Spectrum Wholesale Enhanced Income Fund
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SPECTRUM WHOLESALE ENHANCED INCOME FUND

Quarterly performance update – 30 September 2011

Period	3 months	6 months	1 year	3 years	5 years
The Fund	-1.32%	0.97%	15.38%	8.30% pa	4.56% pa

* Spectrum Wholesale Enhanced Income Fund is rated *** by Morningstar.

Fund Overview

The Spectrum Wholesale Enhanced Income Fund (the 'Fund') returned a positive (albeit low) result for the quarter and maintained its leading position in the Morningstar rankings. Our priority during the quarter was to protect returns in a difficult and volatile trading environment. The ASX 200 over the same period returned negative 4.75%. A cash distribution 0.87 c per unit was paid for the quarter giving a cash distribution of 4.3c for the year. This compares favourably to the RBA cash rate (4.67%).

We expect difficult market conditions to continue and, with approximately 15% cash, have positioned the Fund to take advantage of any market weakening. We continue to look for value and see good opportunities in Australian Banks and some insurers.

We expect the fund to perform over the next 12 months and we should see some capital growth opportunities especially in our underlying portfolio. Over the next 12 months we also expect to see a modest increase in the distributions paid. Over the year we have been balancing capital losses incurred during the GFC with capital gains to ensure that distributions are paid. Since the GFC our approach has been to reduce risk / improve the quality of the portfolio.

The Fund is a diversified credit fund that is managed by Spectrum Asset Management Limited (Spectrum). The Fund offers an alternative to traditional cash management and fixed income products for investors seeking regular income returns.

Market Indicators

Over the Quarter the ASX 200 weakened by 13% and fell 6.70% over the month. The ASX200 Accumulation Index over the Quarter recorded a fall of 11.58% and a monthly fall of 6.71%.
The Aussie Itraxx (the average CDS spread for the 30 most active CDS traded names) widened from 110 to 210 representing a widening of 90%.

During the month of September the CDS spread for the Australian Government moved from 65 earlier in the month to over 100, mirroring a movement that we saw in 2008.

Our Views

Our pessimistic view of global growth continues. We point towards persistent long term unemployed in a number of countries including the USA, Ireland, United Kingdom, Spain, Portugal and Greece. The large levels of long term and under-employed people represent a significant burden to any economy. This large pool of unemployed and underemployed workers represents a significant drag on economic efficiency thus making it difficult for those economies to demonstrate any reasonable growth.

In addition many countries also have significant debt / GDP burdens. Eg

USA	93%
Ireland	80%
Italy	110%
Greece	121%

Many of these countries had significantly better ratios prior to bailing out their respective financial markets during the GFC.

By comparision, Australia's debt to GDP is a low 26%.

In many ways it will take a long time for any significant growth to occur. This is because Governments have little room to maneuver due to their debt burden, and are currently obsessed with inflation.

We believe that inflation is not such a problem as the velocity of money will be constrained by a number of factors. For inflation to be a problem we need to see significant asset inflation and simply this is a very scarce event as very few countries are exhibiting asset inflation. Secondly the changes to Basel require that Banks hold more capital, this means that for balance sheets to grow significant amounts of capital is required. Thirdly markets continue to be prone to freezing and have not returned to levels of liquidity prior to 2008. Next Bank Balance sheets are contracting whilst corporate entities are borrowing less but also holding significant cash reserves which are not being put to work, through expansion, takeover, capex etc. This demonstrates significant problems for growth.

In our view for any meaningful growth in the next few quarters a new technology or a significant change is required. Simply put inflation is required for many countries to exit their current malaise.

What this means for Australia is that we are indeed one of the lucky countries. With our major trading partners being Asian, Australia is one of the few countries that have growth. In fact 70% of the Worlds growth is via the developing world and in the developed world (G7) France and Germany are experiencing slight growth. In the meantime our opportunities are increasing as Korea seeks more gas via coal seam gas, whilst India is hungry for our coal. We are however in a somewhat uncertain space because while we have sold demand in commodities we have falling demand in houses, retail and manufacturing. The Government and the RBA will have to pay close attention to those mentioned sectors.

