financial advisory firm which has now over \$3.5 billion of funds under administration. He has special expertise in personal and self managed super fund strategies, as well as extensive experience as a direct share investor in his own right.

Daryl is a director of Australian Masters Yield Fund No 1 Limited and the AMCBF Series. He is also a director of HCF Life and has worked previously for the International Monetary Fund, the Federal Treasury, Department of Finance and the Social Welfare Policy Secretariat. He was a member of the Fraser Government's Occupational Superannuation Task Force.

Daryl will attend Board meetings. It is expected that Board meetings will initially be held monthly and, after establishment of the Portfolio, at least quarterly and more frequently when required. His commitment of time to these activities will depend on a number of factors including the size of the Portfolio, the spread of investments in the Portfolio and the state of investment of the Portfolio.



#### **8.5 ALAN DIXON BCOM (ANU) CA**

##### **Non Executive Director**

Alan has been providing financial advisory services to corporations, institutions and individuals for over 15 years. Until December 2000, he worked for various investment banks, including ABN AMRO (where he was an Associate Director in Mergers and Acquisitions and Equity Capital Markets) and Ord Minnett Corporate Finance. Since January 2001, he has operated as Managing Director of the Dixon Advisory Group. Dixon Advisory provides a complete suite of financial services, employs over 260 people and has over \$3.5 billion of funds under administration across over 3,700 self managed super funds. Alan has a Bachelor of Commerce from the Australian National University and is a Member of the Institute of Chartered Accountants in Australia. Alan is also a SPAA Accredited SMSF Specialist Advisor™.

Alan is a director of Australian Masters Yield Fund No 1 Limited and the AMCBF Series. Alan is also an independent director of vanEyk Three Pillars Limited.

Alan will attend Board meetings. It is expected that Board meetings will initially be held monthly and, after establishment of the Portfolio, at least quarterly and more frequently when required. His commitment of time to these activities will depend on a number of factors including the size of the Portfolio, the spread of investments in the Portfolio and the state of investment of the Portfolio.

#### **8.6 NO INDEPENDENT DIRECTORS**

All of the members of the Board are persons connected with the Manager and are involved in the management of the business of the Manager. There are no independent Directors on the Board of the Company.

While it is generally considered desirable for a public company to have one or more independent directors, given the relatively static nature of the Portfolio to be held and rigid investment strategy, the Board believes that it is not necessary for the Company to have an independent director.



## 8.7 CORPORATE GOVERNANCE POLICIES

The Board has the responsibility of ensuring the Company is properly managed so as to protect and enhance Shareholders' interests in a manner that is consistent with the Company's responsibility to meet its obligations to all parties with which it interacts. To this end, the Board has adopted what it believes to be appropriate corporate governance policies and practices having regard to its size and the nature of activities.

The main corporate governance policies are summarised below.

### **APPOINTMENT AND RETIREMENT OF DIRECTORS**

It is the Board's policy to determine the terms and conditions relating to the appointment and retirement of Directors on a case-by-case basis and in conformity with the requirements of the Corporations Act.

### **DIRECTORS' ACCESS TO INDEPENDENT PROFESSIONAL ADVICE**

It is the Board's policy that any committees established by the Board should:

- > Be entitled to obtain independent professional or other advice at the cost of the Company, unless the Board determines otherwise.
- > Be entitled to obtain such resources and information from the Company including direct access to employees of and advisers to the Company as they might require.
- > Operate in accordance with terms of reference established by the Board.





## 9. TAXATION

The following only provides a general overview of the taxation implications for Australian resident investors acquiring, holding and disposing of shares in the Company acquired under this Prospectus.

These comments do not apply to Australian investors that are banks, insurance companies and taxpayers that carry on business of trading in shares, or hold the shares on revenue account.

The comments set out in this Section do not constitute tax advice. The comments are intended to be a guide only and are not intended to be a detailed analysis of all taxation legislation applicable to all prospective investors.

The income tax implications may vary depending on the characteristics of each investor and their specific circumstances. This summary should not be relied upon by prospective investors as a substitute for detailed advice and each prospective investor should consult his or her own tax adviser as to the taxation implications of investing in the Company.

The summary is based on the law as enacted at 21 March 2011. References to the Tax Act below are references to the Income Tax Assessment Act 1936 and Income Tax Assessment Act 1997 as appropriate.

### 9.1 COMPANY TAXATION

The Company will be subject to Australian income tax on its worldwide income as an Australian resident company.

It is envisaged the Company's main source of income will be by way of interest, dividend distributions and gains on the disposal of investments whether in the form of debt or equity interests. Where this income is taxed in a foreign jurisdiction, the Company may be entitled to a credit for any foreign tax paid.

#### DIVIDEND PAYMENTS

Dividend payments will be subject to the benchmark franking rule, which effectively requires all dividend payments to be franked to the same extent as all frankable distributions in a franking period (which is generally 12 months unless the Company is listed).

#### DEDUCTIONS

Where expenses are incurred by the Company in gaining income, the deductions will generally be available for offset against that income.

#### FOREIGN SOURCE INCOME

Where the Company derives income from foreign sources, that income may be subject to foreign withholding tax under the relevant tax legislation of the country where the income is sourced.

Where foreign withholding tax has been imposed on the foreign source income, the Australian taxation rules may allow the Company a foreign tax credit for the withholding tax already paid. Any foreign tax credits allowed to the Company may be applied to reduce the Australian tax payable by the Company under the Australian income tax laws.

Foreign taxes do not generate franking credits for the Company. Therefore the payment of foreign taxes reduces the Company's

ability to pay fully franked dividends to the Shareholders to the extent dividends comprise earnings from foreign source income.

The Company intends to distribute earnings received from foreign sourced income to Shareholders. Therefore, if the Company receives foreign sourced income, it may have to pay some unfranked dividends to Shareholders, and it is possible that a portion of the foreign source income will effectively be taxed twice (once at the foreign source and again in the hands of Shareholders).

#### TAXATION OF FINANCIAL ARRANGEMENTS (TOFA) RULES

The TOFA rules provide the method by which gains and losses from financial arrangements are brought to account for tax purposes.

While the TOFA rules do not apply to a financial arrangement that is constituted by a share in a company held by an individual investor in these circumstances, the TOFA rules may apply in respect of the company's investment in the various securities that the company is proposing to acquire. This may affect the calculation of the taxable income of the Company.

