AUSTRALIAN MASTERS
CORPORATE BOND
FUND SERIES

Quarterly Update

1 July – 30 September, 2014

Summary

MARKET HIGHLIGHTS

- **Global markets:** The US is preparing for the Quantitative Easing program to wind up by the end of November, 2014. On the other hand, the European Central Bank has announced that it's stimulus program in the European Union region will launch by the end of 2014.
- **Australian rates:** The Reserve Bank of Australia (RBA) has continued to leave the official cash rate untouched. The central bank is cautious on the domestic and global economy and growth prospects for Australia as it transitions out of its Mining and Resources boom.
- **Domestic credit:** Australian Credit markets have seen a slight increase in volatility, however yields still remain at very low levels. Issuance remains strong for 2014 with the last quarter seeing multiple new hybrids also come to market.

AMCBF5 Activity

AMCBF5 Series announced the payment of the following quarterly dividends:

FUND	DIVIDEND	FRANKED	GROSSED UP	CAPITAL RETURN	EXPECTED PAYMENT DATE
AMCBF5	$0.99	$0.42	$1.41	$15.64	20 Nov 2014

During the Quarter, AMCBF5's investment in Leighton Finance and Dexus Finance bond's matured.

All existing fixed income securities held within the portfolios of the AMCBF5 performed as expected. The manager is proactively managing the cash balances of the funds and will consider returning capital to shareholders when it is practical to do so.

MANAGER

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Global Markets Update

Over the past Quarter, as more positive US economic data has emerged, the United States Federal Reserve (Fed) has begun discussing the eventual rise in the cash rate. Whilst still no timing has been announced, the Fed has expressed it will take a conservative approach as to when they will increase the cash rate, as well as not being too aggressive once they begin hiking rates. Given this, the market is anticipating rate hikes to begin in mid 2015. In the most recent Federal Open Market Committee (FOMC) meeting (September), the Fed reduced its quantitative easing (QE) program by an additional USD$10 billion and is on track to announce the final reduction in QE in November. This withdrawal of liquidity from the markets and increase in the cash rate will impact bond markets with increasing yields on US treasury securities, potential shifts in international financial flows, exchange rate movements and a possible increase in global volatility.

The European Central Bank (ECB) cut its interest rate in September to a new record low of 0.05%. It also reduced its deposit rate to below 0% in an effort to increase banks' lending programs. The ECB president Mario Draghi has also recently outlined a new program, which will be launched by the end of 2014, to buy covered bonds and asset-backed securities with the aim of stimulating the Euro Zone's economy and enhancing growth in the region. Although Draghi did not put a figure on how much the ECB would pay out, it is anticipated it could inject as much as €1 trillion. It is also projected that the ECB will target assets from Portugal, Greece and Cyprus under this program, rather than those from Italy and Spain.

The program has been met with a mixed response, with a number of analysts suggesting the latest buying spree will not be enough to avoid deflation and spur bank lending. Based on this, it is expected the ECB will have to take more drastic steps, including quantitative easing to lift the economy in the Euro region.

Australian Financial Market Update

In Australia, house prices, the Australian Dollar (AUD) currency, domestic growth, business confidence and unemployment, remain the key areas of focus for the RBA.

Domestic Rates

The RBA has continued to hold the official cash rate at 2.5% for the 14th consecutive month. Rising property prices, declining commodities prices, a relatively high AUD by historical standards and a slowdown in China have been the RBA's main concerns. The board meeting minutes over the past quarter have remained consistent, with the RBA expressing caution for the Australian economy around future growth as it transitions away from its reliance on mining investments. During the quarter, RBA Governor Glenn Stevens expressed to the market his view that Monetary Policy had done all it can do at this point to provide stimulus to the economy, and the rest is up to confidence in the market to encourage growth. This sentiment reinforces the RBA's stance of holding rates for a 'considerable time'. Guy Debelle, the RBA Assistant Governor, spoke recently about the Australian Economy, warning the AUD is too high and there may be a violent sell-off, particularly in bonds and the fixed income market.

