AUSTRALIAN MASTERS
CORPORATE BOND
FUND SERIES

AMCBF Series Quarterly Update

1 July 2013 - 30 September 2013

Summary

AUSTRALIAN MASTERS CORPORATE BOND FUND SERIES (AMCBF SERIES) HIGHLIGHTS

- The following dividend have been announced:
  - Australian Masters Corporate Bond Fund No 5 (AMCBF5) announced a fully franked dividend of $0.95 per share to be paid on 25 November 2013.
- All existing fixed income investments held in the AMCBF Series continued to perform as expected.

MARKET HIGHLIGHTS

- **Global markets:** During the quarter, financial markets were faced with a number of macroeconomic events, which resulted in mixed trading. They included negative events such as the Syrian crisis and the US government budget and debt ceiling standoff, which eventually led to a government shutdown. These were offset by news that the US Federal Reserve (Fed) had reversed its intentions to begin tapering its bond purchase program.

- **Australian rates:** The Reserve Bank of Australia (RBA) cut official cash rates by 0.25% to a historical low of 2.50%. RBA actions include putting in place a rate environment conducive to a lower Australian dollar and supporting the ongoing economic transition away from the mining sector. While we did experience some downward pressure on the AUD during the quarter, the currency is still viewed as a ‘safe haven’ and, with ongoing US stimulus, the Australian dollar rallied back to over $0.96 as we approached the end of the quarter.

- **Domestic credit:** While it was a sluggish start to the new financial year for domestic corporate bond issuance, robust volumes were experienced in August and September. The seven year tenor has seen a strong resurgence as investors seek yield and issuers look to lock in longer dated capital in a low interest rate environment. Credit spreads experienced some volatility during the quarter as a result of event-driven macroeconomic news. However, with the RBA cutting official cash rates and the US Federal Reserve maintaining a status quo on its bond purchase program, government bond yields continued to be the main driver in suppressing corporate bond yields.

MANAGER

Dixon Advisory & Superannuation Services Ltd Level 15, 100 Pacific Highway, North Sydney, NSW, 2060
Telephone: 1300 454 801 | Facsimile: 1300 457 349 | Website: **dixon.com.au** | **AFS LICENCE NUMBER: 231143**

AMCBF Activity

- AMCBF Series announced the payment of the following quarterly dividends:

FUND	DIVIDEND	FRANKED	GROSSED UP	CAPITAL RETURN	(EXPECTED) PAYMENT DATE
AMCBF5	$0.95	$0.41	$1.36	$0.00	25 November 2013

July domestic corporate debt issuance was slow. A new financial year and volatility in the preceding two months led to issuers taking a wait-and-see approach to raising debt capital. However, as markets settled down during August, issuers began testing, and returning to the market. Seven year tenor transactions have become more frequent as investors go in search for yield and issuers look to take advantage of low interest rates. Generally speaking, the domestic pipeline looks robust as we head into year-end.

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

Global Markets Update

The US Federal Reserve elected to err on the side of caution, pulling out of the highly anticipated taper of the $85 billion monthly bond purchase program. In hindsight, clear signals why the Fed was unlikely to begin the taper in September included: a low growth payrolls report in August (169,000), government debt ceiling and budget uncertainty, and rising mortgage rates. Subsequently, the markets have lost some confidence in interpreting Fed communications regarding policy intent given this recent backflip. Most expect that with the recent government shutdown, the 11th hour agreement to buy six weeks to address the debt ceiling and the handover from Ben Bernanke to Janet Yellen as Federal Reserve chair, any tapering of the bond purchase program will likely be postponed until after the handover early next year.

Apart from a negative reaction to the Syria crisis, global financial markets continued to be primarily focused on the US economy and ongoing paralysis of the US government. The US showed signs of improvement with recent annualised GDP being reported at 2.5%, with forecasted GDP for 2013 expected to be 2.15%. Headline unemployment, a key factor that is likely to trigger the taper and eventual unwinding of the bond purchase program, continued to head towards the 6.5% target. However, this positive trend, in some part, masked a worrying sign supporting the improved headline numbers. Workers continue to drop out of the labour force, with the participation rate (working-age Americans who are actually employed or actively looking) falling to 63.2% during the quarter, the lowest since August 1978. The other stubborn statistic is the number of part-time jobs, which rose to a record 28 million in August 2013. Historically, a recovery that has momentum normally sees a shift away from part-time into newly created full-time jobs. To date, this has not happened.

