

SPECTRUM

ASSET MANAGEMENT

Fact Sheet

March 2018



Fact Sheet – 31 March 2018

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	\$46.5m

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
31/3/2018	\$1.0678	\$1.0662	\$1.0646

Performance as at 31/3/2018*	1 mth %	3 Mths %	6 Mths %	1 Yr %	3 Yr % p.a.	Inception % p.a.
Total Net Return ²	0.14%	0.93%	1.97%	4.12%	4.39%	8.49%
Average RBA Cash Rate	0.125%	0.38%	0.75%	1.50%	1.71%	2.61%

*Past performance is not an indicator of future performance.

Income distributions	30/6/2017	30/9/2017	31/12/2017	31/03/2018
Distribution rate (cents per unit)	1.2600	0.5404	0.5631	0.6399

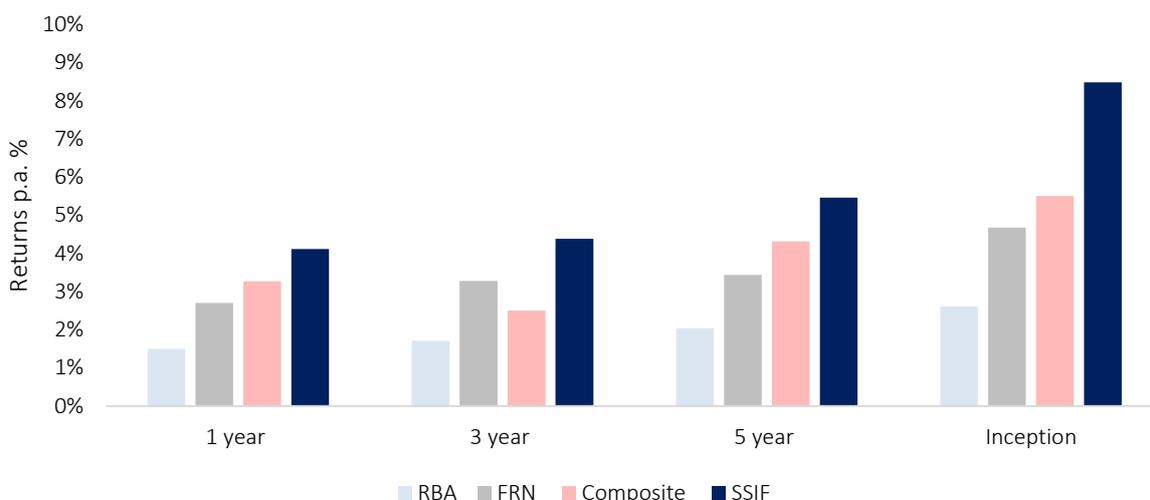
¹ Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

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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This report was prepared by Spectrum Asset Management Limited (Spectrum) (ABN 31 096 442 198, AFSL 225069) as investment manager for the Spectrum Strategic Income Fund (Fund). Equity Trustees Limited (ABN 46 004 031 298, AFSL 240975), a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT), is the Responsible Entity of the Fund. This document has been prepared for the purpose of providing general information only, and not taken into account the investment objectives, financial situation and particular needs of any particular person. Before making an investment decision an investor needs to consider, with or without the assistance of an advisor, whether the advice is appropriate in the light of particular investment needs, objectives and financial circumstances of the investor. Past performance is not a reliable indicator of future performance. Investment returns cannot be guaranteed. In deciding whether to acquire, or to continue to hold, units in the Fund please read the current Product Disclosure Statement (PDS) available from Spectrum of Equity Trustees. The information contained in this report has been obtained from sources believed to be reliable. Neither Spectrum, Equity Trustees Ltd, nor any of its related parties, its directors or employees, provide warranty of accuracy or reliability in relation to information on this publication or accepts liability to any person who relies on it. This Fact Sheet reflects the information available as at the date this Fact Sheet and is subject to change without notice to the recipient.

