AUSTRALIAN
MASTERS
YIELD
FUND SERIES

MARCH 2018 QUARTERLY UPDATE

AUSTRALIAN MASTERS YIELD FUND SERIES (AMYF SERIES) HIGHLIGHTS

FUND	DIVIDEND	FRANKED	TOTAL	CAPITAL RETURN	EXPECTED PAYMENT DATE
AMYF#4	$0.26	$0.11	$0.37	-	29 May 2018
AMYF#5	$0.33	$0.14	$0.47	-	29 May 2018

During the first quarter (Q1), AMYF3 and AMYF4 paid capital returns of $13.76 and $18.43 respectively alongside their December quarter dividends on 9 March. For AMYF3 this capital return represented the final return of capital for this fund.

During Q1, bonds issued by Morgan Stanley held in AMYF4 matured, and the capital and final coupon payment were received by the fund in February, with the capital distributed to shareholders in the returns outlined above.

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

MARKET HIGHLIGHTS

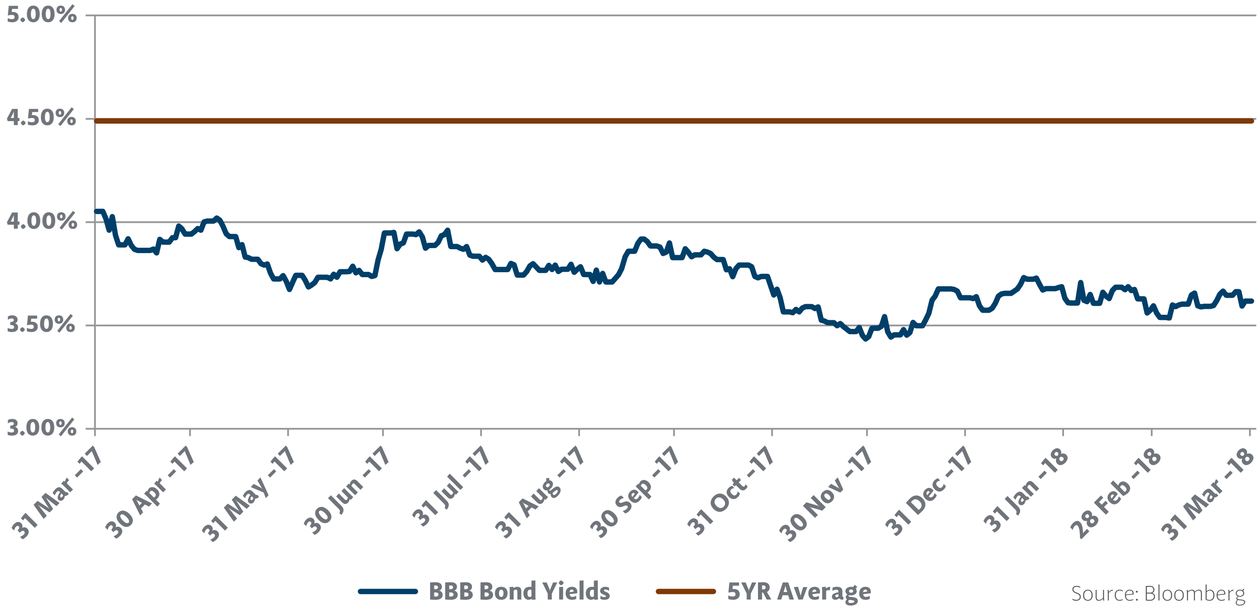
Global markets:

- Equity and fixed income markets were volatile in the March quarter. Improving US economic data, a positive US reporting season, President Trump's tax reforms and hawkish central bank comments resulted in an improved global growth and inflation outlook. An equity market correction in early February and escalating trade tensions between the US and China dampened both the prospect for growth and inflation and further dampened investor sentiment towards the end of March.
- The US Federal Reserve (**The Fed**) maintained an accommodative stance, but increased the target range for its federal funds rate by 25 basis points (bps) to between 1.50% and 1.75% at the March meeting of the Federal Open Market Committee (**FOMC**). The FOMC cited increased strength in the labour market, inflation and an increase in the 2018 growth outlook as reasons for the move.
- The European Central Bank (**ECB**) left key policy rates unchanged at its March policy meeting, reaffirming that the monthly bond purchasing rate of EUR30 billion will continue until at least September 2018, or until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. The ECB noted concerns over a strengthening euro, unclear Brexit impact, and rising trade protectionism fears that could be key risks for global growth, but nonetheless raised 2018 growth forecasts for the region by 0.1% to 2.4%.
- The 10-year US Treasury yield rose in Q1 from 2.41% to 2.74%, touching a high of 2.95% in mid-February as the economic outlook and indicators improved only to be partially unwound by the prospect of a US-China trade war. Credit spreads reached record lows in January, but widened rapidly in February and again in March due to increasing asset price volatility and geo-political risks.