### 9.2 INVESTOR TAXATION

#### GENERAL OVERVIEW

Shareholders in a company are generally taxed on dividends received and are subject to the capital gains tax (CGT) rules upon the disposal of their shares in the Company.

#### RECEIPT OF DIVIDENDS

Generally speaking, dividends received from the Company by an Australian resident investor (either directly or indirectly through a partnership or trust) are included in their assessable income in the year in which the dividend is paid.

To the extent that dividends are franked, the franking credits attached to the franked dividend are also included in the assessable income of the Shareholder. However the Shareholder should be entitled to a tax credit equivalent to the franking credit received to offset against the Australian tax payable on the dividend.

#### INDIVIDUAL AND COMPLYING SUPER FUND INVESTORS

An individual or complying super fund investor is able to receive a tax refund in a particular year if the franking credits attached to the dividend exceed the tax payable on the investor's taxable income.

#### CORPORATE INVESTORS

Corporate investors should be entitled to a franking credit in its own franking account and a tax offset in respect of any franking credits attached to a franked dividend.

If the franking credits exceed the tax payable on taxable income, the corporate investor is not entitled to a refund of the excess franking credits. However the surplus franking credits may be converted to a tax loss which can be carried forward to future years (subject to the Company satisfying certain loss carry forward rules).



## OTHER INVESTORS

Shareholders who are residents of Australia for tax purposes who are neither individuals nor trustees of complying superannuation funds nor companies should consider how they should be treated in relation to the taxation of dividends paid to them by the Company. Such investors include exempt bodies and the trustees of trusts other than complying superannuation funds.

## HOLDING PERIOD

The Tax Act previously contained rules requiring a Shareholder to hold shares in a Company 'at risk' for a period of more than 45 days before being entitled to the franking credits attached to dividends. The legislation was repealed as at 1 July 2002 and is expected to be re-enacted in the Tax Act, effective from 1 July 2002. On this basis the Tax Office is administering the law on the basis that the 45 day holding period rule continues to apply.

To be held 'at risk' the investor must retain 30% or more of the risks and benefits associated with holding the shares. Where an investor undertakes risk management strategies in relation to the shares (i.e. by the use of options or other derivatives) the investor's ability to satisfy the 'at risk' requirement may be affected.

## PAY AS YOU GO WITHHOLDING TAX (PAYG)

Investors may choose to provide their tax file number, Australian Business Number or a relevant exemption to the Company.

In the event that the Company is not so notified, the Company will be required to deduct tax at the highest personal marginal tax rate of 45% plus Medicare Levy from the payment of unfranked dividends to investors.

The PAYG tax deducted should be offset against the tax payable on the unfranked dividend in respect of Australian resident investors.

Withholding tax may be withheld from unfranked dividends paid to non-residents.

## DEDUCTIBILITY OF BORROWING COSTS

In general, investors should be entitled to a deduction for interest incurred on borrowings used to purchase shares in the Company. The interest cost may not be deductible to the investor where the thin capitalisation rules apply to limit the interest deduction.

## GOODS AND SERVICES TAX (GST)

The GST implications for investors in the Company are dependent on the GST position of the investor.

There should be no GST consequences for an investor that is not registered or required to be registered for GST as there is no GST on the issue of shares in the Company.

For an investor that is registered or required to be registered for GST, there should be no GST consequences as there is no GST on the issue of shares in the Company.

The investor may not be entitled to input tax credits on any acquisitions relating to the acquisition of the shares. However the investor may be entitled to input tax credits under the Reduced Input Tax Credit provisions (Division 70 of the A New Tax System (Goods and Services Tax) Act 1999 (GST Act)) for certain costs or with regard to the Financial Acquisitions Threshold (Division 189 of the GST Act).

## CGT IMPLICATIONS ARISING FROM THE DISPOSAL OF SHARES IN THE COMPANY

Where shares in the Company are acquired on capital account by an investor, any gain or loss realised on the sale of the shares is taxed in accordance with the CGT rules.

The capital gain/loss is broadly calculated as the difference between the sale proceeds less the tax cost base of the shares. The tax cost base includes a number of elements such as the initial acquisition price for the shares adjusted for any return of capital (see below) and incidental costs such as buying and selling costs.

Capital gains/losses realised on the disposal of the shares should be aggregated with any other capital gains or capital losses realised by the investor for the income year in which the sale occurs. Where shares in the Company are held for more than 12 months, a CGT discount of 50% should be available to individual Shareholders (and 33.33% for superannuation fund investors).

The net capital gain is included in the investor's assessable income.

Any net CGT loss is not deductible against other assessable income but is quarantined and carried forward to be offset against capital gains realised by the investor in a later income year (corporate investors may be required to satisfy certain loss rules to be entitled to utilise carried forward losses).

## SHARE BUYBACK/CAPITAL REDUCTIONS

The Company intends to return surplus capital to Shareholders by way of capital reduction/share buyback.

Generally speaking the capital reduction/ share buyback amount is allocated to the Company's share capital account and/or its retained earnings account. As a result:

- > the amount allocated to the Company share capital account is treated as a return of capital; and
- > the amount allocated to retained profits is treated as a dividend and frankable in accordance with the benchmark franking rules.

The amount allocated to the share capital account is taken to be a return of capital and the investor is required to reduce the tax cost base of the shares by the amount returned. If the amount returned is more than the tax cost base of the shares the investor is required to reduce the tax cost base to nil and is assessed on a capital gain for the surplus amount returned above the cost base.

If the Company proceeds to effect a capital reduction by a redemption of shares or buy back and the capital component of the redemption/ buy-back price is less than the tax cost base of the shares the relevant Shareholder may not be eligible for a capital loss.

The Commissioner of Taxation may cause returns of capital to be taxable to recipients (in whole or in part) as unfranked dividends in certain circumstances where capital is being returned in substitution for dividends. As far as possible, the Directors intend to structure the capital returns so that none of the amount returned is treated as dividend.



## 10. INVESTIGATING ACCOUNTANT'S REPORT



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

23 March 2011

Dear Directors

### INVESTIGATING ACCOUNTANTS' REPORT ON PRO FORMA FINANCIAL INFORMATION

#### Introduction

Deloitte Touche Tohmatsu (Deloitte) has been engaged by the Directors of Australian Masters Yield Fund No 2 Limited (the Company) to prepare this Investigating Accountants' Report (Report) for inclusion in a Prospectus to be issued by Australian Masters Yield Fund No 2 Limited on or about 23 March 2011 in connection with the offer of up to 500,000 fully paid ordinary shares in the Company at an offer price of \$100 per share (Prospectus). Further, the Company has established a provision for acceptance of oversubscriptions for a further 1,000,000 fully paid ordinary shares at \$100 per share.

