

Australian Masters Equity Fund Performance Report to 31 December 2015

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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

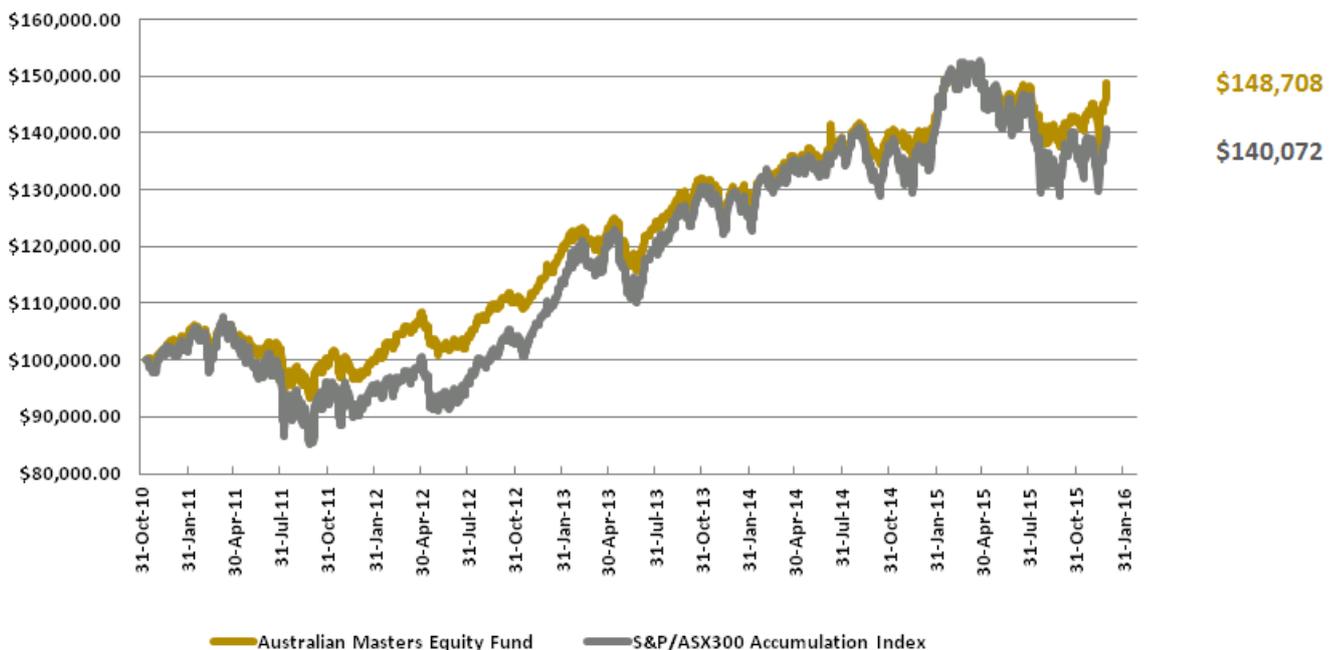
Fund performance at 31 December 2015

	3 Months	12 Months	Since Inception**
AMEF	6.99%	6.29%	48.76%
Benchmark*	6.54%	2.80%	40.07%
Difference	0.45%	3.49%	8.69%

* 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 2015. 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 turbulent quarter but the accumulation index (with dividends reinvested) managed to grind out a small positive return for the calendar year. The market continued to gyrate around the expected action of central banks, meanwhile AGM season, falling commodity prices and some high profile corporate missteps kept market participants busy during the period.

As expected the RBA held rates at all three meetings, keeping the target rate at the historical low of 2.0%, where it has been since May. A weaker than expected CPI print in October (1.5% year on year growth, versus market expectations of +1.7% and RBA target range of 2-3%) saw an increased likelihood of a rate cut during the period, however two incredible jobs data prints saw the end of any rate cut speculation. The economy added 59k and 71k jobs in October and November respectively compared to economist expectations of a 15k increase and 10k decrease in job numbers. Conversely, private capital expenditure, driven by the resources sector, fell 20% year on year in Q3, the worst fall on record.

