

The logo features a central circular graphic composed of multiple overlapping, hand-drawn style rings in a rainbow color palette (red, orange, yellow, green, blue, purple).

SPECTRUM

ASSET MANAGEMENT

Fact Sheet

March 2017

A large, stylized graphic element in the bottom right corner, consisting of several overlapping, hand-drawn style arcs in a rainbow color palette, mirroring the logo's design.



Fact Sheet – 31 March 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 investment approach of Spectrum Strategic Income Fund combines a global macroeconomic and political view of the likely future level of interest rates with quantitative techniques, credit research and a disciplined portfolio construction process to identify stocks that offer an expected yield premium in excess of the market for a particular creditworthiness. The Fund holds a diversified portfolio of debt and hybrid securities with a view to minimising any loss of income and capital of the Fund associated with investment risk. Issuers may be government bodies, 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	\$27mil

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
31/03/2017	1.0547	1.0531	1.0515

Performance as at 31/3/2017*	1 mth %	3 Mths %	6 Mths %	1 Yr %	3 Yr % p.a.	Inception % p.a.
Total Net Return ²	0.58	1.83	2.76	5.65	5.14	9.05
Average RBA Cash Rate	0.125	0.38	0.75	1.60	2.03	2.79

*Past performance is not an indicator of future performance

Income distributions	30/06/2016	30/09/2016	31/12/2016	31/3/2017
Distribution rate (cents per unit)	2.6762	0.54	0.9578	0.5705

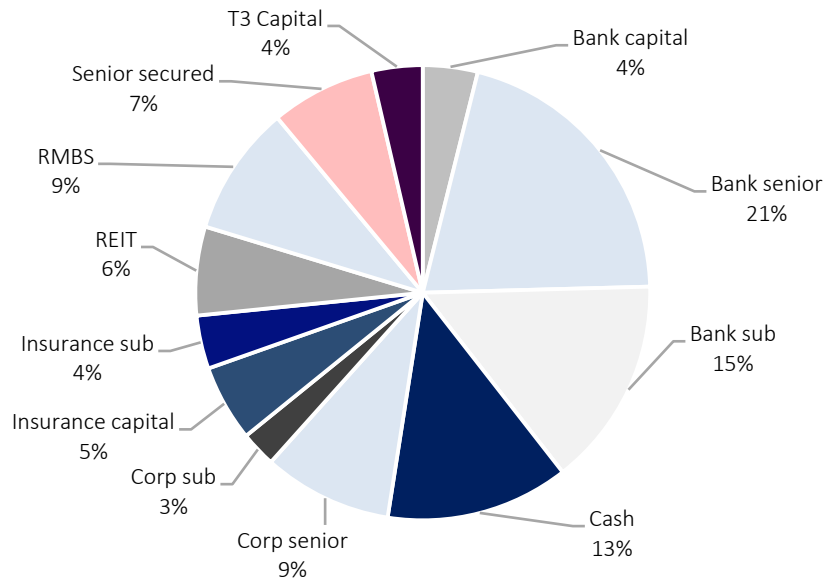
¹ Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

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

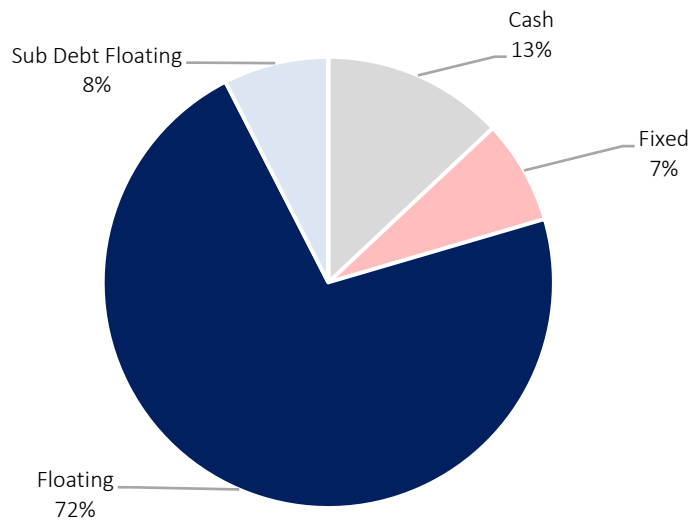
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Security Weight