The minimum shares offered under this Prospectus are 100,000 ordinary shares which would raise \$10 million based on an offer price of \$100 per share. If this minimum number of 100,000 ordinary shares are not subscribed for within 4 months from the Opening Date, the Company will repay all money received from Applicants within 7 days from the completion of 4 months.

The offer is not underwritten.

References to Australian Masters Yield Fund No 2 Limited and other terminology used in this report have the same meaning as defined in the Glossary of the Prospectus.

#### Pro Forma Financial Information

Deloitte has been requested to prepare a report covering the following pro forma financial information:

- The pro forma balance sheets of the Company on completion of the Issue as set out in Section 7.1 of the Prospectus;
- The pro forma assumptions on which the pro forma balance sheets are based as described in Section 7.2 of the Prospectus; and
- The notes to the above pro forma financial information of the Company as set out in Sections 7.2 and 7.3 of the Prospectus.

(Collectively the Pro Forma Financial Information).

The Pro Forma Financial Information has been derived from the records of the Company after reflecting the pro forma assumptions as described in Section 7.2 of the Prospectus.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited



The Directors of the Company are responsible for the preparation and presentation of the Pro Forma Financial Information, including the determination of the pro forma assumptions on which the pro forma balance sheets have been based.

The Pro Forma Financial Information is presented in an abbreviated form insofar as it does not include all of the disclosures required by Australian Accounting Standards (including the Australian Accounting Interpretations) applicable to annual financial reports prepared in accordance with the Corporations Act 2001.

#### Scope

##### *Review of the Pro Forma Financial Information*

We have reviewed the Pro Forma Financial Information in order to report whether anything has come to our attention which causes us to believe that the Pro Forma Financial Information set out in Section 7 of the Prospectus is not presented fairly in accordance with the basis of preparation as described in Section 7.1 of the Prospectus.

Our review has been conducted in accordance with Australian Standard on Review Engagements (ASRE) 2405 “*Review of Historical Financial Information Other than a Financial Report*”. We have made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances, including:

- Analytical procedures on the Pro Forma Financial Information;
- A review of work papers, accounting records and other documents;
- A review of the pro forma assumptions on which the pro forma balance sheets are based as described in Section 7.2 of the Prospectus;
- A comparison of consistency in application of the recognition and measurement principles in Australian Accounting Standards (including the Australian Accounting Interpretations), and the accounting policies adopted by the Company as disclosed in Section 7.3 of the Prospectus; and
- Enquiry of the directors and management of the Company.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Pro Forma Financial Information.

#### Review Statement

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that:

- the pro forma balance sheets set out in Section 7.1 have not been properly prepared so as to present fairly, in all material respects, the pro forma financial position of the Company following completion of the Issue; and
- the assumptions and significant accounting policies adopted and summarised in Sections 7.2 and 7.3 of the Prospectus do not form a reasonable basis for the pro forma balance sheets

in accordance with the basis of preparation as described in Section 7.1 of the Prospectus.



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#### **Subsequent Events**

Apart from the matters dealt with in this Report, and having regard for the scope of our Report, no other material transactions or events outside of the ordinary business of the Company have come to our attention that would require comment on, or adjustments to, the information contained in Section 7 of the Prospectus, or would cause such information to be misleading or deceptive.

#### **Independence and Disclosure of Interest**

Deloitte Touche Tohmatsu does not have any interest in the outcome of this Offer other than the preparation of this Report and participation in the due diligence procedures for which normal professional fees will be received.

Deloitte Touche Tohmatsu is the independent auditor of Australian Masters Yield Fund No 2 Limited.

*Deloitte Touche Tohmatsu*  
Deloitte Touche Tohmatsu

**Michael Kaplan**  
Partner  
Chartered Accountants





## 11. MATERIAL CONTRACTS

The Directors consider that the material contracts described below and elsewhere in this Prospectus are the contracts which an investor would reasonably regard as material and which investors and their professional advisers would reasonably expect to find described in this Prospectus for the purpose of making an informed assessment of the Offer.

This report only contains a summary of the material contracts and their substantive terms.

### 11.1 MANAGEMENT AGREEMENT

The Company has appointed the Manager to manage the Portfolio of the Company and the Manager will manage and supervise all investments for the term of the Management Agreement.

#### POWERS OF MANAGER

Subject to the Corporations Act, the Company's investment policies and any written guidelines issued by the Company from time to time, the Manager will, from time to time and on and from the date the Company allots and issues not less than 100,000 Shares pursuant to the Offer (Commencement Date), manage the Portfolio and the investments on behalf of the Company.

The Manager is not permitted to make or implement any investment decisions in respect of an investment with a value in excess of \$2,000,000 without first obtaining the approval of the Company.

Investments that may be made by the Manager are limited to the following:

- a) cash; and
- b) Securities, including, specifically fixed income securities; and
- c) any other financial instruments incidental to managing a fixed income portfolio which the Manager may lawfully deal including in accordance with the Manager's AFS Licence, or where the Manager itself acts as authorised representative of a third party holding an AFS Licence, or deals through a third party with an AFS Licence, that third party's AFS Licence.

Subject to the above, the Manager has the discretion to manage the Portfolio and to do all things considered necessary or desirable in relation to the Portfolio, including:

- a) the investigation of, negotiation for, acquisition of, or disposal of, every investment;
- b) to sell, realise or deal with all or any of the investments or to vary, convert, exchange or add other investments in lieu of those investments;
- c) if any investments are redeemed, or the capital paid on it is wholly or partly repaid by the entity by which that investment was created or issued, to convert that investment into some other investment or accept repayment of the capital paid or advanced on the investment and any other monies payable in connection with that redemption or repayment and to invest any of those monies in the purchase of investments to be added to the Portfolio;

- d) to retain or sell any Security or other property received by the Company by way of bonus, or in lieu of, or in satisfaction of, a dividend in respect of any investments or from the amalgamation or reconstruction of any company.