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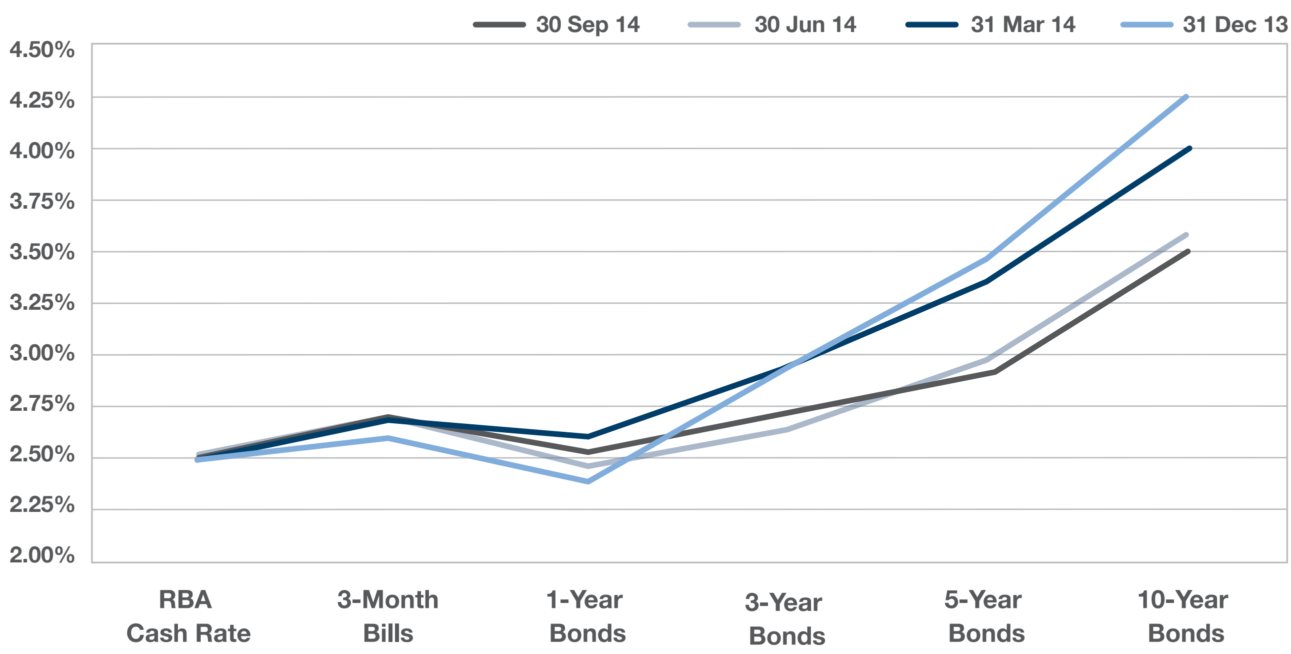
The Investor led housing boom has raised Australian property prices by more than 10.1% in the 12 months from June Qtr 13 to June Qtr 14. The RBA has also expressed its concern over increasing property prices and warned it may look to intervene by year-end through macro prudential policies such as regulating lending. Volatile unemployment figures produced by the Australian Bureau of Statistics over the period of July to September have added to the low market confidence, with investors and businesses not having a proper gauge on the state of the Australian labour market.

The AUD saw a sharp decline against the USD, as the USD increased in value against all major G10 currencies, with the AUD declining 7.3% over the past quarter. The AUD/USD sell-off was first initiated off the back of weak China growth figures emerging. The FX level around 87c has been sustained, with market sentiment around the US economy strength relative to weak economic forecasts for Australia. The RBA welcomed this currency decline, but still considers the AUD to be overvalued compared to its historical levels given the falling commodity prices and Australia's growth outlook.