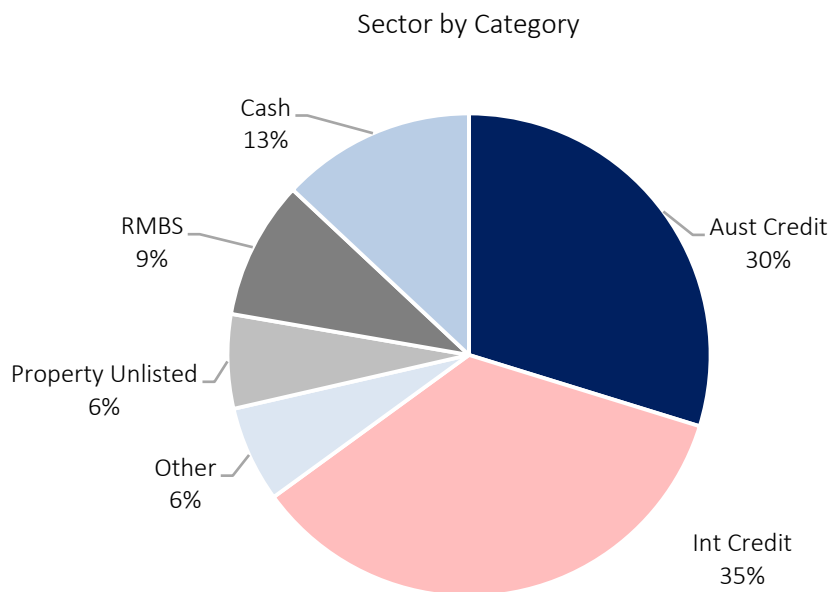
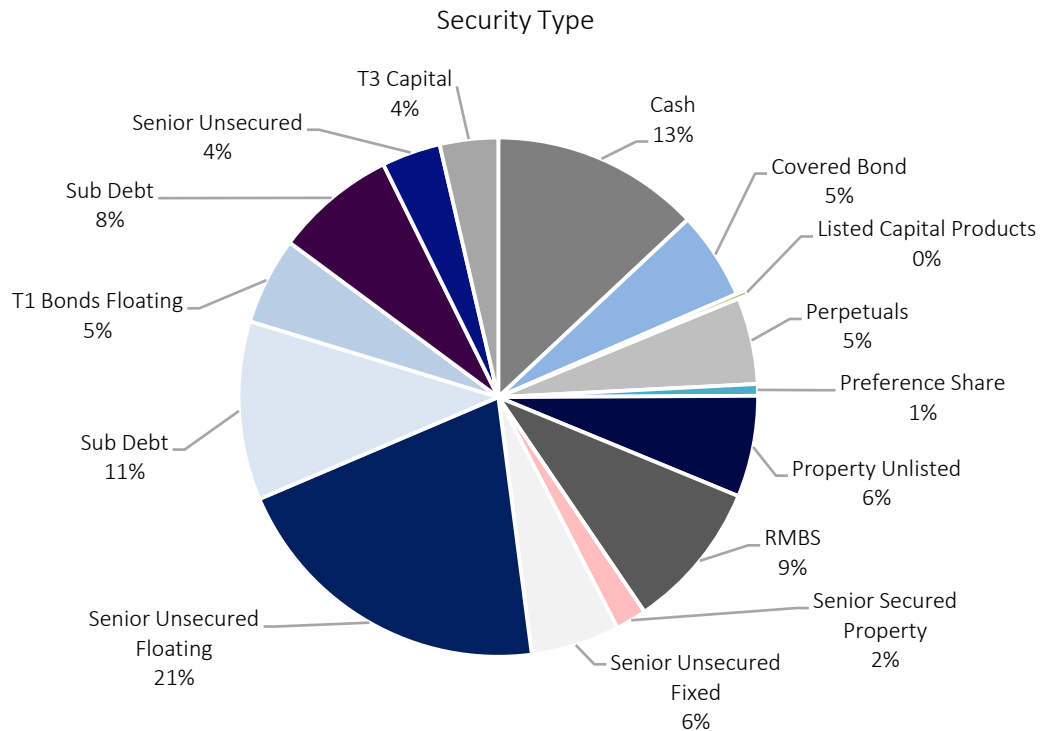