The Manager must comply with all proper and reasonable directions and instructions given to it by the Company. However the Company cannot require the Manager to undertake duties not imposed on the Manager by the Management Agreement to act contrary to the Management Agreement or in a manner which in the reasonable opinion of the Manager will, or is likely to result in a breach by the Manager of the terms of the Management Agreement.

#### VALUATION

The Manager must arrange for the calculation of the value of the Portfolio at least every 6 months.

#### MANAGEMENT FEE

In return for the performance of its duties as Manager of the Company, the Manager is entitled to be paid, and the Company must pay to the Manager, (which remuneration is to be retained for the use and benefit of the Manager) a Management Fee equivalent to:

- a) in respect of the period from the Commencement Date to 30 June 2011, 0.59% per annum of the gross proceeds raised under this Prospectus. By way of example, if gross proceeds were \$50,000,000 and the date of issue of Shares was 17 May 2011, the Management Fee for the period to 30 June 2011 would be approximately \$36,370;
- b) in respect of the balance of the term of the Management Agreement, 0.59% per annum of the value of the Portfolio, payable in advance and calculated on the basis of the value of the Portfolio on 30 June each year. If 30 June in any year during the term of the Management Agreement does not fall on a Business Day, the relevant date for calculation will be the Business Day before 30 June; and
- c) in addition, in respect of any financial year where there is an issue of Shares other than under the Prospectus, 0.59% per annum of the increase in Value of the Portfolio as a result of that further issue on a pro rata basis.

The amount payable under (a) is payable by the Company to the Manager within 10 Business Days of the date of the final allotment of shares upon closing the offer, or such later date that the Company has received sufficient earnings from its Portfolio to make such payment.

In respect of the period from 1 July 2011 to 30 June 2012, the amount payable under (b) is payable by the Company to the Manager in advance within 10 Business Days of 30 June 2011 or such later date that the Company has received sufficient earnings from its Portfolio to make such payment. In respect of the balance of the term of the Management Agreement, the amount payable under (b) is payable by the Company to the Manager in advance within 10 Business Days of each 30 June.



If the Management Agreement is terminated part way through an annual period the Manager is not required to pay to the Company or account for any part of a Management Fee that has been paid to the Manager.

## EXPENSES

The Company is liable for and must pay out of the Portfolio (or if paid by the Manager, reimburse the Manager out of the Portfolio) the following 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 this Agreement:

- a) all stamp duties, financial institutions duty, bank account debits tax and taxes incurred by the Company or the Manager (or both) in connection with:
  - i) the acquisition and negotiation of any Investment or Proposed Investment;
  - ii) any sale or proposed sale, transfer, exchange, replacement or other dealing or proposed dealing with or disposal or proposed disposal of any Investment;
  - iii) the receipt of income or other entitlements from the Investments of the Portfolio;
  - iv) the engagement of any custodian to hold any Investment on behalf of the Company; and
- b) the costs of calling and holding general meetings of the Company;
- c) fees payable to ASIC or any other regulatory body;
- d) outgoings in relation to the Portfolio such as insurance premiums, rates, levies, duties and taxes;
- e) all costs, legal fees, fees, disbursements and expenses, commissions and brokerage incurred by the Company or the Manager (or both) in connection with:
  - i) the acquisition and negotiation of any Investment or Proposed Investment;
  - ii) any sale or proposed sale, transfer, exchange, replacement or other dealing or proposed dealing with or disposal or proposed disposal of any Investment;
  - iii) the engagement of any custodian to hold any Investment on behalf of the Company; and
- f) independent legal advice obtained by the Directors of the Company in accordance with the Company's corporate governance policy;
- g) the costs associated with undertaking distributions, returns of capital, share buy backs or other reductions of capital;
- h) the costs associated with raising additional capital;
- i) the costs associated with any winding up of the Company;
- j) fees payable to the Approved Valuer for valuations undertaken under the Management Agreement;
- k) all accounting and audit costs of the Company whether or not in relation to the Portfolio;
- l) costs associated with maintaining a share register; and
- m) any software licensing or software subscription fees in connection with risk monitoring, investment research, accounting and valuation specifically in relation to the Portfolio incurred by the Manager approved by the Board.

## TERM

The Management Agreement is for an initial period (Initial Term) commencing on the Commencement Date and expiring on the date 5 years after the Commencement Date, unless terminated earlier in accordance with its terms. The Management Agreement will be automatically extended upon the expiry of the Initial Term for a further term of 1 year and, if not terminated earlier, on each subsequent anniversary of the expiry of the Initial Term.

## TERMINATION

The Manager may terminate the Management Agreement at any time after the first anniversary of the Commencement Date by giving to the Company at least 6 months' written notice. The Company may remove the Manager and terminate the Management Agreement after the expiration of the Initial Term on 3 months' prior written notice.

The Company may immediately terminate the Management Agreement on the occurrence of any of the following:

- a) an insolvency event occurs with respect to the Manager;
- b) the Manager breaches its obligations under the Management Agreement in a material respect and the breach cannot be remedied, or if it can be remedied, the Manager does not remedy that breach within 30 days after the Company has notified the Manager in writing to remedy the breach;
- c) 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;
- d) the Manager persistently fails to ensure that investments made on behalf of the Company are consistent with the Company's investment strategy; or
- e) the licence under which the Manager performs its obligations is suspended for a period of not less than 1 month or cancelled at any time and the Manager fails to obtain an authorisation enabling it to perform its obligations under the Agreement from a third party holder of a licence.

## COMPANY INDEMNITY

The Company must indemnify the Manager against any losses or liabilities reasonably incurred by the Manager arising out of, or in connection with, and any costs, charges and expenses (including legal expenses on a solicitor/own client basis) incurred in connection with the Manager or any of its officers, employees or agents acting under the Management Agreement or on account of any bona fide investment decision made by the Manager or its officers or agents except insofar as any loss, liability, cost, charge or expense is caused by the negligence, default, fraud or dishonesty of the Manager or its officers or employees. This obligation continues after the termination of the Management Agreement.

## MANAGER INDEMNITY

The Manager must indemnify the Company against any losses or liabilities reasonably incurred by the Company arising out of, or in connection with, and any costs, charges and expenses incurred in connection with any negligence, default, fraud or dishonesty of the Manager or its officers or supervised agents. This obligation continues after the termination of the Management Agreement.





## 11.2 ISSUE MANAGER AGREEMENT

The Company has appointed the Issue Manager to act as issue manager of the issue under this Prospectus for the purposes of Section 911A(2)(b)(ii) of the Corporations Act.

