



Fact Sheet

August 2017



Fact Sheet – 31 August 2017

Investment Objective	The Fund aims to generate higher returns than the RBA Cash Rate over the short to medium term with lower volatility than equity.
Investments held	The Fund holds a diversified portfolio of debt and income securities with a view to minimising any loss of income and capital of the Fund. Issuers may be government bodies, banks, corporations and, to a limited extent, specialist financing vehicles. To maintain a diversified portfolio structure, certain limits are imposed on security type, credit risk, industry and issuers.
Investment Manager	Spectrum Asset Management Limited
APIR	ETL0072AU
Commencement	31 May 2009
Fund Size	\$32.4mil

Management costs ¹	0.75% p.a.	Buy Spread	+0.15%
Minimum initial investment	\$5,000	Sell Spread	-0.15%

Unit Prices	Purchase	Net Asset Value	Withdrawal
31/08/2017	1.0626	1.0610	1.0594

Performance as at 31/8/2017*	1 mth %	3 Mths %	6 Mths %	1 Yr %	3 Yr % p.a.	Inception % p.a.
Total Net Return ²	0.46%	1.18%	2.55%	4.89%	4.63%	8.83%
Average RBA Cash Rate	0.125%	0.38%	0.75%	1.50%	1.89%	2.70%

*Past performance is not an indicator of future performance

Income distributions	30/09/2016	31/12/2016	31/3/2017	30/6/2017
Distribution rate (cents per unit)	0.5400	0.9578	0.5705	1.2600

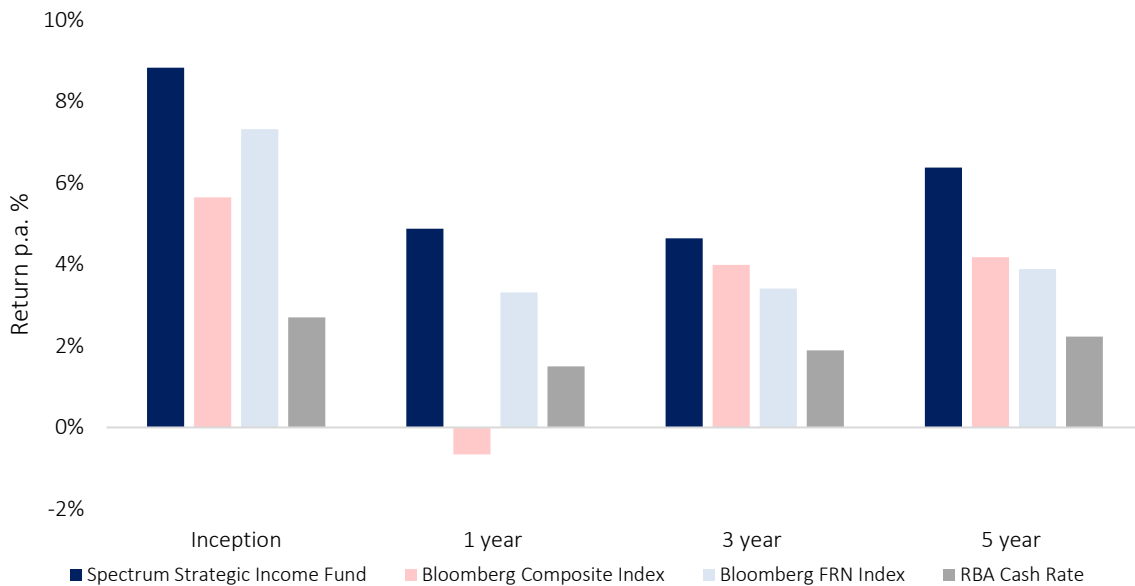
¹ Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

² Total Net Return is the Fund return after the deduction of ongoing fees and expenses assuming the reinvestment of all distributions.