So in our view the RBA will probably hold rates at current levels or most likely ease. Credit generally is improving as Corporates are borrowing less, while the Banks fiscal positions are generally improving through a combination of lower borrowing costs, longer dated borrowings and lending to high grade corporates at wider margins. Mortgage rates remain persistently high and that's partly because borrowers are unable to roll into cheaper mortgages and because banks have tightened their lending policies. Credit should drift in based on supply demand and because there are very few countries with an AAA rating that have an economy and where you can get exposure to that economy. We however do expect fairly choppy conditions over the next few months

Market highlights

Over the course of the month and quarter markets were extremely choppy. Greece and the remaining PIIGS have had their problems. Greece continues to alarm Europe and there is a risk of contagion for other Countries. The biggest risk though is the unknown risk and the one that not many Central Bankers discuss and that's the issue of CDS. The European Banks have a known exposure to the weaker European Bonds and even a 50% haircut to the European Banks on say Greek bonds represents a hit to Bank Equity of around 1-2% and that's very manageable. What is unknown is the exposure to various CDS. For example USA Banks have minimal exposure towards European Bonds in particular Greece, but CDS exposures are massive. The amount of bonds on issue is known, what we don't know is how many derivative contracts have been written. The amount of contracts traded would easily eclipse the total issuance and the significant players in this market are the USA domiciled Banks. So any fall by Greece has a massive effect on the USA Banking system through the exposure to CDS. I do not wish to alarm, I am just pointing out stress points.

Over the Quarter we have seen several Country Downgrades. The USA was downgraded one notch by S&P, Italy was downgraded and so too were Portugal and Spain. While France remains AAA.

The VIX remains persistently high and is around 45.

Company Highlights

ANZ - issued a new converting preference share under the new Basel III documentation. Basically this means the investor wears the equity risk and for that risk theoretically they are compensated. The ANZ issue was a deal that was very good for the Bank. The issue came around 80 bp lower than where the professional market trades similar paper. On balance investors would be better off by investing in equity to receive 5.80% fully franked versus 5.60 % and little equity upside.

The preference share is currently trading below issue.

Woolworths - redeemed it's 15 September 2011 note.

Nufarm - announced that it would not redeem its convertible note, and would step up with the new distribution rate and pay 3.90% over 180 day swap. It's hard to get excited by this new level as BB bonds trade around +600 in the current market making the 390 over 180 day swap very cheap funding.

Suncorp - reset the terms on their SBKPA with the margin moving from 1% to 1.50%. The issue size fell from $325 mio to $144 mio as most investors took the opportunity to redeem.

Ale Property Group – have redeemed their ALE Notes (LEPHB)

Portfolio Strategy:

The portfolio strategy is to continue to take advantage of any significant market movements. We are concerned about growth and the impact that slower growth has on bond markets and equity markets globally. Our outlook for the USA is pessimistic, however we are more optimistic about Australia's trading relationship with Asia.