In return for acting as the issue manager for the Offer and for assuming all costs associated with preparing and structuring the initial arrangements required for ordinary operation of the Company including costs incurred for the following:

- > preparation and lodgement of the Prospectus and obtaining all advisory services including legal and accounting services;
- > initial share registry fees;
- > typesetting and graphic design; and
- > printing.

The Issue Manager is entitled to be paid:

- a) a Handling Fee equivalent to 1.55% (excluding GST) of the Application Monies provided with Application Forms bearing its stamp. The Issue Manager may stamp all unstamped Applications and receive a 1.55% Handling Fee on such Applications; and
- b) a Structuring Fee equivalent to 0.25% (excluding GST) of the gross proceeds raised under the Prospectus.

The Handling Fee and Structuring Fee are one-off payments and are payable to the Issue Manager within 14 days of the issue of Shares under this Prospectus.

## 11.3 DIRECTOR 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 from when they cease to be Directors.

The Company has agreed to indemnify, to the extent permitted by the Corporations Act, 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.





## 12. ADDITIONAL INFORMATION

### 12.1 INCORPORATION

The Company was incorporated on 28 June 2010.

### 12.2 BALANCE DATE

The accounts for the Company will be made up to 30 June annually.

### 12.3 COMPANY TAX STATUS

The Company will be taxed as a public company.

### 12.4 RIGHTS ATTACHING TO THE SHARES

Immediately after issue and allotment, the Shares will be fully paid ordinary shares in the capital of the Company. There will be no liability on the part of Shareholders for any calls.

Detailed provisions relating to the rights attaching to the Shares are set out in the Company's constitution and the Corporations Act. A copy of the constitution can be inspected during office hours at the registered office of the Company.

The detailed provisions relating to the rights attaching to Shares under the constitution and the Corporations Act are summarised below:

Each Share confers on its holder:

- a) the right to receive notice of and to attend general meetings of the Company and to receive all financial statements, notices and documents required to be sent to them under the constitution, the Corporations Act;
- b) the right to vote at a general meeting of Shareholders (whether present in person or by any representative, proxy or attorney) on a show of hands (1 vote per Shareholder) and on a poll (1 vote per Share on which there is no money due and payable) subject to the rights and restrictions on voting which may attach to or be imposed on Shares (at present there are none);
- c) the right to receive dividends, according to the amount paid up or credited as paid on the Share;
- d) the right to receive, in kind, the whole or any part of the Company's property in a winding up (with the consent of members by special resolution); and
- e) subject to the Corporations Act, Shares are fully transferable.

The rights attaching to Shares may be varied with the approval of Shareholders in general meeting by special resolution.

### 12.5 MATTERS RELEVANT TO THE DIRECTORS

Except as set out in this Prospectus, there are no interests that exist at the date of this Prospectus and there were no interests that existed within 2 years before the date of this Prospectus that are or were interests of a Director or a proposed Director in the promotion of the Company or in any property proposed to be acquired by the Company in connection with its formation

or promotion. Further, except as set out in this Prospectus, there have been no amounts paid or agreed to be paid to a Director in cash or Securities or otherwise by any persons either to induce a Director to become or qualify as a Director or otherwise for services rendered by a Director in connection with the promotion or formation of the Company.

Maximilian Walsh, Chairman of the Company, holds 1 Share in the Company. No other Director or an Associate of a Director holds any interest in any Security in the Company.

It is the intention of all the Directors to apply for Shares via this Prospectus. However, at the date of this Prospectus, no Director has made a determination as to how many Shares he will be applying for under this Prospectus.

### 12.6 REMUNERATION OF DIRECTORS

Under the Company's constitution, each Director may be paid remuneration for ordinary services performed as a Director. However, the current Directors have agreed not to be paid any remuneration for the services they perform as Directors.

### 12.7 RELATED PARTY TRANSACTIONS

As at the date of this Prospectus, the Company is a party to the following transactions with related parties and future related parties:

- a) Messrs Maximilian Walsh, Daryl Dixon, Alan Dixon and Chris Brown are Directors of the Company and of the Issue Manager and Manager. Alex MacLachlan is a Director of the Company and Managing Director, Funds Management of the Issue Manager and Manager. In connection with the provision of services as Issue Manager, the Issue Manager is entitled to receive Handling Fees of 1.55% of all funds received in respect of Applications lodged bearing its stamp and may retain any interest earned on the Application Monies held on trust pending the issue of Shares to successful Applicants. Also, it will receive a Structuring Fee of 0.25% of the gross proceeds raised under the Prospectus. The Manager is entitled to receive a management fee of 0.59% per annum of the gross value of the Portfolio;
- b) each Director has entered into a director protection deed with the Company. See Section 11.3.

### 12.8 EXPENSES OF THE OFFER

The Issue Manager will receive a one-off Structuring Fee of 0.25% of the gross proceeds raised under this Prospectus and will assume all the associated costs of preparing and structuring the initial arrangements required for the ordinary operation of the Company along with the expenses of the Offer. The Company will also pay a Handling Fee equal to 1.55% of the Application Monies provided with Application Forms bearing a Licensee's stamp. The Issue Manager may receive this Handling Fee.



The table below sets out these expenses using sample figures for the amount of capital raised under the Offer:

| AMOUNT RAISED | STRUCTURING FEE<br>(EXCLUDING GST) | HANDLING FEE<br>(EXCLUDING GST) |
|---------------|------------------------------------|---------------------------------|
| \$10,000,000  | \$25,000                           | \$155,000                       |
| \$50,000,000  | \$125,000                          | \$775,000                       |
| \$150,000,000 | \$375,000                          | \$2,325,000                     |

The expenses of the Offer that have been paid or are payable by the Issue Manager are estimated below, according to the amount of funds raised on the Issue. Accordingly these costs will not be deducted from the proceeds of the Offer.

| AMOUNT<br>RAISED | ASIC FEES<br>(GST FREE) | LEGAL AND<br>ACCOUNTING<br>FEES<br>(EXCLUDING<br>GST) | OTHER COSTS<br>(EXCLUDING<br>GST) |
|------------------|-------------------------|---|-----------------------------------|
| \$10,000,000     | \$2,068                 | \$33,000  | \$89,000                          |
| \$50,000,000     |                         |   | \$92,000                          |
| \$150,000,000    |                         |   | \$97,000                          |

## 12.9 LEGAL PROCEEDINGS

The Company is not and has not been, during the 12 months preceding the date of this Prospectus, involved in any legal or arbitration proceedings which have had a significant effect on the financial position of the Company. As far as the Directors are aware, no such proceedings are threatened against the Company.

