



AUSTRALIAN MASTERS  
CORPORATE BOND  
FUND SERIES

## QUARTERLY UPDATE

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### Summary

#### AMCBF SERIES HIGHLIGHTS:

- Shares in AMCBF 4 and 5 were listed on the Australian Stock Exchange (ASX) on 10 May 2011 under the tickers codes AKX and AKY
- All bonds held in the AMCBF 1 and 2 portfolios have matured, and a large volume of bonds within the AMCBF 3 and 4 portfolios have matured
- Dividends were paid by each fund over the quarter while AMCBF 1, 2, 3 and 4 also returned capital
- Following payment of the final capital returns for AMCBF 1 and 2 in July, the net issued capital per share for each fund has been repaid in full
- Shares in AMCBF 1 and 2 have subsequently been delisted from the ASX – the directors will seek shareholder approval to wind up the companies in line with the companies' overall exit strategy
- AMCBF 3, 4 & 5 continue to achieve their targeted yields, offering investors attractive returns with relatively low risk

#### BOND MARKET HIGHLIGHTS:

- Both government and investment-grade corporate bond yields continued to tighten over the quarter
- The June quarter saw strong bond issuance, with more than \$34 billion issued across 43 different issuers
- Issuance continues to be dominated by high-grade domestic financial issuers
- Credit market conditions continue to support a positive outlook for domestic credit issuance throughout the remainder of 2011

### Economic Review

Global economies are continuing to grow. In its most recent report, the International Monetary Fund (IMF) forecast average growth in advanced economies to be 2.2% in 2011 and 6.6% in emerging and developing economies, while China recently reported 9.5% gross domestic product (GDP) growth for the June quarter (year-on-year).

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However, a string of poor economic data out of the US, including unemployment rising during the June quarter to 9.2% from 8.8% in March, concerns about slowing global growth, continued European sovereign debt concerns and stalling US debt ceiling negotiations all contributed to turbulent financial markets over the June quarter.

On the domestic front, the Reserve Bank of Australia (RBA) continued to keep rates on hold throughout the June quarter, leaving the official cash rate unchanged at 4.75%. The RBA forecasts economic growth to be above 4% over the next year and average 3.75% through to the end of 2013. The unemployment rate remains relatively unchanged at around 5%, with most leading indicators suggesting a slow to moderate rate of growth in employment in the near term. The Australian Bureau of Statistics (ABS) reported an increase of 23,400 (to 11.5 million) in the number of people employed in June, resulting in a participation rate of 65.6%. The ABS also reported a 1.6% increase in the Consumer Price Index (CPI) over the March quarter. This was a 3.3% increase on the corresponding period last year. The RBA forecasts inflation of around 3% over the next year.

Australia's terms of trade remain at high levels and, as a result, national income has been growing strongly while the Australian dollar has remained at historical highs. However, there is continued evidence of a two-speed economy, with slowing growth across almost all sectors except for mining and finance. The National Australia Bank quarterly survey for June indicates the gap between weak and strong sectors is nearing historical highs and is attributed, in large part, to deterioration of weak sectors, rather than strengthening of strong sectors. For example, the retail sector is showing signs of weakening as major players such as David Jones reduce profit forecasts for the coming periods as consumers remain cautious. The IMF has indicated that for the first time since the 1990s bank deposit growth is higher than credit, contributing to a notable increase in national savings. Reflecting the growing strains on the economy, Westpac have recently forecast a possible rate cut in the order of 100 basis points over the remainder of 2011 and throughout 2012.

On 10 July 2011, the Australian Government announced the Clean Energy Future package, which included details of the Carbon Pricing Plan and Emissions Trading Scheme, set to come into effect from 1 July 2012. It is anticipated that many industries will pass on the increased costs to consumers in the form of price rises. As a result, the Government announced a restructuring of income tax payments and compensation to businesses to offset these costs. Treasury projects the overall impact on inflation to be 0.7% in the first year, with average household costs increasing by \$9.90 per week while average assistance will be \$10.10.

## Market Review

Australian government bond yields ended the June quarter lower, with yields falling across all tenors. Yields on one and three-year government bonds declined by 9 basis points (bps) and 28 bps, respectively, while yields on five and 10-year government bonds declined by 38 bps and 28 bps, respectively. One-year, three-year, five-year and 10-year Australian government bond yields closed at 4.70%, 4.76%, 4.87% and 5.21%, respectively.

