

Australian Masters Equity Fund

Performance Report to 31 December 2016

Level 1, 170 Greenhill Road, Parkside SA
 5063
 PO Box 507, Unley SA 5061
 Phone +61 8291 2122
 Toll Free 1800 425 451
 Email amef@amem.com.au
 Website www.amem.com.au

Investment objective

The fund aims to outperform the S&P/ASX300 Accumulation Index over a rolling three year period.

Investment strategy

The Australian Masters Equity Fund is designed to provide investors with access to some of Australia's top fund managers that are normally only accessible to high net worth investors.

The current five underlying funds all have distinctively different methods of investing, providing exposure to the entire breadth of the market. They are highly transparent, 'long only' investors. The size of their individual funds allows them to remain nimble enough to trade quickly as market conditions change, and helps eliminate the possibility that they become index funds.

Distribution frequency Half Yearly **Suggested minimum investment time frame** 5 years

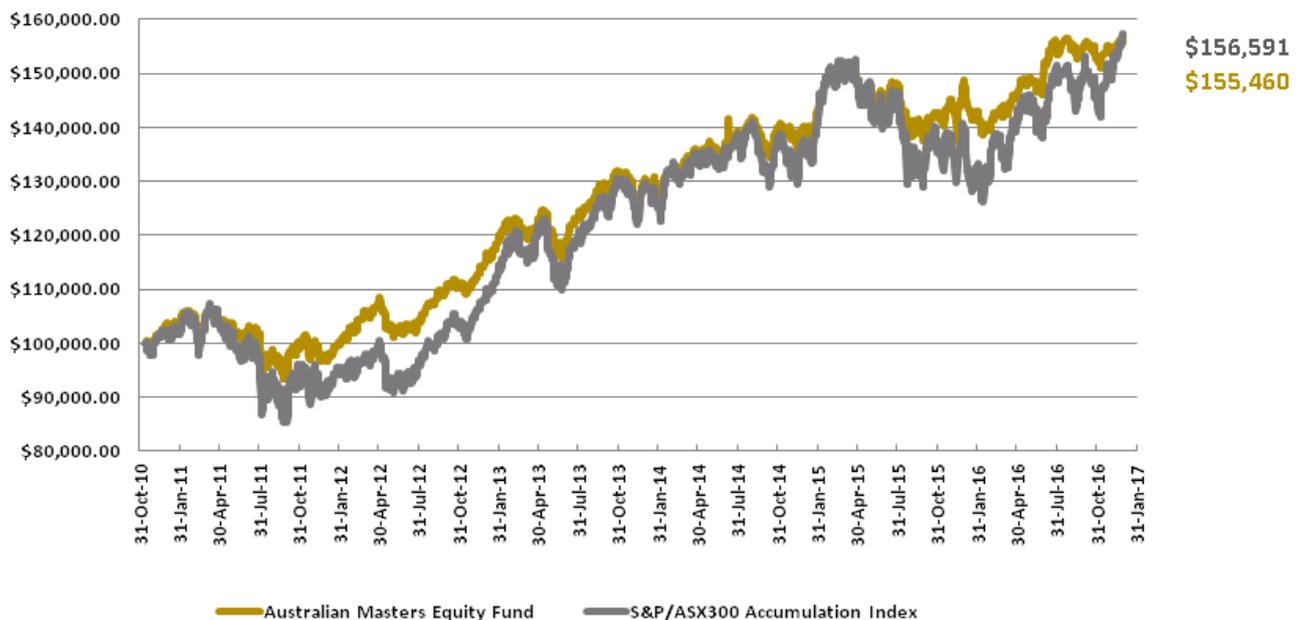
Fund performance at 31 December 2016

	3 Months	12 Months	3 Years	5 Years	Since Inception**
AMEF	0.21%	5.06%	6.11%	10.04%	7.46%
Benchmark*	4.93%	11.77%	6.56%	11.64%	7.58%
Difference	-4.72%	-6.71%	-0.45%	-1.60%	-0.12%

* S&P/ASX300 Accumulation Index

** Inception Date- 12 November 2010 (total return)

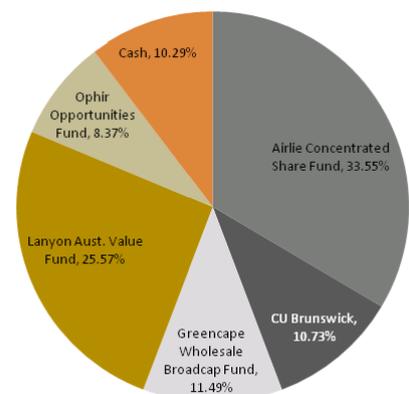
Growth of \$100,000 invested since inception



Please note- past performance is not a reliable indicator for future performance. The Australian Masters Equity Fund inception date is 12th November 2010 and fund returns are to 31 December 2016. Performance is based on the NAV prices and is calculated by compounding daily time weighted returns and assumes 100% reinvestments of income. The S&P/ASX300 Accumulation index assume 100% reinvestments of dividends.

Portfolio Holdings as at 31 December 2016

	Strategic Weight
Airlie Concentrated Share Fund	33.55%
CI Brunswick Fund	10.73%
Greencape Wholesale Broadcap Fund	11.49%
Lanyon Australian Value Fund	25.57%
Ophir Opportunities Fund	8.37%
Cash	10.29%



Commentary

Global political events again commanded the market's focus this quarter, with a surprising US election result catching most off-guard. Bond yields continued their rise from historic lows which saw a rotation out of bond-like equities. November's Annual General Meeting (AGM) season saw a number of companies disappoint the market with their trading updates. The Australian share market finished the calendar year strongly, buoyed by yet another Santa rally in December.