## 12.10 CONSENTS AND RESPONSIBILITY STATEMENTS

**Watson Mangioni Lawyers Pty Limited** has given, and before lodgement of the paper Prospectus and the issue of the Electronic Prospectus has not withdrawn, its written consent to be named as solicitors to the Offer in the form and context in which it is so named.

**Watson Mangioni Lawyers Pty Limited** has only been involved in the preparation of that part of the Prospectus where they are named as solicitors to the Offer. Watson Mangioni Lawyers Pty Limited specifically disclaims liability to any person in the event of any omission from, or any false or misleading statement included elsewhere in this Prospectus. While Watson Mangioni Lawyers Pty Limited has provided advice to the Directors in relation to the issue of the Prospectus and the conduct of due diligence enquiries by the Company and the Directors, Watson Mangioni Lawyers Pty Limited has not authorised or caused the issue of the Prospectus and takes no responsibility for its contents.

**Deloitte Touche Tohmatsu** has given, and before lodgement of the paper Prospectus and the issue of the Electronic Prospectus has not withdrawn, its written consent to being named in this Prospectus as Investigating Accountant to the Company in the form and context in which it is so named and the inclusion of its Investigating Accountant's Report in the form and context in which it appears in this Prospectus.

**Deloitte Touche Tohmatsu** has given, and before lodgement of the paper Prospectus and the issue of the Electronic Prospectus has not withdrawn, its written consent to being named in this Prospectus as auditor to the Company in the form and context in which it is so named.

**Deloitte Touche Tohmatsu** has not been involved in the preparation of any part of this Prospectus (other than its Investigating Accountant's Report) and specifically disclaims liability to any person in the event of omission from, or a false or misleading statement included in this Prospectus except in its Investigating Accountant's Report. Deloitte Touche Tohmatsu has not authorised or caused the issue of this Prospectus and takes no responsibility for its contents except its Investigating Accountant's Report.

**Dixon Advisory & Superannuation Services Limited** has given, and before lodgement of the paper Prospectus and the issue of the Electronic Prospectus has not withdrawn, its written consent to being named in the Prospectus as Manager of the Portfolio of the Company in the form and context in which it is so named.

**Dixon Advisory & Superannuation Services Limited** has given, and before lodgement of the paper Prospectus and the issue of the Electronic Prospectus has not withdrawn, its written consent to being named in the Prospectus as the Issue Manager for the Company in the form and context in which it is so named.

**Dixon Advisory & Superannuation Services Limited** has not been involved in the preparation of any part of this Prospectus and specifically disclaims liability to any person in the event of omission from, or a false or misleading statement included in the Prospectus. Dixon Advisory & Superannuation Services Limited has not authorised or caused the issue of this Prospectus and takes no responsibility for its contents.

**Registries Limited** has given, and before lodgement of the paper Prospectus and the issue of the Electronic Prospectus has not withdrawn, its written consent to being named in the Prospectus as the share registrar for the Company in the form and context in which it is so named.

**Registries Limited** has not been involved in the preparation of any part of this Prospectus and specifically disclaims liability to any person in the event of omission from, or a false or misleading statement included in the Prospectus. Registries Limited has not authorised or caused the issue of this Prospectus and takes no responsibility for its contents.

## 12.11 INTERESTS OF EXPERTS

Other than as set out below or elsewhere in this Prospectus, no expert nor any firm in which such expert is a partner or employee has any interest in the promotion of or any property proposed to be acquired by the Company.

Watson Mangioni Lawyers Pty Limited have acted as solicitors to the Offer and have performed work in relation to negotiating certain of the material contracts, preparing the due diligence program and performing due diligence enquiries on legal matters. In respect of this Prospectus, the Manager estimates that it will pay amounts totalling approximately \$20,000 (excluding GST, service fees and disbursements) to Watson Mangioni Lawyers Pty Limited.





Deloitte Touche Tohmatsu has prepared the Investigating Accountant's Report included in this Prospectus and have also performed work in relation to the due diligence enquiries on financial matters. In respect of this work, the Manager estimates it will pay amounts totalling approximately \$13,000 (excluding GST and disbursements) to Deloitte Touche Tohmatsu. The associated partnership, Deloitte Touche Tohmatsu, is also the appointed auditor of the Company.

Dixon Advisory & Superannuation Services Limited, in its capacity as Issue Manager, will receive a 1.55% (excluding GST) Handling Fee in respect of all funds received in respect of Applications lodged bearing its stamp and may retain any interest earned on the Application Monies held on trust pending the issue of Shares to successful Applicants. It will also receive a 0.25% (excluding GST) Structuring Fee in respect of gross proceeds raised under the Prospectus.

Certain partners, directors and employees of the above firms may subscribe for Shares in the context of the Offer.

Registries Limited has acted as share registrar to the Offer. In respect of this Prospectus, the Manager estimates that it will pay amounts totalling approximately \$7,000 (excluding GST and disbursements) to Registries Limited.