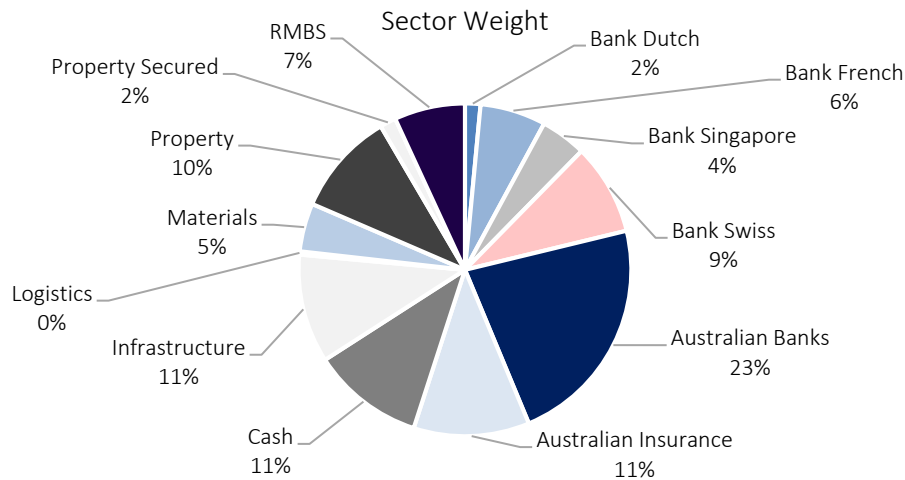
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Return Comparisons



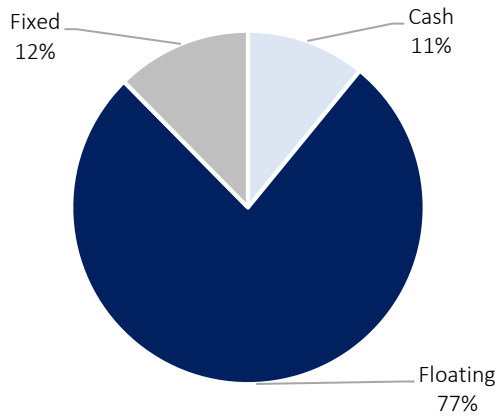
**Past performance is not an indicator of future performance*



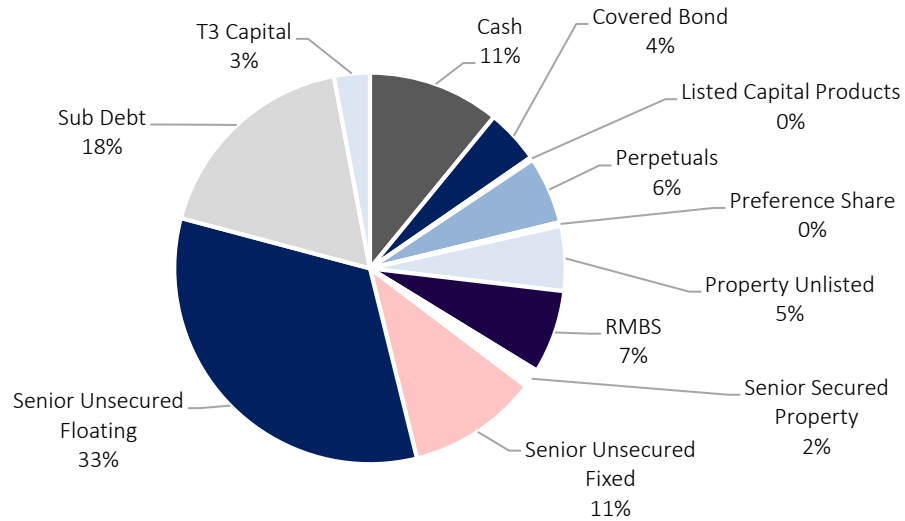
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Fixed / Floating