For the year to date, the yield curve has continued to flatten, reinforcing market expectations that contractionary monetary policy will slow from the pace experienced earlier in the recovery.

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Australian swap rates tightened across all tenors over the quarter. While the one-year swaps were relatively steady, decreasing by 2 bps to 4.94%, three-year swaps decreased by 14 bps to 5.17% and five and 10-year swaps decreased by 16 bps and 15 bps to 5.52% and 5.85%, respectively.

Corporate bond rates were also tighter over the quarter with AAA, AA and A rated spreads decreasing by 21 bps, 17 bps and 22 bps, respectively, while BBB rated decreased by 37 bps as measured by Bloomberg's AUD Australia Domestic Three Year Corporate Bond Indices.

## Issuance Activity

Corporate bond issuance over the June quarter was higher compared to the March quarter. Total issuance topped \$34 billion across 43 different issuers, compared to \$27 billion across 35 different issuers in the March quarter, and was in line with the average of \$33 billion per quarter since January 2008.

Domestic issuance accounted for approximately \$28.5 billion, or 83%, of total issuance for the quarter, while \$5.9 billion worth of kangaroo bonds were also issued (kangaroo bonds refer to bonds issued in the Australian market by foreign firms).

The financial sector was again the largest contributor to total debt issuance for the quarter. A total of approximately \$27.2 billion was raised by the sector which included more than \$13.3 billion worth of issuance from the big four banks. Westpac Banking Corporation made the largest issuance of the four over the quarter, with close to \$4.5 billion of issuance.

Non-financial issuance amounted to \$2.2 billion for the quarter with the largest issuer being Westfield Retail Trust, which raised \$900 million in a six-year deal priced at 120 bps over the swap rate.

Semi-government issuance totalled more than \$4.8 billion, the bulk of which can be attributed to Queensland Treasury Corporation, which issued more than \$4 billion during the quarter. Other semi-government issuance came from the Northern Territory Treasury Corporation, which raised \$300 million and the Treasury Corporation of Victoria, which raised \$220 million.

### TOP 10 ISSUANCES BY ISSUE SIZE – JUNE QUARTER

DATE	ISSUER	AMOUNT (AUD MILLION)
15 Feb 11	Queensland Treasury Corporation	4,000
13 Jan 11	Commonwealth Bank of Australia (CBA)	2,500
24 Mar 11	Lloyds TSB Australia Branch	1,850
3 Mar 11	Royal Bank of Scotland (Australia Branch)	1,700
1 Feb 11	New South Wales Treasury Corporation (TCorp)	1,550
18 Feb 11	Barclays Australia Branch	1,500
20 Jan 11	Bank of Nova Scotia (Scotiabank)	1,000
20 Jan 11	IBRD Bank	1,000
11 Jan 11	Asian Development Bank	1,000
12 Jan 11	Rabobank Nederland Australia Branch	900

Source: Insto – Australian Financial Markets

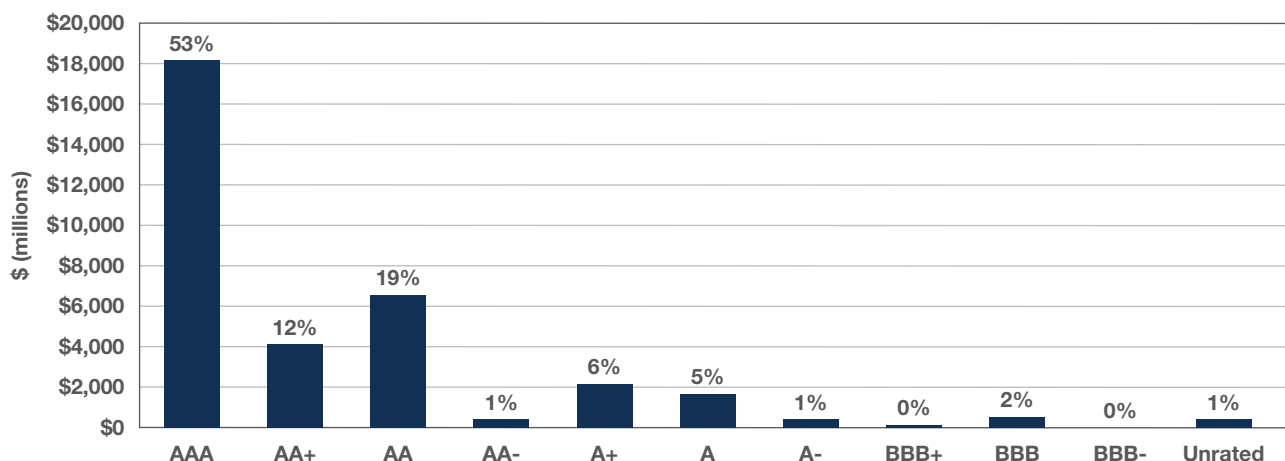
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AAA, AA+ and AA rated issues accounted for approximately 84%, or \$28.8 billion, worth of issuance volume for the quarter, while AA- to BBB rated issues constituted \$5.2 billion, or 15% of issuance volume.