## 13. GLOSSARY

|                              |  |
|------------------------------|--|
| <b>ABS</b>                   | Asset Backed Securities  |
| <b>AEST</b>                  | Australian Eastern Standard Time   |
| <b>AFS LICENCE</b>           | Australian Financial Services Licence  |
| <b>AMCBF SERIES</b>          | 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 and Australian Masters Corporate Bond Fund No 5 Limited   |
| <b>APPLICANT</b>             | a person who submits an Application  |
| <b>APPLICATION</b>           | an application for Shares pursuant to this Prospectus  |
| <b>APPLICATION FORM</b>      | an application form in the form attached to this Prospectus  |
| <b>APPLICATION MONIES</b>    | the Application Price multiplied by the number of Shares applied for   |
| <b>APPLICATION PRICE</b>     | the issue price for each Share, being \$100  |
| <b>APPROVED VALUER</b>       | any duly qualified persons independent both of the Company and the Manager recommended by the Manager (who when making such recommendations must have regard to the particular type or types of investment which are to be the subject of the valuation) and appointed and instructed in writing by the Manager to value an investment for the purpose of the Management Agreement |
| <b>ASSOCIATE</b>             | has the meaning given by Division 2 of the Corporations Act  |
| <b>ASIC</b>                  | Australian Securities & Investments Commission   |
| <b>ASX</b>                   | ASX Limited, the Australian Securities Exchange  |
| <b>BBSW</b>                  | Bank Bill Swap Rate  |
| <b>BUSINESS DAY</b>          | a day, other than a Saturday or Sunday, on which banks are open for general banking business in Sydney   |
| <b>BPS</b>                   | basis points   |
| <b>CGT</b>                   | Capital Gains Tax  |
| <b>CLOSING DATE</b>          | Expected to be 10 May 2011   |
| <b>COMMENCEMENT DATE</b>     | the date the Company allots and issues not less than 100,000 ordinary shares pursuant to the Prospectus  |
| <b>COMPANY</b>               | Australian Masters Yield Fund No 2 Limited (ACN 144 883 509)   |
| <b>CORPORATIONS ACT</b>      | Corporations Act 2001 (Cth)  |
| <b>DIRECTORS OR BOARD</b>    | the board of directors of the Company  |
| <b>ELECTRONIC PROSPECTUS</b> | the electronic version of this Prospectus  |
| <b>GST</b>                   | Goods and Services Tax   |
| <b>GST ACT</b>               | A New Tax System (Goods and Services Tax) Act 1999   |
| <b>HANDLING FEE</b>          | 1.55% of the gross proceeds raised under this Prospectus (excluding GST)   |
| <b>ISSUE</b>                 | the issue of Shares in accordance with this Prospectus   |
| <b>INITIAL TERM</b>          | the period five years from the Commencement Date   |
| <b>ISSUE MANAGER</b>         | Dixon Advisory & Superannuation Services Limited (ACN 103 071 665)<br>(AFS Licence Number: 231143)   |



|                                  |   |
|----------------------------------|---|
| <b>ISSUE MANAGER AGREEMENT</b>   | the issue manager agreement between the Company and the Issue Manager dated on or about the date of this Prospectus   |
| <b>LICENSEES</b>                 | Australian Financial Services Licensees   |
| <b>MANAGEMENT AGREEMENT</b>      | the management agreement between the Company and the Manager dated on or about the date of this Prospectus  |
| <b>MANAGER OR DIXON ADVISORY</b> | Dixon Advisory & Superannuation Services Limited (ACN 103 071 665)<br>(AFS Licence Number: 231143)  |
| <b>MINIMUM SUBSCRIPTION</b>      | a minimum subscription of 100,000 Shares  |
| <b>OFFER</b>                     | the offer of up to 500,000 Shares (with the ability to receive oversubscriptions for a further 1,000,000 Shares) to Applicants whose Applications and Application Monies are received by the Company by 5:00pm (AEST) on the Closing Date |
| <b>OPENING DATE</b>              | expected to be 23 March 2011  |
| <b>OTC</b>                       | over the counter  |
| <b>PORTFOLIO</b>                 | the portfolio of investments of the Company from time to time   |
| <b>PAYG</b>                      | Pay As You Go Withholding Tax   |
| <b>POTENTIAL INVESTMENTS</b>     | those investments as detailed in Section 2.4 of this Prospectus   |
| <b>PROSPECTUS</b>                | this prospectus dated 23 March 2011 as modified or varied by any supplementary prospectus made by the Company and lodged with the ASIC from time to time  |
| <b>RMBS</b>                      | Residential Mortgage Backed Securities  |
| <b>SECURITIES</b>                | has the same meaning as in Section 92(3) of the Corporations Act  |
| <b>SHARE</b>                     | a fully paid ordinary share in the capital of the Company   |
| <b>SHARE REGISTRY</b>            | Registries Limited (ACN 003 209 836)  |
| <b>SHAREHOLDER</b>               | a registered holder of a Share  |
| <b>STRUCTURING FEE</b>           | 0.25% of the gross proceeds raised under this Prospectus (excluding GST)  |
| <b>TIER II SUBORDINATED DEBT</b> | term subordinated debt which is classified by the Australian Prudential Regulation Authority as Tier II capital for the purposes of determining the capital adequacy of an authorised deposit-taking institution                          |
| <b>TOFA</b>                      | Taxation of Financial Arrangements  |



# APPLICATION FORM



**AUSTRALIAN  
MASTERS  
YIELD**  
FUND No 2 LIMITED

Fill out this Application Form if you want to apply for shares in Australian Masters Yield Fund No 2 Limited (ACN 144 883 509).

- > Please read the Prospectus dated 23 March 2011.
- > Follow the instructions to complete this Application Form (see reverse).
- > Print clearly in capital letters using black or blue pen.

**OFFER CLOSES 10 MAY 2011 (unless closed earlier or extended)**

**BROKER REFERENCE – STAMP ONLY**

**BROKER CODE**

**ADVISER CODE**

**IMPORTANT PLEASE NOTE:**

The Company or the Issue Manager may be required under the Anti-Money Laundering/Counter-Terrorism Financing Act 2006 (Cth) or any other law to obtain identification information from Applicants. The Company reserves the right to reject any Application from an Applicant who fails to provide identification information upon request.

**A** NUMBER OF SHARES APPLIED FOR\*

@ A\$100 per Share =

**B** TOTAL AMOUNT PAYABLE\*

\*Minimum of 50 Shares to be applied for.

**C** WRITE THE NAME/S YOU WISH TO REGISTER THE SHARES IN (SEE REVERSE FOR INSTRUCTIONS)

|   |       |           |
|---|-------|-----------|
| <b>APPLICANT 1</b>                        | Title | Full Name |
| <b>APPLICANT 2 OR ACCOUNT DESIGNATION</b> | Title | Full Name |
| <b>APPLICANT 3 OR ACCOUNT DESIGNATION</b> | Title | Full Name |

**D** POSTAL ADDRESS

|                    |       |          |
|--------------------|-------|----------|
| Number/Street Name |       |          |
| <br>               |       |          |
| Suburb/Town        | State | Postcode |

**E** ENTER YOUR TAX FILE NUMBER/S, ABN, OR EXEMPTION CATEGORY

|             |                    |
|-------------|--------------------|
| Applicant 1 | Applicant 2        |
| Applicant 3 | Exemption Category |

**F** PLEASE ENTER DETAILS OF THE CHEQUE/S THAT ACCOMPANY THIS APPLICATION FORM:

| Drawer               | Chq No.              | BSB No.              | Acc No.              | A\$                  |
|----------------------|----------------------|----------------------|----------------------|----------------------|
| <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> |
| <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> | <input type="text"/> |
| <b>TOTAL</b>         |                      |                      |                      | <input type="text"/> |

**G** CONTACT TELEPHONE NUMBER (DAYTIME/WORK/MOBILE)

**H** EMAIL ADDRESS

**I** SHAREHOLDER COMMUNICATIONS

All correspondence will be sent electronically unless legally required otherwise or unless the box below is ticked.