The RBA usually sets a level in the meeting minutes for which it thinks the AUD should be trading, however Governor Glenn Stevens refrained from doing so, indicating their comfort with the current level.

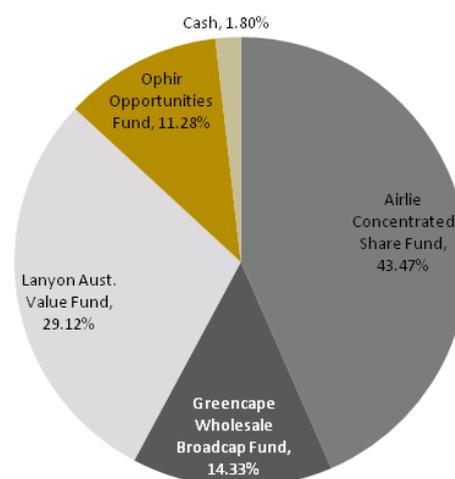
As expected, the United States Federal Reserve (Fed) finally raised the rate corridor above the lower bound of zero, where it has been since December 2008. The Federal Open Market Committee (FOMC) (the branch of the Fed that sets monetary policy) signalled it expected to raise rates a quarter of a percent four times in 2016, however the market implied probability points to expectations of only two rate hikes this year.

Domestically, October brought the annual AGM season which saw a number of companies update their earnings guidance for the first time since the August reporting period. The number of downgrades during the period outnumbered upgrades however. Dick Smith downgraded its full year earnings guidance by 14% at its AGM in October, before booking a \$60m impairment against inventory in November. The company eventually entered voluntary administration in January. Slater & Gordon also withdrew its earnings guidance, citing the unknown potential impact from a UK government review into restricting the rights of people injured in road traffic accidents to obtain compensation.

In summary, the market ended a relatively flat year with a solid bounce in December and one of the most anticipated initial increases in US cash rates in history from historical lows. Domestically, the consumer confidence bounce post the change in Prime Minister assisted Christmas turnover for retailers, with the exception of Dick Smith.

Portfolio Holdings as at 31 December 2015

	Strategic Weight
Airlie Concentrated Share Fund	43.47%
Greencape Wholesale Broadcap Fund	14.33%
Lanyon Aust. Value Fund	29.12%
Ophir Opportunities Fund	11.28%
Cash	1.80%



Underlying Manager Performance

Airlie Funds Management Pty Ltd

Airlie returned 2.55% in December, slightly underperforming the broader market (S&P/ASX300) which returned 2.73% for the month. The Fund is up 51.83% since inception versus 34.40% for the broader market. The portfolio remains cautiously positioned with the cash weight just over 27%. Airlie is positioned defensively and its top three active positions are MyState Ltd, Caltex Australia Ltd and Macquarie Group Ltd.

Greencape Capital

The fund outperformed the market and delivered a 9.11% return over the quarter. Key contributors for the fund during the quarter were A2 Milk Co Ltd, G8 Education Ltd, REA Group Limited, and QMS Media Ltd.

Lanyon Asset Management

The *Lanyon Australian Value Fund* posted a return of +1.9% (before fees) for the month of December. The Australian market, as measured by the *S&P ASX 300 Accumulation Index*, posted a return of +2.7%, after rallying over 8% from its mid month low. During the month, Lanyon exited their investment in MG Unit Trust (ASX: MGC), a profitable investment for the fund. The funds cash balance at month end was 50.8%.

Ophir Asset Management

The portfolio gained 9.6% for the month of December while the S&P/ASX Small Ordinaries Accumulation Index (XSOAI) gained 3.9%. During the quarter, we increased our exposure in the Ophir Opportunities Fund from 5.13% to 11.28%.

Unless otherwise specified, any information contained in this publication is current as at 31 December 2015 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.