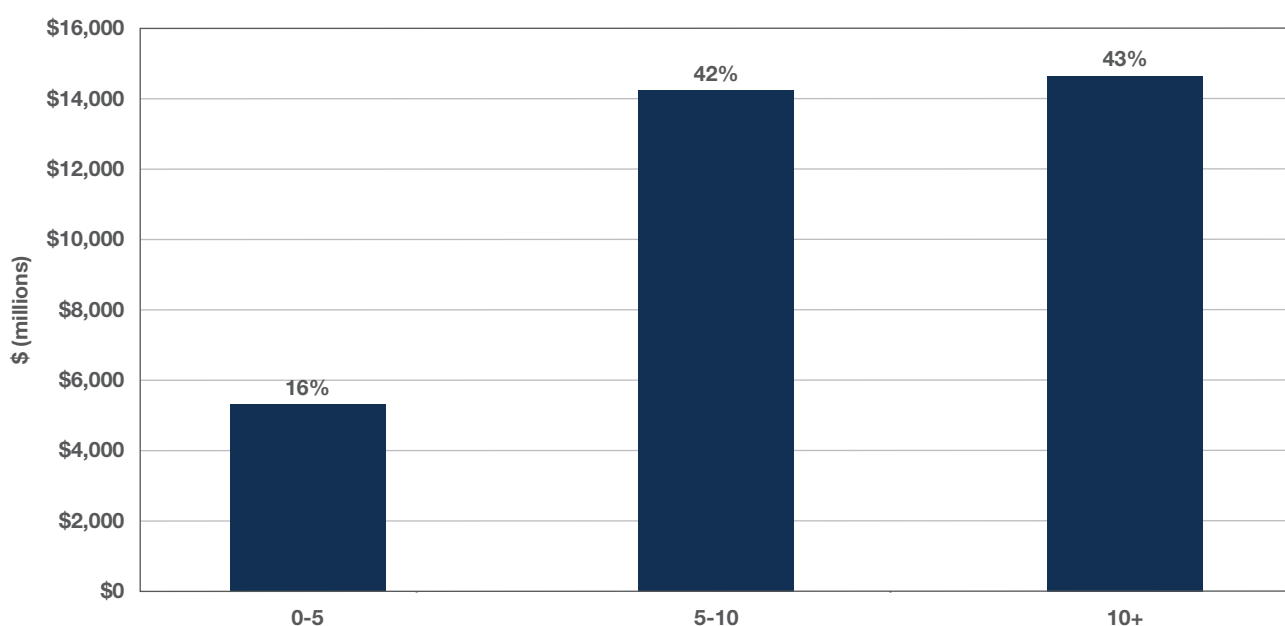
### TOTAL ISSUANCE BY CREDIT RATING – JUNE QUARTER



Source: Insto – Australian Financial Markets

Issuance within the five-year maturity range accounted for approximately 16% of total issuance based on transaction value, with 43% in the 5–10 year range and 41% of issues during the quarter having a maturity greater than 10 years. The average issuance tenor for the quarter was 9.8 years, which has increased substantially since January 2008 when the average issuance tenor was approximately 3.7 years.

