

Australian Masters Equity Fund

Performance Report to 30 September 2016

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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 four 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

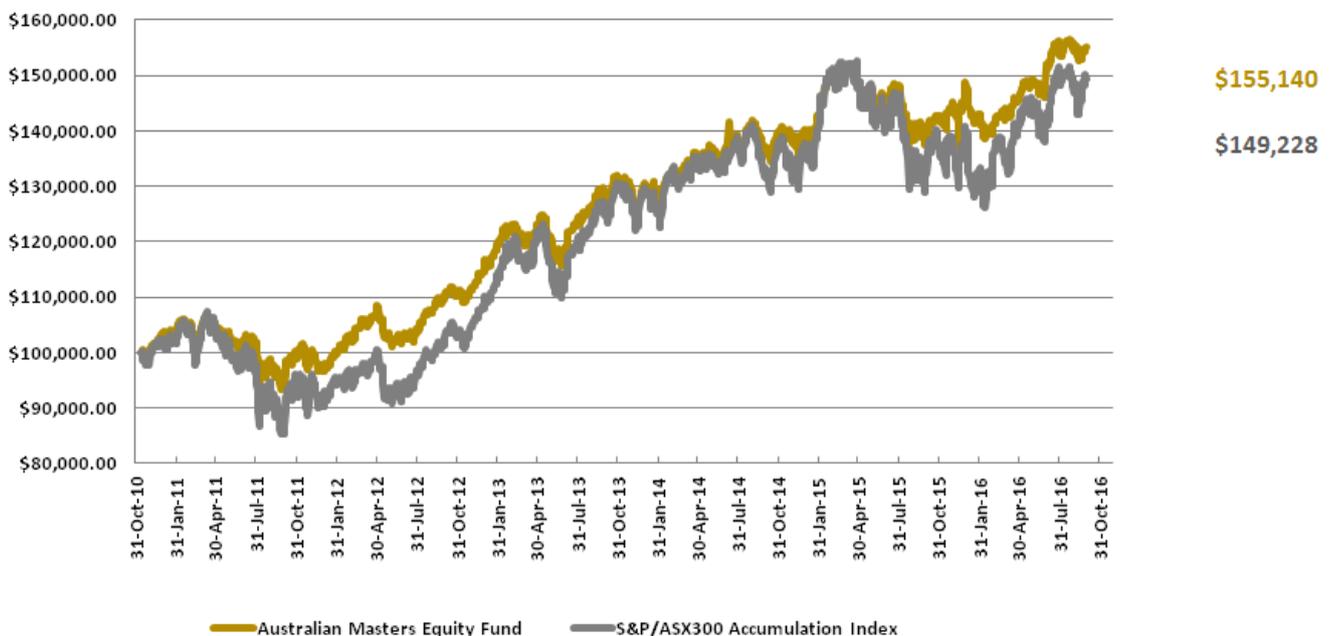
Fund performance at 30 September 2016

	3 Months	12 Months	Since Inception**
AMEF	4.94%	12.11%	55.14%
Benchmark*	5.09%	12.77%	49.23%
Difference	-0.15%	-0.66%	5.91%

* 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 30 September 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.

Commentary

The market endured a shaky start to the period in the wake of the Brexit result, which locally was compounded by the result (or lack thereof) in the Federal election. The expectation of incremental central bank stimulus coupled with further flattening of the yield curve saw markets stage a remarkable recovery in July. In August the local market's focus shifted to the reporting season, which brought with it mixed results. Global banking jitters spooked markets late in the period, however indexes again found a way to quickly recover from the sell-off.

The local market became preoccupied with reporting season in August, which brought with it a varying array of results, the quality of which were framed around the market's expectations leading in. 'Value' stocks with lower earnings multiples who reported in-line results tended to gain strongly, given low market expectations. Conversely, 'growth' stocks with higher multiples, were punished by the market for delivering in-line results with softer than expected guidance commentary. Over the course of the reporting season, earnings expectations were downgraded around 2% for FY17. The best performing sectors were Materials, Consumer Staples, and Information Technology whilst 'Bond proxies' (Telecommunications, Utilities, and AREITs) were the worst performing for the Quarter.

The Reserve Bank of Australia (RBA) cut the overnight cash rate for the second time this year to a new record low of 1.5% In August.

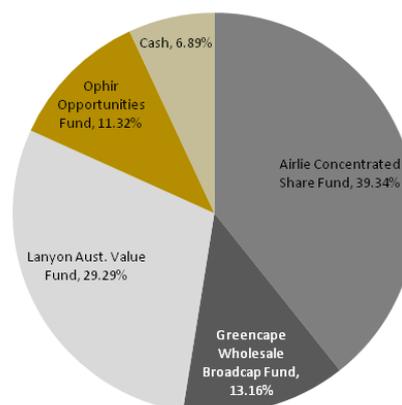
Economic data out of the US was generally strong and in what has become the norm, markets continued to gyrate around expectations of central bank moves. As expected, the US Federal Reserve (Fed) kept rates on hold in September despite some Fed members hinting that the meeting was 'in-play' for a rate rise. Markets now attribute a greater than 60% probability of a rate hike in the US by year's end, with the most likely outcome being a 25 basis point rise in December, as the November meeting falls a week before the Presidential election.

China's release of official data showed the world's second-biggest economy expanded 6.7% in the third quarter from a year earlier, matching growth in the previous quarter. The figure was also in line with forecasts. China's September retail sales data jumped 10.7% from a year earlier, also matching expectations. However, industrial output came in below forecasts, even as it rose 6.1% from a year earlier.

Fundamentally not a lot has changed over the period. The US keeps growing (albeit slowly) with consensus expecting a small interest rate increase by years end. Eurozone economic growth remains flat, with economic conditions in the UK not currently showing any adverse effects from the Brexit vote. China has kept growing impressively, although we fear this growth increasingly reliant on debt fuelled stimulus. Emerging markets are generally weak and Australia remains patchy, although we note that post-election business confidence has ticked up slightly. With the unexpected Brexit result a timely reminder that polls and betting odds aren't always correct, the uncertainty in the upcoming US presidential election is an important brake on market optimism; regardless of the likely outcome priced in by the markets.

Portfolio Holdings as at 30 September 2016

	Strategic Weight
Airlie Concentrated Share Fund	39.34%
Greencape Wholesale Broadcap Fund	13.16%
Lanyon Australian Value Fund	29.29%
Ophir Opportunities Fund	11.32%
Cash	6.89%



Underlying Manager Performance

Airlie Funds Management Pty Ltd

Airlie returned 0.27% in the month of September, underperforming the broader market (S&P/ASX300) which returned 0.51% for the month of September. The Fund is up 54.46% since inception versus 43.18% for the broader market. The portfolio remains cautiously positioned with the cash weight just under 28%. Its top three active positions are Nick Scali Ltd, Caltex Australia Ltd, and Elanor Investors Group Ltd.

Greencape Capital

The fund performed in line with the S&P/ASX 300 Accumulation Index delivering a 0.51% return for the month. Key contributors for the fund during the quarter were South32 Ltd and Emerchants Limited.

Lanyon Asset Management

The Lanyon Australian Value Fund increased by +0.1% (net fees) during the month of September. The funds cash balance at month end was approximately 59%.

Ophir Asset Management

The portfolio increased 3.7% for the month of September while the S&P/ASX Small Ordinaries Accumulation Index (XSOAI) rose 1.5%. The top performing stocks in the portfolio for the month included ASG Group, CBL Insurance and Airxpanders.

Unless otherwise specified, any information contained in this publication is current as at 30 September 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.