While US consumption continues to show signs of improvement, as displayed by improved wealth effect measures, inflation remains subdued. Wage inflation is near zero which directly affects consumption and bear market prices in commodities, and low gasoline prices reflect poor demand for key inputs into investment-fuelled growth. Housing also stumbled during the quarter as mortgage rates increased off the back of Fed taper talk.

For the most part, global corporates have maintained robust performance. However, it's important to read between the lines. Most of the performance has been balance sheet led with the low interest environment continuing to support a low cost of debt and ongoing post-GFC cheap labour costs. However, in general, top line revenues continue to struggle as demand remains muted. In addition, corporates continue to shy away from investing capital into growth initiatives.

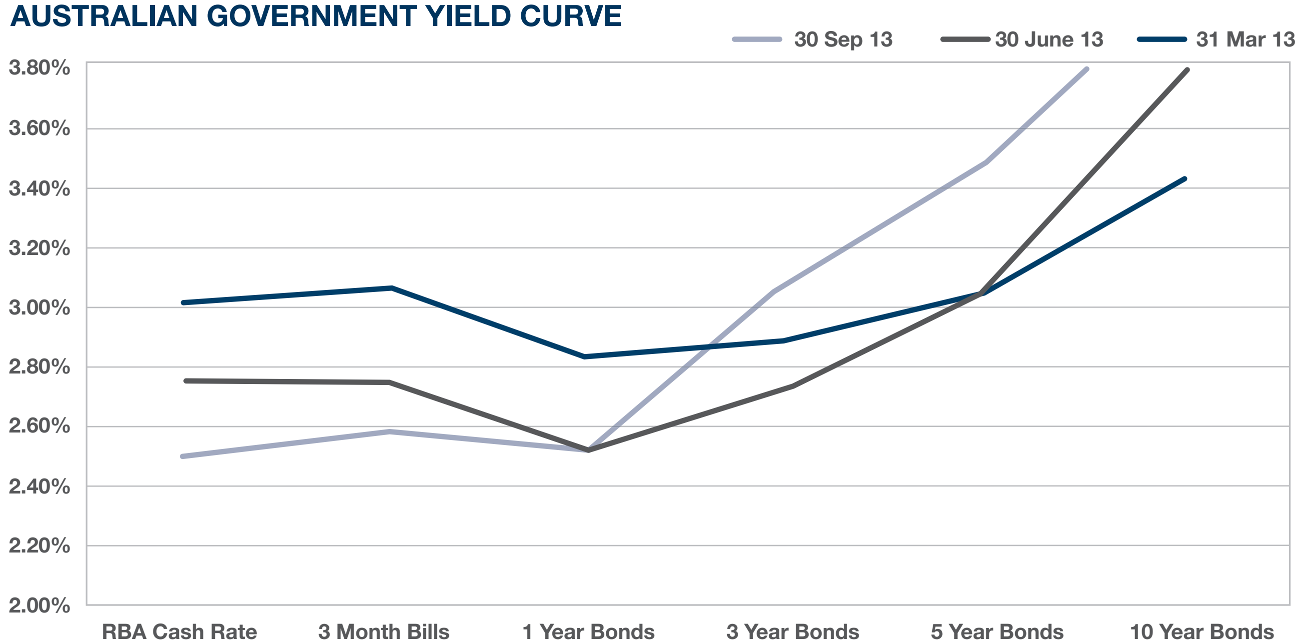
Headwinds remain through this recovery cycle, taking the form of ongoing US government dysfunction, increasing debt burdens and the eventual unwinding of quantitative easing programs. While the US recovery continues to gain traction, it is likely it will remain sluggish.