Australian markets:

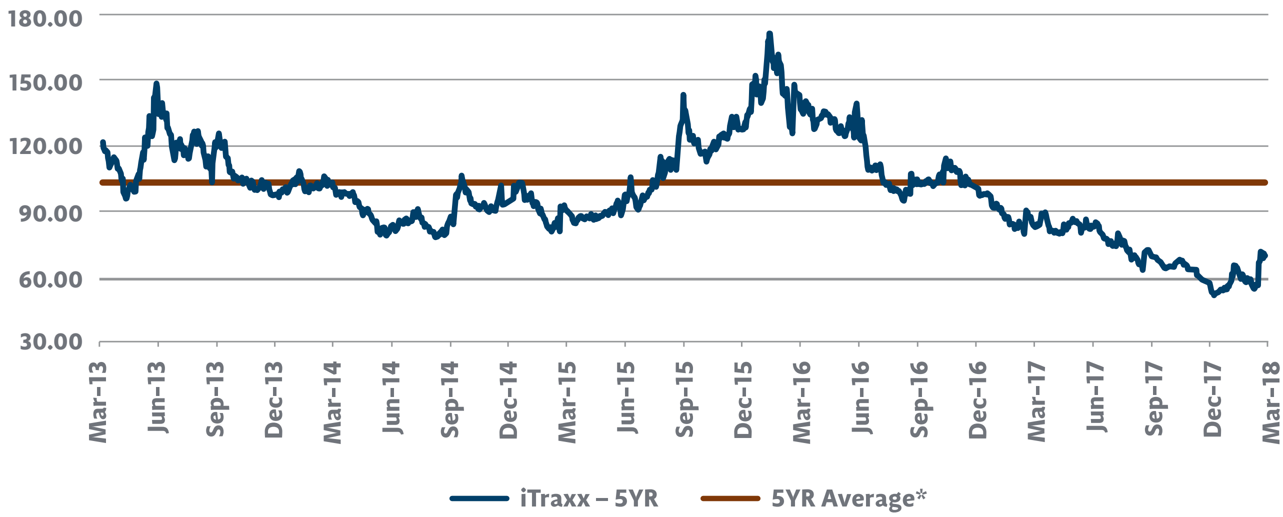
- The Reserve Bank of Australia (**RBA**) maintained its accommodative monetary policy position, leaving the cash rate unchanged at 1.5%, citing low inflation, low wages growth but continued growth in employment.
- The 10-year Australian Government Bond yield was broadly flat, declining from 2.63% to 2.60%, despite touching a high of 2.94% in early-February (following global rates higher), reflecting a low-inflation outlook and steady central bank policy.
- Short-term fixed income securities were also influenced by moves in offshore markets, with three-month bank bill yields rising 24 points to 2.02% during the quarter, primarily driven by increased issuance of US treasury bills and changes in corporate investment behavior following changes to US tax rules for capital repatriation.
- Corporate bond spreads widened, with the Australian iTraxx index mirroring moves in offshore credit instruments, rising from a low of 53 points in early January to 70 points by quarter's end.

AUSTRALIAN BBB 5YR CORPORATE BOND YIELDS



Source: Bloomberg

ITRAXX AUSTRALIAN CREDIT SPREADS



Source: Bloomberg. *5YR Average has been calculated for the period from 1 April 2013 to 30 March 2018. The iTraxx Australia Index is a liquid financial instrument generally used for hedging credit exposure. The Index is constructed of 25 evenly weighted Australian Credit Default Swaps (CDS), and is heavily represented by some of the largest and highest-rated issuers in the domestic market.

AMYF#4

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY	COUPONS RECEIVED JANUARY	COUPONS RECEIVED FEBRUARY	COUPONS RECEIVED MARCH
Morgan Stanley*	22-Feb-18		$10,000,000	$10,354,499	Diversified Financials	-	737,500	-
Lend Lease^	13-May-20		$15,000,000	$14,985,150	Infrastructure	-	-	-
Sydney Airports	20-Nov-20		$6,200,000	$7,514,834	Airline Infrastructure	-	81,033	-
TOTAL			$31,200,000	$32,854,483		-	818,533	-

AMYF#5

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY	COUPONS RECEIVED JANUARY	COUPONS RECEIVED FEBRUARY	COUPONS RECEIVED MARCH
Anglo American	27-Sep-18		$10,500,000	$10,381,350	Mining	-	-	-
IAG	19-Mar-40	19-Mar-19	$3,000,000	$3,000,000	Diversified Financials	-	-	33,916
Lend Lease^	13-May-20		$25,000,000	$24,975,250	Infrastructure	-	-	-
PRAECO	28-Jul-22	28-Jul-20	$4,710,000	$4,862,912	Private Public Project	83,986	-	-
Mirvac Group Finance	18-Sep-20		$10,000,000	$9,875,000	Real Estate	-	-	287,500
Sydney Airports	20-Nov-20		$6,000,000	$7,516,200	Airline Infrastructure	-	78,419	-
TOTAL			$59,210,000	$60,610,712		83,986	78,419	321,416

* Investment has been redeemed/sold.
^Partial redemption/sell down
Figures may not reconcile due to rounding