The Australian government yield curve has seen little movement relative to its position three months ago.

AUSTRALIAN GOVERNMENT YIELD CURVE



Source: Bloomberg

Domestic Credit

Australian credit spreads have experienced an increase in volatility but finished off the quarter in a relatively similar position to where it started in July.

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ITRAXX AUSTRALIAN CREDIT SPREADS

After remaining stable during the first two months of the quarter, Australian corporate bond prices fell towards the end of the quarter, dragged down by the lower currency and falling US Treasury prices. The Australian Corporate Bond BBB composite gained marginally, but still remained below a 5% yield over the course of the quarter.

AUSTRALIAN BBB 5YR CORPORATE BOND YIELDS

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During the September quarter the domestic debt issuance totaled AUD$26 billion, largely dominated by financial institutions. Corporate issuances were subdued during the period, totaling AUD$1.4 billion across seven issues. There were two offshore issuances by Australian companies in the month of July, $3 billion in the euro market and USD$500 million in the US market.

HYBRID MARKET UPDATE

The hybrid market remained active with four institutions, Bendigo and Adelaide Bank, Challenger, Commonwealth Bank of Australia and Macquarie Group launching Tier 1 Basel 3 compliant capital issues totaling AUD$3.6 billion over the quarter. This increase in issuance has come off the back of the current low yielding environment, with Financial Institutions locking in long dated debt at historically low levels. Additionally these companies have been aligning their balance sheets in order to comply with the latest Basel 3 requirements. However, this surge of hybrid offerings in the market over the past two months has resulted in a downward pressure on hybrid prices, triggering a sell-off in older issues and making some attractively priced relative to their historical pricing levels.

Hybrids faced increased scrutiny from international ratings agencies and local regulators over the quarter. In the last week of September, ratings agency Standard & Poor's (S&P) reviewed its ratings criteria for hybrids, impacting over 1300 securities worldwide. More than 60 Australian hybrids were downgraded by S&P, notably issuances from three Australian banks: National Australia Bank, Westpac and Macquarie Group. The RBA was also critical of hybrids in its semi-annual financial stability review, highlighting that reassessment by rating agencies of hybrid risks can lead to heavy losses for investors.

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SEPTEMBER QUARTER DIVIDENDS & CAPITAL RETURNS				
FUND	**CASH**	**FULLY FRANKED**	**CAPITAL RETURNS**	**FUND MATURITY***
AMCBF#5	$0.99	$1.41	$15.64	31-Dec-15

*Anticipated end date

AMCBF#5

ISSUER	MATURITY	FACE VALUE	CONSIDERATION	GICS INDUSTRY	COUPONS RECEIVED JULY	COUPONS RECEIVED AUGUST	COUPONS RECEIVED 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	-	-	-
Brisbane Airport*	11-Dec-13	$5,000,000	$4,629,810	Transportation	-	-	-
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	44,741	-	-
Leightons*	28-Jul-14	$6,900,000	$7,229,182	Capital Goods	327,750	-	-
AMP Limited	5-Oct-14	$3,500,000	$3,508,330	Insurance	-	-	-
Sydney Airport Finance	20-Nov-14	$3,030,000	$2,696,706	Transportation	-	24,248	-
CFS Retail Property	22-Dec-14	$2,400,000	$2,282,473	Real Estate	-	-	-
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
Santos Finance	23-Sep-15	$6,000,000	$5,511,440	Energy	-	-	187,500
Envestra	14-Oct-15	$2,500,000	$2,062,750	Utilities	-	-	-
Melbourne Airport (Fixed)	14-Dec-15	$1,000,000	$863,320	Transportation	-	-	21,952
Melbourne Airport (FRN)	14-Dec-15	$3,510,000	$3,056,324	Transportation	-	-	3,732
		$75,230,000	$73,573,888		372,491	797,323	308,059

* Investment has been redeemed or has matured
** Figures may not reconcile due to rounding

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