Australian Rates

The August Reserve Bank of Australia meeting saw official cash rates cut by a further 0.25% to 2.50%. The RBA cut rates further to support the ongoing economic transition away from the mining sector, which includes putting in place a rate environment conducive to a lower Australian dollar. While the AUD traded under $0.90 during the quarter, ongoing global central bank activism and the recent change in tack by the US Federal Reserve to maintain its $85 billion monthly bond purchase program, combined with the recent US government shutdown and debt ceiling concerns, saw the AUD rally back over $0.96 as investors sought out highly rated 'safe havens'. The market remained on the fence with respect to future rate cuts, with differing opinions being debated around the effect of the rate cuts and the potential for a property bubble to form.

With the Coalition winning office during the September federal elections, it will take some time for new government policies to be implemented and filter through to the wider economy. The RBA continues to be accommodative through this economic and political transition.

AUSTRALIAN GOVERNMENT YIELD CURVE



Source: Bloomberg

As displayed by the yield curve at 30 September 2013 (light grey line), the focus by the RBA to manage the short-term economic transition and the high AUD has led to the interest rates at the short end of the curve falling over the past six months. However, with a recovering US economy and expectation of a tapering of stimulus, Australian government bond rates from 1 year to 10 years have steepened over the quarter, in response to a more positive global economic backdrop.

MANAGER

Dixon Advisory & Superannuation Services Ltd Level 15, 100 Pacific Highway, North Sydney, NSW, 2060
Telephone: 1300 454 801 | Facsimile: 1300 457 349 | Website: **dixon.com.au** | **AFS LICENCE NUMBER: 231143**

Domestic Credit

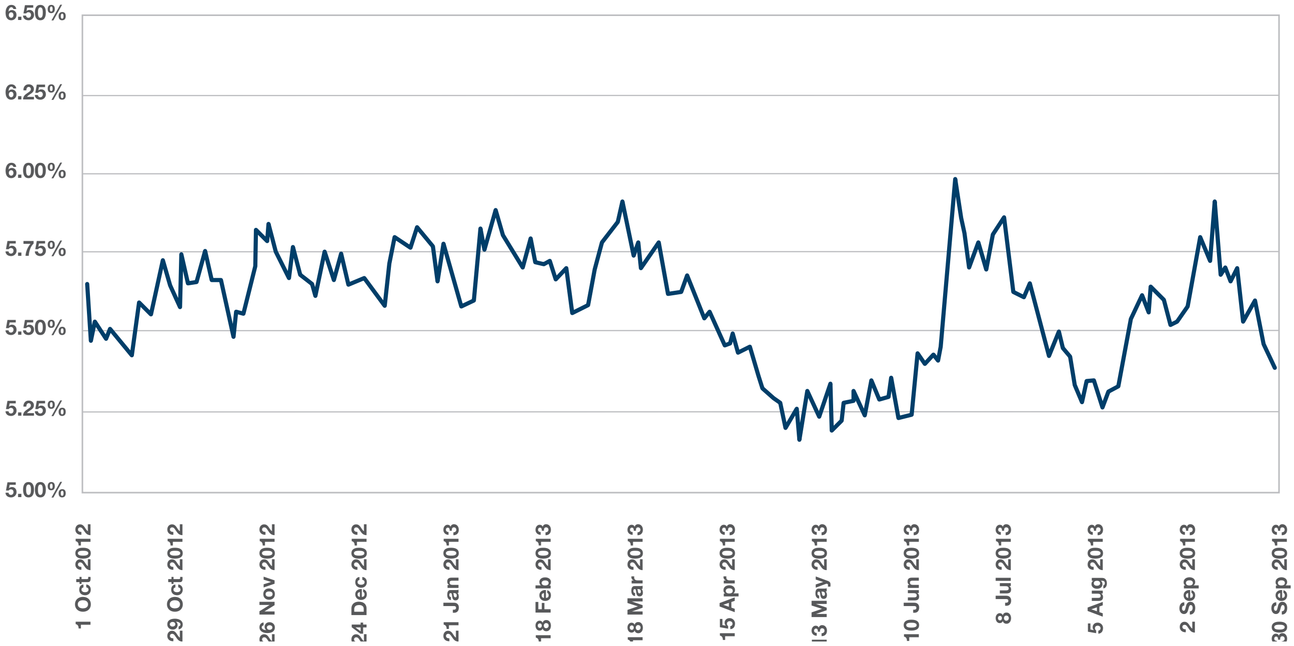
With Lend Lease leading the charge in May, the 7 year domestic corporate bond market has come back to life. The Australian Masters Yield Fund series was a cornerstone to this transaction. During the quarter, a number of issuers raised 7 year debt, with Downer EDI, Perth Airports, Brisbane Airports and Mirvac all coming to market with 7 year fixed rate issues during the September quarter.