Printed copy of shareholder communications required ☐

**J** ANNUAL REPORTS

Annual Reports will be published on the Company's website. If you still wish to receive a copy free of charge, select one of the following:

Electronic copy (emailed) ☐ Printed copy (posted) ☐

ARE YOU AN EXISTING CLIENT OF DIXON ADVISORY & SUPERANNUATION SERVICES LIMITED?

**YES**

☐

**NO**

☐

By submitting this Application Form, I/We declare that this Application Form is completed and lodged according to the Prospectus and the instructions on the reverse of the Application Form and declare that all details and statements made by me/us are complete and accurate. I/We agree to be bound by the constitution of Australian Masters Yield Fund No 2 Limited. I/We received the Electronic Prospectus together with the Application Form or a print out of them. I/We represent, warrant and undertake to the Company that our subscription for the above Shares will not cause the Company or me/us to violate the laws of Australia or any other jurisdiction which may be applicable to this subscription for Shares in the Company.

# GUIDE TO THE APPLICATION FORM

YOU SHOULD READ THE PROSPECTUS CAREFULLY BEFORE COMPLETING THIS APPLICATION FORM.

Please complete all relevant sections of the Application Form using BLOCK LETTERS.

These instructions are cross-referenced to each section of the Application Form.

|                  |   |                  |  |
|------------------|---|------------------|--|
| <b>A &amp; B</b> | If applying for Shares insert the number of Shares for which you wish to subscribe at Item A (not less than 50). Multiply by 100 AUD to calculate the total for Shares and enter the \$ Amount at Item B.   | <b>F</b>         | Complete cheque details as requested. Make your cheque payable to "Dixon Advisory Trust Account for AMYF No 2" cross it and mark it "Not Negotiable". Cheques must be made in Australian currency, and cheques must be drawn on an Australian Bank.                |
| <b>C</b>         | Write your full name. Initials are not acceptable for first names.  | <b>G</b>         | Enter your telephone number so we may contact you regarding your Application Form or Application.  |
| <b>D</b>         | Enter your postal address for all correspondence. All communications to you from the Company will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.   | <b>H</b>         | Enter your email address so we may contact you regarding your Application Form or Application or other correspondence.   |
| <b>E</b>         | Enter your Australian tax file number ("TFN") or ABN or exemption category, if you are an Australian resident. Where applicable, please enter the TFN/ABN of each joint Applicant. Collection of TFN's is authorised by taxation laws. Quotation of your TFN is not compulsory and will not affect your Application Form. | <b>I &amp; J</b> | The Company encourages you to receive Shareholder correspondence and the Annual Report electronically. The benefit to Shareholders are in the potential cost savings and the faster delivery of information. The benefits to the environment are also substantial. |

## CORRECT FORMS OF REGISTRABLE TITLE

Note that ONLY legal entities can hold the Shares. The Application must be in the name of a natural person/s, companies or other legal entities acceptable to the Company. At least one full given name and surname is required for each natural person.

Examples of the correct form of registrable title are set out below.

| TYPE OF INVESTOR            | CORRECT FORM OF REGISTRABLE TITLE                  | INCORRECT FORM OF REGISTRABLE TITLE |
|-----------------------------|--|-------------------------------------|
| INDIVIDUAL                  | Mr John David Smith                                | J D Smith                           |
| COMPANY                     | ABC Pty Ltd  | ABC P/L or ABC Co                   |
| JOINT HOLDINGS              | Mr John David Smith & Mrs Mary Jane Smith          | John David & Mary Jane Smith        |
| TRUSTS                      | Mr John David Smith<br><J D Smith Family A/C>      | John Smith Family Trust             |
| DECEASED ESTATES            | Mr Michael Peter Smith<br><Est Lte John Smith A/C> | John Smith (deceased)               |
| PARTNERSHIPS                | Mr John David Smith & Mr Ian Lee Smith             | John Smith & Son                    |
| CLUBS/UNINCORPORATED BODIES | Mr John David Smith<br><Smith Investment A/C>      | Smith Investment Club               |
| SUPERANNUATION FUNDS        | John Smtih Pty Limited<br><J Smith Super Fund A/C> | John Smith Superannuation Fund      |

## LODGEMENT

Deliver your completed Application Form with cheque/s attached to the following address:

Australian Masters Yield Fund No 2 Limited Share Offer  
c/- Dixon Advisory

### POSTAL:

GPO Box 575  
Canberra ACT 2601

### HAND DELIVERED:

**Canberra:** Level 1, 73 Northbourne Avenue, Canberra ACT 2601  
**Sydney:** Level 15, 100 Pacific Highway, North Sydney NSW 2060  
**Melbourne:** Level 2, 250 Victoria Parade, East Melbourne VIC 3002

It is not necessary to sign or otherwise execute the Application Form. If you have any questions as to how to complete the Application Form, please contact Dixon Advisory & Superannuation Services Limited on 1300 454 801.

Privacy Statement: Registries Limited advises that Chapter 2C of the Corporations Act 2001 (Cth) requires information about you as a shareholder (including your name, address and details of the shares you hold) to be included in the public register of the entity in which you hold shares. Information is collected to administer your share holding and if some or all of the information is not collected then it might not be possible to administer your share holdings. Your personal information may be disclosed to the entity in which you hold shares. You can obtain access to your personal information by contacting us at the address or telephone number shown on the Application Form. Our privacy policy is available on our website ([http://www.registriesltd.com.au/help/share\\_privacy.html](http://www.registriesltd.com.au/help/share_privacy.html))





MANAGER



**dixon**advisory

THIS PROSPECTUS HAS BEEN APPROVED BY  
UNANIMOUS RESOLUTION OF THE DIRECTORS OF  
**AUSTRALIAN MASTERS YIELD FUND NO 2 LIMITED**  
ACN 144 883 509

MAXIMILIAN WALSH **CHAIRMAN**  
23 MARCH 2011