AUSTRALIAN MASTERS YIELD FUND SERIES

AMYF SERIES QUARTERLY UPDATE

1 APRIL 2019 – 30 JUNE 2019

SUMMARY

AUSTRALIAN MASTERS YIELD FUND SERIES (AMYF SERIES) HIGHLIGHTS

	DIVIDEND	FRANKED	TOTAL	CAPITAL RETURN	EXPECTED PAYMENT DATE
AMYF4	$0.88	$0.15	$1.03	–	29 August 2019
AMYF5	$0.89	$0.28	$1.17	–	29 August 2019

During the second quarter (**Q2**), AMYF4 and AMYF5 paid fully franked March quarter dividends of $0.10 and $0.25 respectively. In addition, AMYF5 paid a capital return of $2.97 alongside the March quarter dividend, following the redemption of IAG subordinated notes which were called by the issuer in March 2019. Following quarter end, both funds also declared June quarter dividends, as tabled above.

All existing fixed income securities held within the portfolios of the AMYF Series performed as expected. The Investment Manager is proactively managing both funds and during the quarter took the opportunity to sell a small portion of bonds from each Fund into market strength.

Following quarter end, and as announced on 2 August 2019, the decision was made to sell all remaining assets within AMYF4 and AMFY5, taking into consideration the attractive pricing environment and expected yield to maturity of these bonds, through to maturity in 2020.

AMYF4 and AMYF5 will now seek to distribute proceeds received from the sales by way of capital returns and dividends. Any capital returns will be dependent on approval of the proposals at the next meeting of shareholders for each Company. As outlined in each Company's Information Memorandum, the directors intend to apply for suspension in trading on ASX following approval of the capital return with a view to a subsequent wind up.

MARKET HIGHLIGHTS

Global markets

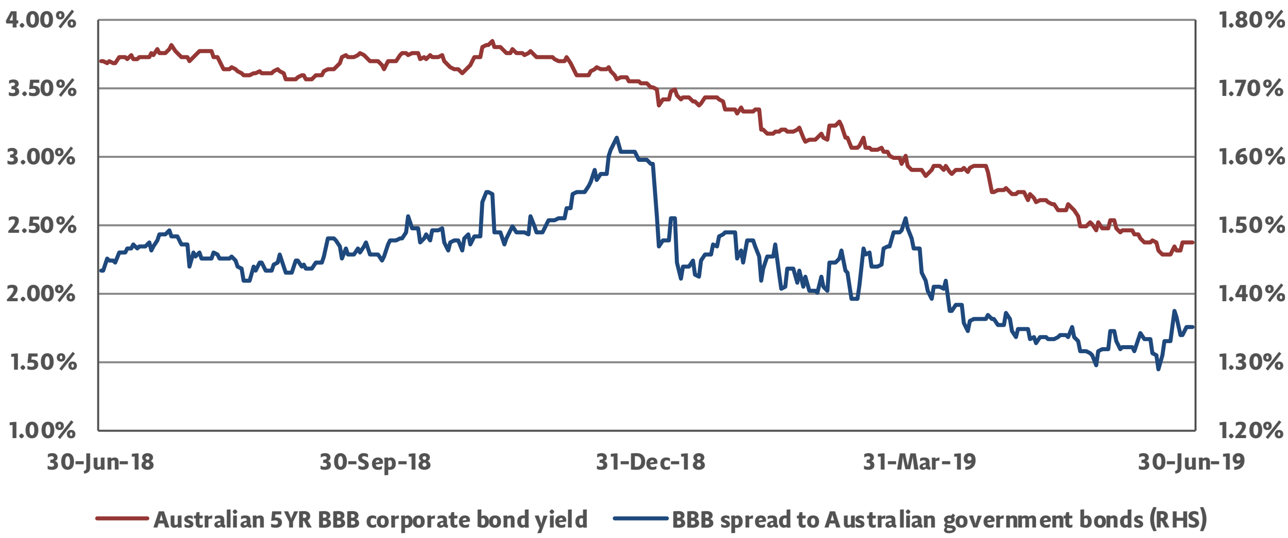
- Global equity markets performed well in the June quarter, up more than 5% despite some large swings in indices during this time. Positive sentiment from the March quarter carried into April. However, sentiment waned as US-China trade discussions took a backward step in May, before improving significantly in June following dovish comments by major central banks and improvements in the US-China trade negotiation. Meanwhile, emerging markets declined due to weaker economic activity in China and mounting geopolitical risks. In fixed income markets, the longer-term trend of declining yields continued amid declining inflation, expectations of synchronised interest rate cuts by major central banks and increasing risk aversion among investors.