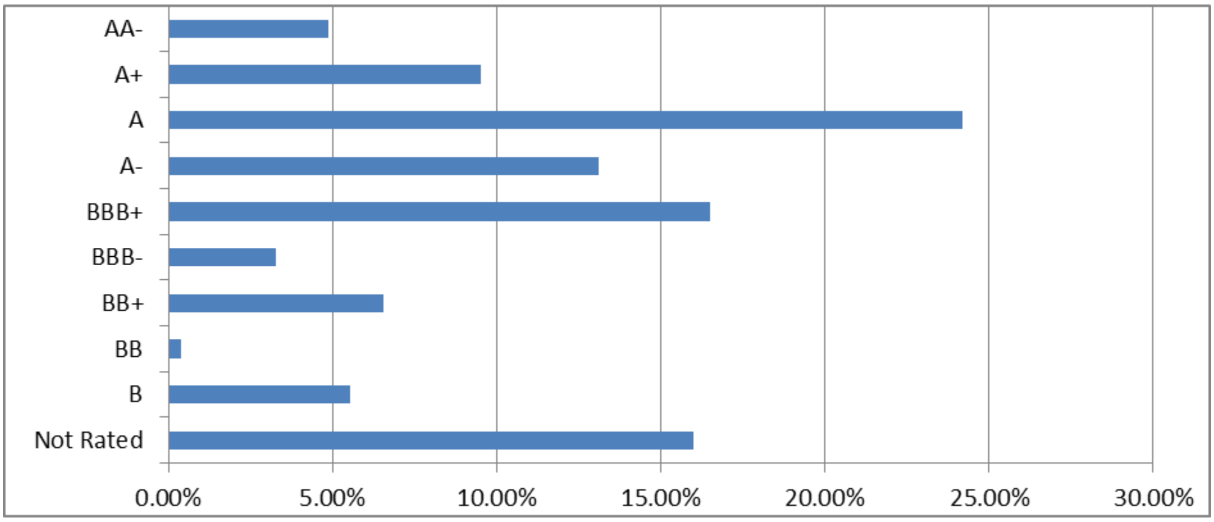
We continue to look for opportunities to reduce Beta and we continue to look for those securities that we believe provide value. The outlook is choppy, however we believe in the keeping the Corpus intact. To that end we expect to see some negative returns from time to time but also we expect that those entities we invest will repay their face value and pay their interest.

Credit is improving generally because there is less demand from corporate issuers to borrow and because balance sheets are improving. The Banks are leading the charge in this respect and with the impact of Basel III, the capital positions must improve and they are biased towards less risky assets. This means that over time the Banks balance sheets will improve and the profitability will improve through wider margins and less risky lending.

We have invested in a number of European entities. These investments are in strong Banks and Insurance Groups. BNP for instance is also considered to be one of those entities that are considered too big to fail. Rabo is a first class AAA rated Bank with a low appetite for Risk, whilst Swiss Re is one of the largest reinsurers in the world with a highly profitable book and a very strong capital position.

The portfolio return for September was suboptimal however given the market volatility especially in hybrids and equity markets one should not be too disappointed. The intention is to raise the income derived whilst continuing to sell down hybrids that we see as either mispriced or offer little opportunity for gain.

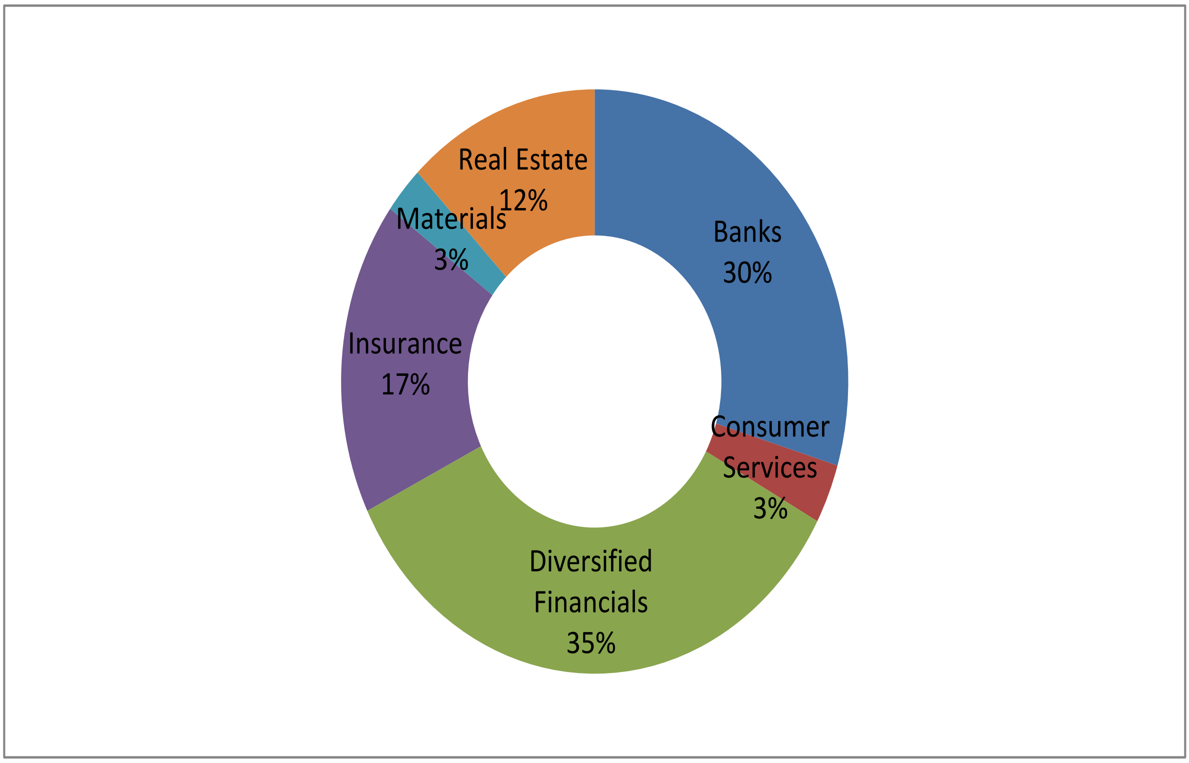
We will continue to reduce concentration risk by name and increase diversification through the portfolio. Our main objective is to reduce beta and look for opportunities to provide alpha within the portfolio.