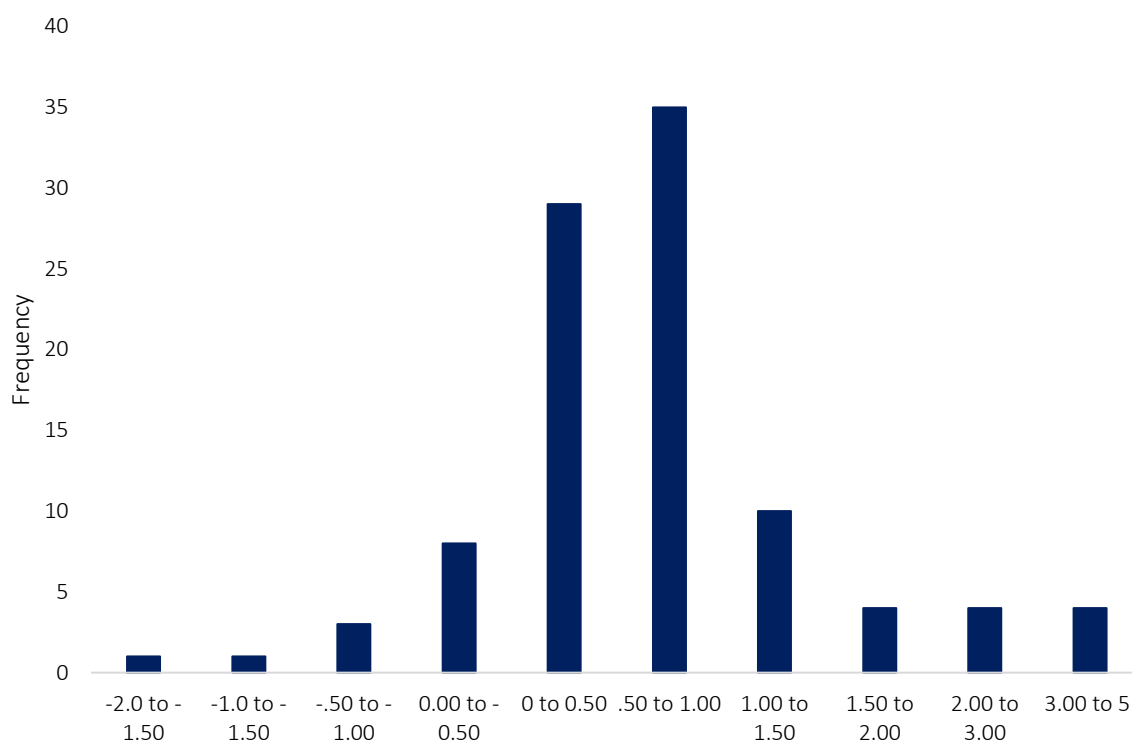
Security Type



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Spectrum Strategic Income Distribution of Returns since Inception



Sources: Spectrum

returns in bucket of 50 bp range.

each bucket contains the number of results in each band

*Past performance is not an indicator of future performance

	Fund Statistics
Correlation to Bloomberg FRN Index	35%
Correlation to Bloomberg Composite Index	-0.3%
Tracking error to Bloomberg FRN Index	1.7%
Proportion of positive Fund returns %	87%
Proportion of negative Fund returns %	13%
Number of consecutive positive returns	21 Months
Largest drawdown %	-1.6%
Time to recovery from largest drawdown	2 Months
Average drawdown %	-0.2%

Source: Spectrum

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Commentary:

The Fund has now run 21 months without a loss.

The month of August saw geopolitical risks rise and markets react accordingly. Equity sold off and bond markets rallied. Risk markets eventually stabilised on the basis of the Trump pledge to reduce taxes in the U.S. This optimism, however, could be short-lived.

Currently, the main drivers for markets are geopolitical risk, (the sabre rattling on the Korean Peninsula), the unwinding of the Fed's balance sheet, and Trump's pledge to reduce taxes.

We attribute the rallying bond market and tightening of credit spreads to the significant amounts of cash washing through the global monetary system. This excess cash continues to distort interest rates and credit spreads globally. Currently, Spectrum considers the risk-reward trade-off makes value scarce in credit markets.

Looking forward the markets will likely focus on the debt ceiling in the U.S and any comments from the Fed regarding how it will commence unwinding its balance sheet. The extent to which the Fed won't be reinvesting will be watched with keen interest. The fear is bond yields will rise should the Fed commence paring its portfolio in October 2017.

Australia won't be immune to any changes in Fed policy. Should USD yields jump, it is reasonable to expect AUD bonds to follow.

Within Australia there is a robust discussion around interest rates. The economic environment is supportive of a rate hike. A hike, however, would see the AUD rise and that is something the RBA does not want to see. Australia cannot afford a rate cut due to the risk of further fuelling the buoyant residential property market. On balance, the likely outcome is no change to monetary policy.

During September, geopolitical risk is most likely to be elevated. The Korean Peninsula could be the flash point given Kim Jong Un's penchant for unsettling Trump, and Trump's volatile nature. Brexit discussions are evolving and may be a catalyst for selling of the pound. Germany conducts its poll on September 24 and if Merkel were to lose that could cause some disruption to markets globally.

Overall, we see yields drifting higher later in September as a direct result of stress around the U.S debt ceiling and with the Fed possibly commencing its tapering of its balance sheet. Credit spreads, however, remain tight and but may tighten further as investors chase returns and default risk seems minimal.

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Political risk within Australia remains elevated due to a number of Parliamentarians requiring High Court approvals to remain in their current positions. If a number were to lose their seats this could create financial market instability.

The Fund has taken a conservative approach in relation to possible regulatory fines for CBA. The Fund has reduced its holding in CBA from 6% to 0.3% and expects to have a zero holding shortly.

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