Return comparisons

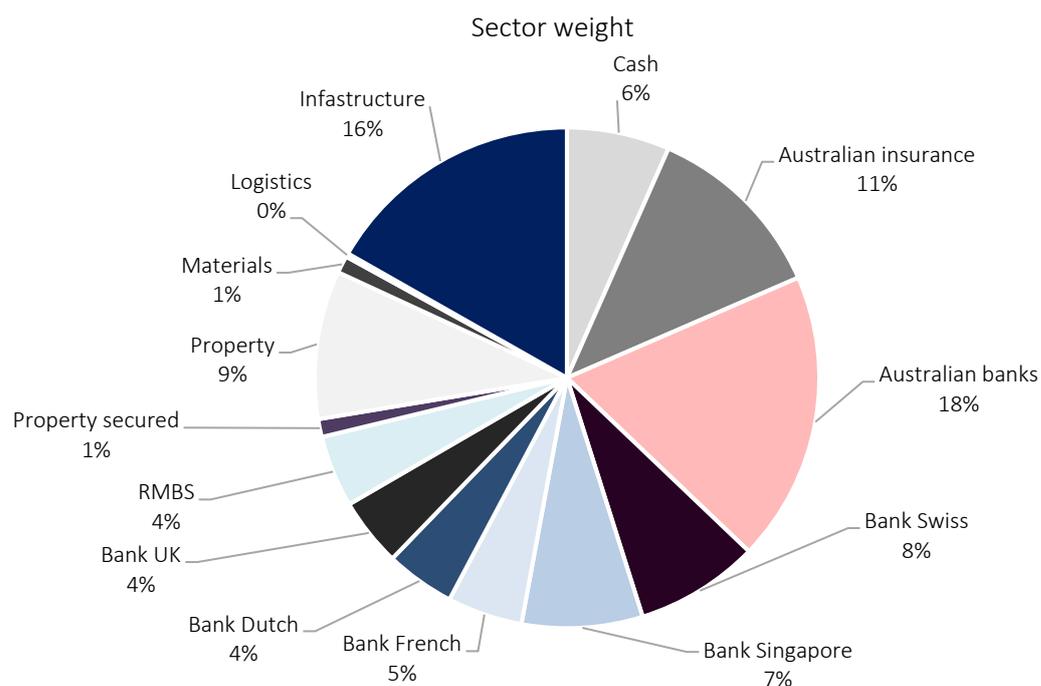


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Composite = The Bloomberg Composite Index.

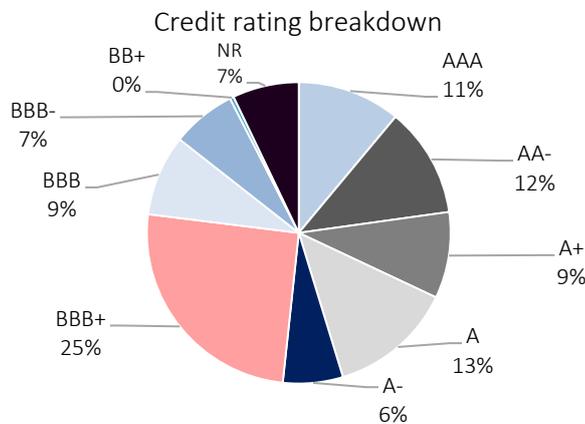
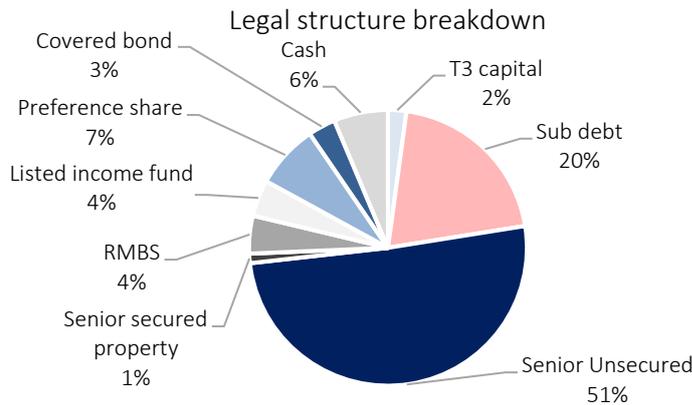
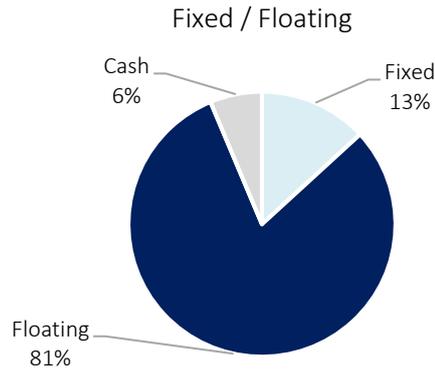
FRN = The Bloomberg FRN Index.