Overall, issuance continues to be robust, with over $20.3 billion of domestic corporate bond issuance and $12.8 billion of kangaroo bond issuance raised year to date, 19 September 2013 (KangaNews). Heading into year-end, the issuance pipeline is building as issuers look to tap the market, given the uncertainty surrounding the sustainability of the low interest rate environment in the new calendar year.

ITRAXX AUSTRALIAN CREDIT SPREADS

Australian credit spreads tightened over most of the quarter as the recent volatility associated with risk assets reacting to taper talk by the US Federal Reserve began to subside. However, the quarter was marked by a number of events, which sparked pockets of volatility. This included the Syria crisis and, more recently, a widening in credit spreads as financial markets reacted to the US government shutdown.

AUSTRALIAN BBB 5YR CORPORATE BOND YIELDS



With the US Federal Reserve electing not to begin the taper of their bond purchase program, the ongoing quantum of stimulus remains. Together with the RBA official rate cut in August, corporate bond yields have almost reversed most of their gains during the quarter and are trending towards 12-month rolling lows.

HYBRIDS

There was no hybrid issuance during the quarter. New bank capital issuance came in the form of senior debt, with a number of the big 4 banks coming to market. It is expected that most financial institutions have completed their Tier 1 capital raisings for the year. The focus for these institutions as we head into year-end is to continue to improve their overall capital stocks through Tier 2 capital raisings. These subordinated debt structures will take the new Australian Prudential Regulation Authority (APRA) compliant structures. That is, these structures will include an equity conversion 'non-viability' trigger.

AMCBF#5

ISSUER	MATURITY	FACE VALUE	CONSIDERATION	GICS INDUSTRY	COUPONS RECEIVED JULY	AUGUST	SEPTEMBER
Downer EDI*	29-Oct-13	$11,400,000	$11,624,536	Commercial & Professional Services	-	-	-
Volkswagen Australia*	26-Nov-12	$3,000,000	$2,983,500	Automotive	-	-	-
Stockland*	15-May-13	$500,000	$467,255	Real Estate	-	-	-
GPT Property	22-Aug-13	$1,000,000	$933,490	Real Estate	-	$32,500	-
Envestra	14-Oct-15	$2,500,000	$2,062,750	Utilities	-	-	-
Santos Finance	23-Sep-15	$6,000,000	$5,511,440	Energy	-	-	$187,500
Leightons	28-Jul-14	$6,900,000	$7,229,182	Capital Goods	$327,750	-	-
Melbourne Airport	14-Dec-15	$4,510,000	$3,919,644	Transportation	-	-	$27,757
CFS Retail Property	22-Dec-14	$2,400,000	$2,282,473	Real Estate	-	-	-
AMP Limited	5-Oct-14	$3,500,000	$3,508,330	Insurance	-	-	-
Stockland	18-Feb-15	$18,190,000	$18,362,081	Real Estate	-	$773,075	-
Mirvac	15-Mar-15	$2,300,000	$2,349,798	Commercial & Professional Services	-	-	$94,875
Sydney Airport Finance	20-Nov-14	$3,030,000	$2,696,706	Transportation	-	$24,897	-
Brisbane Airport	11-Dec-13	$5,000,000	$4,629,810	Transportation	-	-	$42,607
Goldman Sachs	24-Jun-14	$2,500,000	$2,310,918	Diversified Financials	-	-	-
Dexus Finance	28-Jul-14	$2,500,000	$2,701,975	Real Estate	$46,248	-	-
		$75,230,000	$73,573,888		$373,998	$830,472	$352,733

*Investment has been redeemed or has matured.

MANAGER

Dixon Advisory & Superannuation Services Ltd Level 15, 100 Pacific Highway, North Sydney, NSW, 2060
Telephone: 1300 454 801 | Facsimile: 1300 457 349 | Website: **dixon.com.au** | **AFS LICENCE NUMBER: 231143**