### TOTAL ISSUANCE BY MATURITY TERM – JUNE QUARTER



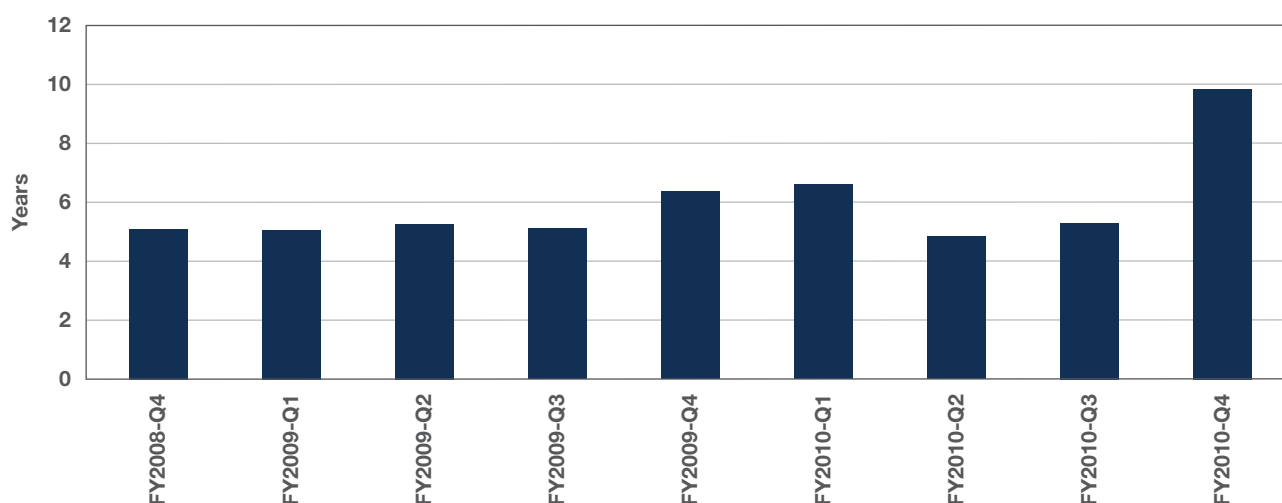
Source: Insto – Australian Financial Markets

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## AVERAGE ISSUANCE MATURITY TERM – Q4 2008 TO Q4 2011



Source: Insto – Australian Financial Markets

## AMCBF Activity

During the quarter, there were no new bond purchases made by any of the funds within the AMCBF series. AMCBF 3, 4 and 5 remain fully invested and continue to achieve their targeted yields, providing investors attractive returns with relatively with low risk.

The composition of each fund in the series is shown below:

AMCBF 1			
ISSUER	YTM AT PURCHASE	MATURITY	STATUS
Gpt Group	10.4%	7/11/10	Matured
Bank Of Queensland Limited	9.3%	2/12/10	Matured
Dexus Property Group	9.6%	8/2/11	Matured
Woolworths Limited	9.1%	14/3/11	Matured
St George Bank	9.0%	8/4/11	Matured
Westpac Banking Corporation	8.8%	18/4/11	Matured
Consolidated Media Holdings Limited	9.8%	6/5/11	Matured
Suncorp-Metway Limited	9.4%	30/5/11	Matured
National Australia Bank Limited	8.9%	15/6/11	Matured
Commonwealth Bank Of Australia	8.9%	24/6/11	Matured
Fairfax Media Limited	10.7%	27/6/11	Matured
Commonwealth Property Office Fund	9.5%	28/6/11	Matured

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AMCBF 2			
ISSUER	YTM AT PURCHASE	MATURITY	STATUS
Mirvac Group	8.1%	15/9/10	Matured
Mirvac Group	7.5%	15/9/10	Matured
Gpt Group	10.4%	7/11/10	Matured
Gpt Group	8.7%	7/11/10	Matured
Bank Of Queensland Limited	8.1%	2/12/10	Matured
Dexus Property Group	7.7%	8/2/11	Matured
Consolidated Media Holdings Limited	7.6%	6/5/11	Matured
Amp Limited	8.2%	16/5/11	Matured
Commonwealth Property Office Fund	8.5%	28/6/11	Matured

AMCBF 3			
ISSUER	YTM AT PURCHASE	MATURITY	STATUS
Mirvac Group	9.9%	15/9/10	Matured
Dexus Property Group	10.1%	8/2/11	Matured
Morgan Stanley	10.1%	22/2/11	Matured
Citigroup Inc	10.7%	22/3/11	Matured
Publishing & Broadcasting Finance Ltd	9.4%	6/5/11	Matured
Bank Of America Corporation	12.4%	15/6/11	Matured
Stockland Trust Group	8.6%	16/6/11	Redeemed
Fairfax Media Limited	17.7%	27/6/11	Matured
Transurban Group	9.6%	15/9/11	Current
Hsbc Group	13.0%	22/9/11	Current
Hsbc Group	14.1%	22/9/11	Current
Goldman Sachs Group Inc	8.5%	21/10/11	Current
General Electric Co	10.2%	15/11/11	Current
American Express Co	12.5%	5/12/11	Current