RBA = RBA Cash Rate



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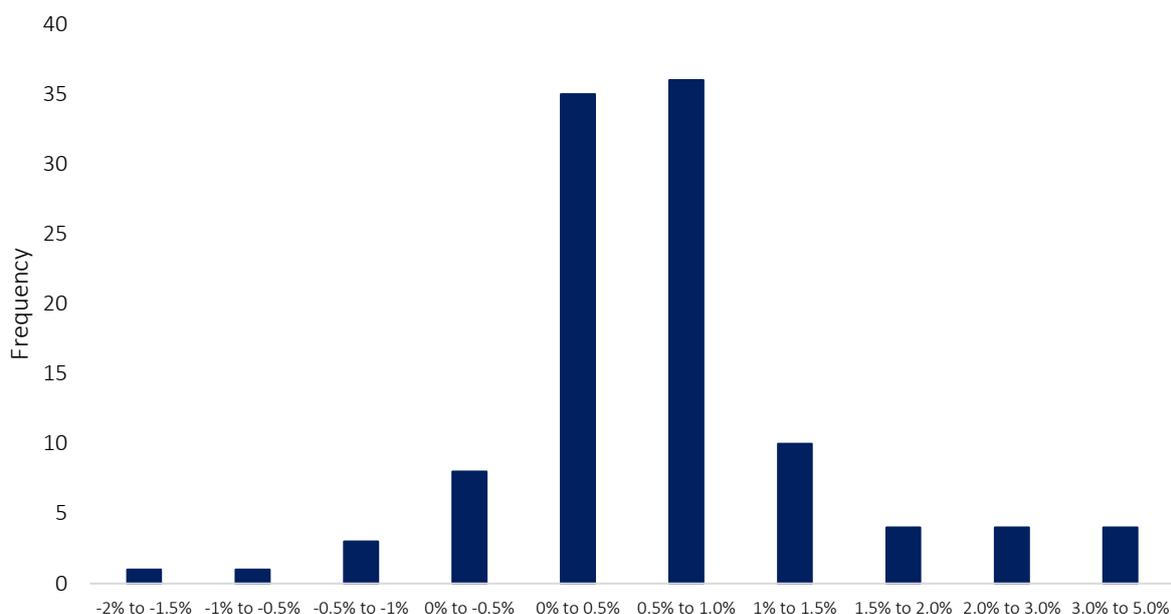


*Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 31st of March 2018, 93% of the portfolio has an official credit rating from one (or both) of these agencies. Cash is rated 'AA-' to reflect the credit ratings of where the cash accounts are held. The portfolio has an average linear credit rating of 'A-'.

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Spectrum Strategic Income - Distribution of monthly returns since inception



Sources: Spectrum

Returns are on a monthly basis.

Returns in bucket of 50bp 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	36%
Correlation to Bloomberg Composite Index	0.9%
Tracking error to Bloomberg FRN Index	1.7%
Proportion of positive Fund returns %	88%
Proportion of negative Fund returns %	12%
Number of consecutive positive returns	28 Months
Largest drawdown %	-1.6%
Time to recovery from largest drawdown	2 Months
Average drawdown %	-0.2%

Source: Spectrum

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Top ten holdings:

	Holding %
Cash	6.3%
Bank of Queensland	5.4%
NAB	4.7%
BNP Paribas S.A.	4.6%
IAG Sub	4.3%
APN Regional Property	4.3%
Verizon	4.3%
UBS AG	4.2%
International Finance Corp	4.2%
HSBC Global	4.2%

Commentary:

The Fund has now generated 28 months of consecutive positive monthly returns.

March was dominated by some credit spread widening and increased volatility in both bonds and equities. The change in volatility was largely in response to the tariff spat between the U.S. and China and concerns over global economic growth.

The hike in rates by the Fed exposed a potential chink in the outlook for the global economy. Investors were concerned about whether the Fed would hike 3 or 4 times this year and whether that would slow the momentum of the U.S. economy and, if so, whether there were any trickle-down effects that would plague the global economy.

Currently, world economic growth appears to be steady. Growth in Europe is rising; however, this growth could be vulnerable to any trade spat with the U.S. President Trump appears to be keen to force the Europeans to purchase more U.S. goods - especially cars and aircrafts. The Europeans are not quite so keen. Should the Trump Administration escalate the possibility of a trade war the global economy is likely to suffer. Growth momentum is teetering on a knife edge.