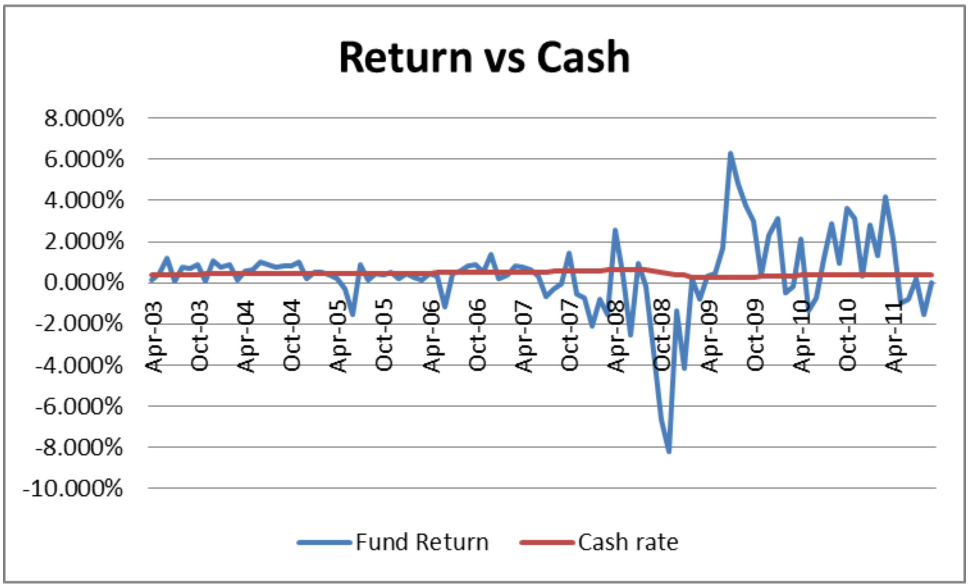


Portfolio Best and Worst Performers

Best	Portfolio Contribution	Worst	Portfolio Contribution
NAB Capital Trust III	0.51%	Paperlinx	-0.28%
Alpha Notes	0.40%	NAB Income Notes	-0.21%
Multiplex Notes	0.31%	Australian Mutual	-0.07%
AXA Insurance	0.20%	Suncorp Income Notes	-0.03%
Vero Insurance	0.18%	Transpacific SPS	-0.00%

Sector Weightings





Fund Metrics Year on Year

Tracking Error	1.68%
Sharpe	1.88%
Alpha	3.49%
Ave Month Return	1.20%
Ave Outperformance per month	2.34%
Number Negative Months	3
Number Months underperformed index	5
Average underperformance	1.00%
Best Month Performance	4.17%
Worst Monthly Performance	-1.58%