- In the June quarter, the US Federal Reserve (**Fed**) maintained the federal funds rate range between 2.25% and 2.50%, however, the Federal Open Market Committee (**FOMC**) members pledged to take a "patient" approach in adjusting rates to sustain economic expansion and also signalled rate cuts in 2019. In Q2, the US Treasury curve inverted further to its deepest level since 2007, with the US 10-year Treasury yield declining from 2.41% to 2.01%.
- The European Central Bank (**ECB**) left key policy rates unchanged at its April and June policy meetings, citing downside risks to growth. The Governing Council reaffirmed the use of balance sheet measures for an extended period of time, and ECB President Mario Draghi signalled potential interest rate cuts and fresh stimulus measures in a bid to lift the Eurozone's economy and combat mounting global trade uncertainties. The ECB growth forecast for the region is currently 1.2% and the inflation projection for 2019 is 1.3%.

Australian markets

- The Reserve Bank of Australia (**RBA**) lowered the cash rate by 25 basis points to a record low of 1.25% in June – marking the first rate move since August 2016, following a period of declining inflation, low wage growth and a soft housing market. The RBA decision reflects growing US and China trade war risks and underlying domestic uncertainties relating to household consumption and tight housing credit conditions.
- The 10-year Australian Government Bond yield declined further in Q2 from 1.78% to 1.32%, recovering marginally from a low of 1.28% in late June in response to tempered GDP growth, subdued inflation pressures and downward offshore pressure on yields. Short-term fixed income securities continued to decline, with three-month bank bill yields down 0.56% to 1.21% as the RBA cut the cash rate by 0.25% in June, with a further well-signalled rate cut on 2 July 2019 (another 0.25%).
- Corporate bond spreads also narrowed, as investors' demand for yield assets increased in the face of historically low cash rates and Australian sovereign bond yields. The 5-year BBB Australian bond yield declined from 2.89% to 2.33%, and the spread (to government bonds) declined from 1.44% to 1.36%.

AUSTRALIAN BBB 5YR CORPORATE BOND YIELDS



Source: Bloomberg

AMYF#4

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY	COUPONS RECEIVED APRIL	MAY	JUNE
Lend Lease*	13-May-20		$15,000,000	$14,985,150	Infrastructure	–	267,000	–
Sydney Airports*	20-Nov-20		$6,200,000	$7,514,834	Airline Infrastructure	–	83,043	–
TOTAL			$21,200,000	$22,499,984		–	350,043	–

AMYF#5

ISSUER	MATURITY	CALL DATE	FACE VALUE	CONSIDERATION	GICS INDUSTRY	COUPONS RECEIVED APRIL	MAY	JUNE
Lend Lease*	13-May-20		$25,000,000	$24,975,250	Infrastructure	–	483,000	–
PRAECO*	28-Jul-22	28-Jul-20	$4,710,000	$4,862,912	Private Public Project	–	71,324	–
Mirvac Group Finance*	18-Sep-20		$10,000,000	$9,875,000	Real Estate	–	–	–
Sydney Airports*	20-Nov-20		$6,000,000	$7,516,200	Airline Infrastructure	–	80,364	–
TOTAL			$45,710,000	$47,229,362		–	634,688	–

*Investment has been redeemed/sold (as at 31 July 2019).

Figures may not reconcile due to rounding.

DISCLAIMER