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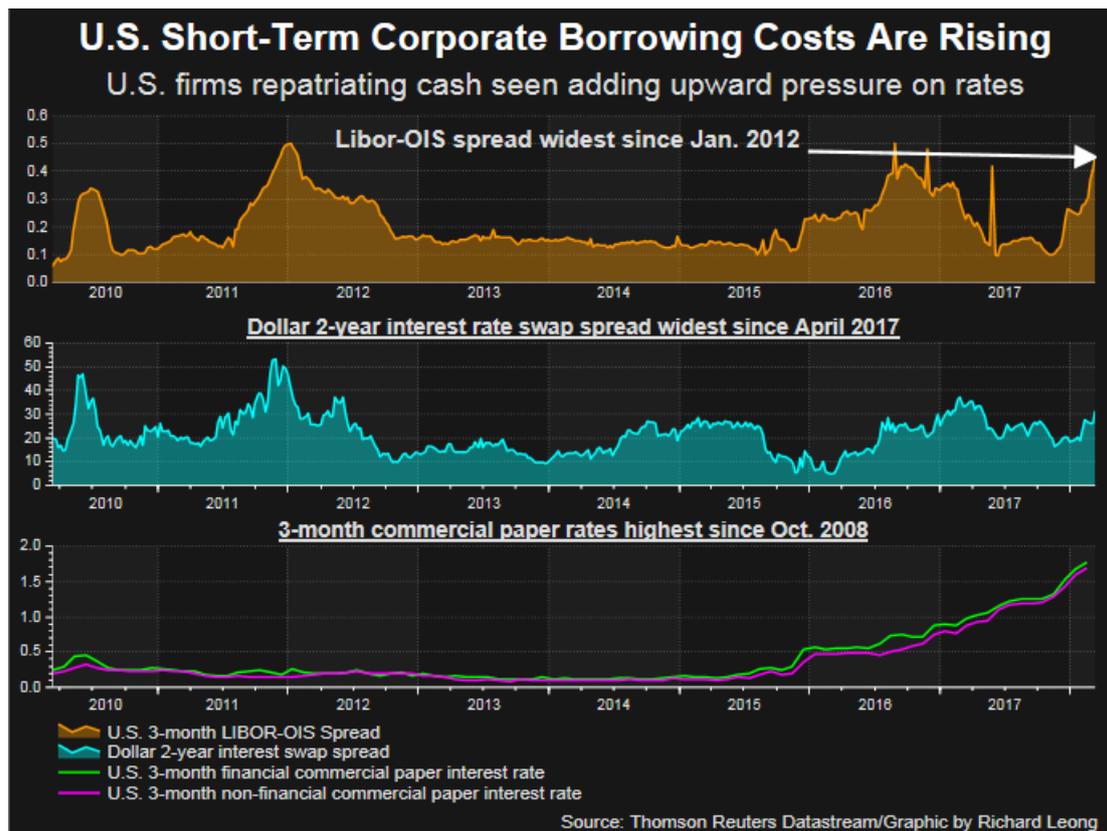
Another concern for world growth is inflation induced by a trade war. For some 30-years China has exported deflation. This may change in a trade war. Inflation could rise providing more headwinds for the global economy. Evidence of how vulnerable the U.S. economy is can be seen in the latest ISM report that suggests the increase in steel and aluminium prices has already had a negative impact on manufacturing.

Any slowing of the U.S. economy would mean a widening fiscal deficit. Already, the current interest bill on existing Treasuries is larger than the spend on the U.S. military. Any rise on the cost of funding could be demanding. The currency may weaken, and bond yields may jump to attract capital. Meanwhile, borrowing costs for business would rise, thus slowing the economy further. A circuit breaker could be controlled inflation, but this is a dangerous step.

The alternative is that the Fed hikes rates two more times as the economy is steadily growing, and this means that bond yields will likely rise anyway. Either way it is our expectation that rates will be higher later this year or early next year. Libor has steadily moved out and recent end of month activity by corporates has assisted that widening trend in March.

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What this means for credit spreads is that there is a possibility of spreads widening. Any significant widening for investment grade bonds would arise if junk bond spreads widen significantly and we see a significant increase in default rates.

The Australian market, however, is in a different space. With a reported 30% of households struggling to meet mortgage payments and a subdued retail sales outlook, the RBA is likely to be reluctant to raise rates. If this scenario proves correct, then rates will be steady for some time. Credit spreads will be dependent upon the outlook in credit in the U.S.

A widening of spreads in the U.S. is likely to mean spreads in Australia will widen.

The current level of Australian bond rates has our 10-year bond trading 17bp inside the U.S. 10-year, and with falling iron ore prices, the currency has weakened, and that weakness looks set to continue if the trade war between the U.S. and China deepens or spreads wider.

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During March the following issuers tapped the market with issuance:

- Volkswagen Financial Services 4-year ABS
- Liberty Financial 3-year MTN
- La Trobe Financial Capital Markets RMBS
- Victoria Power Network 10-year fixed rate bond
- IAG 26 non-call 6-7 year subordinated (participated)
- Pepper Residential Securities RMBS
- Heritage Bank 3-year MTN
- Nissan Finance 3-year RMBS
- Bank of Tokyo Mitsubishi UFJ 5-year
- MyState Bank RMBS
- DBS holdings 10 non-callable 5-year subordinated notes (participated)

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