AMCBF 4			
ISSUER	YTM AT PURCHASE	MATURITY	STATUS
Sydney Airport Finance	8.3%	4/7/11	Redeemed
Energy Partnership Gas	8.7%	29/7/11	Current
Energy Partnership Gas	10.2%	29/7/11	Current
Hsbc Group	9.4%	22/9/11	Current
Hsbc Group	12.7%	22/9/11	Current
American Express Co	9.8%	5/12/11	Current
American Express Co	8.8%	5/12/11	Current

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AMCBF 4 CONT.			
ISSUER	YTM AT PURCHASE	MATURITY	STATUS
Citigroup Inc	10.3%	13/2/12	Current
Bank Of America Corporation	9.7%	16/2/12	Current
Consolidated Media Holdings Limited	10.0%	9/7/12	Current
Lend Lease Group	8.3%	30/7/12	Current
Holcim Limited	8.6%	7/8/12	Current
Morgan Stanley	9.5%	8/8/12	Current
General Electric Co	9.1%	17/8/12	Current
General Electric Co	9.2%	3/12/12	Current

AMCBF 5			
ISSUER	YTM AT PURCHASE	MATURITY	STATUS
Volkswagen Ag	7.5%	26/11/12	Current
Stockland Trust Group	8.3%	15/5/13	Current
Gpt Group	9.0%	22/8/13	Current
Downer Edi Limited	9.0%	29/10/13	Current
Downer Edi Limited	9.2%	29/10/13	Current
Downer Edi Limited	9.8%	29/10/13	Current
Downer Edi Limited	9.3%	10/29/2013	Current
Brisbane Airport	8.8%	11/12/13	Current
Goldman Sachs Group Inc	8.0%	24/6/14	Current
Leighton Holdings Limited	8.7%	28/7/14	Current
Dexus Property Group	7.4%	28/7/14	Current
Leighton Holdings Limited	9.1%	28/7/14	Current
Amp Limited	8.2%	5/10/14	Current
Sydney Airport Finance	9.5%	20/11/14	Current
Sydney Airport Finance	8.8%	20/11/14	Current
Cfs Retail Property Trust	8.1%	22/12/14	Current
Stockland Trust Group	8.6%	18/2/15	Current
Mirvac Group	8.4%	15/3/15	Current
Mirvac Group	7.3%	15/3/15	Current
Santos Limited	8.4%	23/9/15	Current
Santos Limited	7.1%	23/9/15	Current
Envestra Limited	10.4%	14/10/15	Current
Australia Pacific Airports	9.6%	14/12/15	Current
Australia Pacific Airports	9.1%	14/12/15	Current

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A number of dividends and capital returns were paid over the quarter and during July as outlined in the table below:

	DIVIDEND (UNFRANKED)	DIVIDEND (FRANKED)	CAPITAL RETURN
<b>AMCBF1</b>			
Amount	\$2.32	\$3.31	\$23.00
Payment Date	14-Apr-11		14-Apr-11
Amount	\$3.65	\$5.21	\$58.00
Payment Date	13-Jul-11		13-Jul-11
<b>AMCBF2</b>			
Amount	\$0.90	\$1.29	-
Payment Date	13-Apr-11		
Amount	-	-	\$34.10
Payment Date			14-Jul-11
<b>AMCBF3</b>			
Amount	\$2.70	\$3.86	\$17.00
Payment Date	7-Apr-11		7-Apr-11
Amount	\$3.16	\$4.51	\$12.80
Payment Date	12-Jul-11		12-Jul-11
<b>AMCBF4</b>			
Amount	\$3.20	\$4.57	\$4.42
Payment Date	21-Apr-11		21-Apr-11
<b>AMCBF5</b>			
Amount	\$2.84	\$4.06	-
Payment Date	15-Apr-11		

Following the payment of the final capital returns for AMCBF 1 and AMCBF 2 in July, the net issued capital per share for each fund will have been repaid in full. Shares in AMCBF 1 and 2 have subsequently been delisted from the ASX. The directors will seek shareholder approval to wind up the funds, in line with the overall exit strategy disclosed in both the Prospectus and Information Memorandum. It is anticipated that this will take place at a meeting of shareholders in the second half of the 2011 calendar year.

The directors will continue to keep shareholders informed of any developments.

While company announcements will no longer be available via the ASX, shareholders will be able to access announcements via the AMCBF series website available at:

**[www.corporatebondfund.com.au](http://www.corporatebondfund.com.au)**

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