Locally, Resource stocks continued their extended period of outperformance, as Materials ended the calendar year as the best performing sector, up more than 20% over the second best performer (Utilities). The rally in underlying commodity prices has continued longer than most thought possible, triggering a number of earnings upgrades during the quarter. Financials (dominated by the major banks) led the market during the period, as investors took the view that interest rates have bottomed, pointing to higher Net Interest Margins (NIM) being earned in the future. Utilities gained on the back of Cheung Kong Infrastructure's bid for Duet Group at a 27% premium to the last close before the bid was announced. This quarter we observed a large scale transition out of high multiple industrial 'growth' stocks into the 'barbells' of the market, being Banks and Resources. Following an extended period of significant outperformance, Healthcare was one sector which was on the wrong side of that market transition, falling victim to profit taking.

As expected, the Reserve Bank of Australia (RBA) left rates unchanged for all three meetings during the quarter. The futures market now implies expectations are for the RBA to keep rates on hold for the duration of 2017. Australian third quarter Gross Domestic Product (GDP) growth disappointed, registering at -0.5% against expectations of a 0.1% fall.

The US Federal Reserve (Fed) raised the federal funds rate for the first time in 12 months by 25 basis points to 0.50%-0.75%, an outcome which was fully priced in by the market, which now expects at least another 2 rate hikes in 2017. US GDP for the third quarter was higher than initially announced, with the re-stated measure up 3.5% against initial expectations of 2.9% growth.

Global markets reacted to polls, tweets and other headlines in the unconventional lead up to the US Presidential election. Like Brexit, the election showed that opinion polls and betting odds should not be relied upon to accurately predict the outcome of an election. Similarly, the outcome caught many investors wrong footed. An interesting trend since the election outcome has been the return of 'animal spirits' in the US economy. Consumer confidence for example is at its highest level since 2001.

In Europe, the Italian referendum on constitutional reforms was comprehensively voted down, causing the immediate resignation of Prime Minister Matteo Renzi.

Chinese capital outflows continued during the quarter, as the country's FX reserves fell to USD \$3 trillion, which is the lowest level since 2011, and USD \$1 trillion lower than the peak in 2014. The capital outflows are in part due to the ongoing gradual currency devaluation being conducted by the People's Bank of China spooking some locals to expatriate their funds ahead of the risk of further currency falls.

Fundamentally, solid US macro data and sentiment should continue, Europe should (still) remain flat, whilst China should hang in there (despite relentless capital outflows and credit growth). Australia remains patchy but business sentiment has continued its improvement which was highlighted last quarter. Given the strength of the recent equities rally and expectations being lowered during the AGM season, Price to Earnings multiple expansion will be difficult with early signs of inflation becoming evident (mainly in the US).

Underlying Manager Performance

Airlie Funds Management

Airlie returned 1.76% in the month of December, underperforming the broader market (S&P/ASX300) which returned 4.34%. The Fund is up 58.37% since inception versus 50.25% for the broader market. The portfolio remains cautiously positioned with the cash weight just under 30%. Its top three active positions are Nick Scali Ltd, Event Hospitality & Entertainment Ltd, and Caltex Australia Ltd.

Cooper Investors

During December, AMEF made an initial investment in the CI Brunswick Fund. The Fund is a wholesale unit trust and utilises the expertise of the Manager's Australian, Asian and global investment teams to construct a concentrated equities portfolio (typically 20-40 stocks). At least 75% of the equities portfolio is invested in Australian and New Zealand stocks and a maximum 25% may be invested in international companies. Up to 25% of the portfolio may be held in cash. Since inception (1 July 2004), the Fund has returned 620% compared to the 178% returned by the S&P/ASX 200 index over the same period.

Greencape Capital

The fund performed in line with the S&P/ASX 300 Accumulation Index delivering a 4.54% return for the quarter. Key contributors for the fund during the quarter were Cover-More Group Ltd, G8 Education Ltd and A2 Milk Co Ltd.

Lanyon Asset Management

The Lanyon Australian Value Fund increased by 0.5% (net fees) during the month of December. Despite the cash balance averaging ~50% since inception, the Fund has returned 141% compared to the S&P/ASX 300 Accumulation Index return of 75% over the same period.

Ophir Asset Management

The portfolio decreased 0.5% for the month of December while the S&P/ASX Small Ordinaries Accumulation Index (XSOAI) rose 3.6%. The top performing stocks in the portfolio for the month included Sundance Energy, Bapcor, and NextDC.

Unless otherwise specified, any information contained in this publication is current as at 31 December 2016 and is provided by the Australian Masters Equity Management (AMEM) ABN 28 141 461 083. It should be regarded as general information only & not as advice as all investments within the fund involve risk. This has been prepared without taking into account your investment objectives & financial situations. Each person should obtain a Product Disclosure Statement (PDS) relating to the Australian Masters Equity Fund & consider the PDS before making any decision about the product. A copy of the PDS can be obtained from AMEM on 1800 425 451 or on our website www.amem.com.au. Some or all of the directors of AMEM may benefit from fees & commissions of the Australian Masters Equity Fund.