Fixed / Floating



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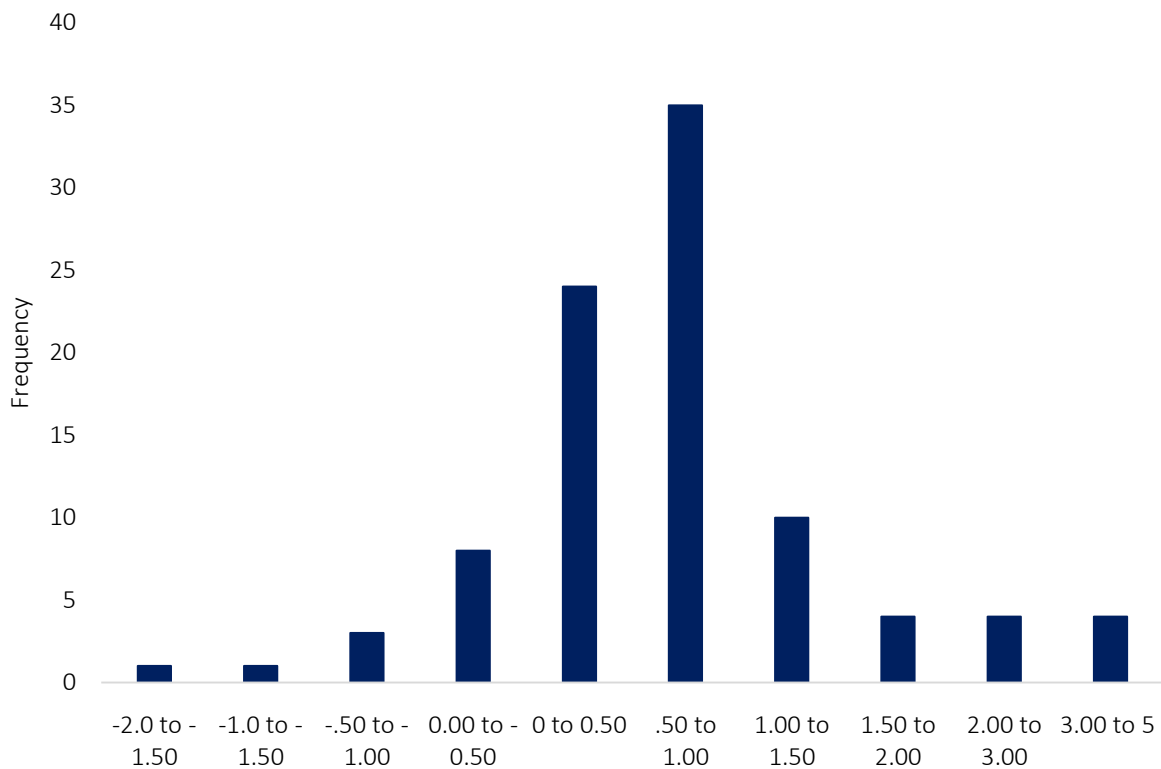
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Spectrum Strategic Income Distribution of Returns since Inception



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	0.3%
Correlation to Bloomberg Composite Index	-0.01%
Tracking error to Bloomberg FRN Index	0.6%
Proportion of positive Fund returns %	86%
Proportion of negative Fund returns %	14%
Number of consecutive positive returns	16
Largest drawdown %	-1.6%
Time to recovery from largest drawdown	2 Months
Average drawdown %	-0.2%

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Commentary

The Fund has now recorded 16 consecutive positive months.

March was a month that could be characterised by low volumes, and month where the investment approach was very much a wait and see. All eyes were directed towards the U.S. Earlier in the month markets were excited by the prospect of the removal of Obamacare, and the prospect of a regulatory environment that would be kinder towards business, the lowering of taxes, and the potential of U.S. corporates being allowed the opportunity to repatriate offshore funds without incurring a tax penalty. This all came asunder when the Health Care Bill was abandoned. Simply put - Trump lacked the numbers and was unwilling to push ahead for fear of failure.

As a result markets took the failure as being symptomatic of problems ahead and that caused a degree of consternation for investors. The equity markets declined in relatively thin markets. The decline could be attributed to overstretched valuations and high expectations for growth. Since the middle of the month U.S. equities have stumbled in relatively thin markets and U.S. bonds have rallied significantly. Since the middle of the month the benchmark U.S. 10 year treasury has rallied from a high of 2.62% to currently 2.35%. A considerable rally given the economic data is not benign but rather supports the view that the U.S. economy is growing at around 2.1%, unemployment remains persistently low, and inflation has moved slightly ahead of the Fed's target range and is around 2.2%.

The outlook for the U.S. (this is important for rates here in Australia) is that for the moment, the risk off trade appears to be the more favoured choice. Yen, gold and U.S. treasuries have rallied and so too Australian bonds, this trend seems likely to continue for a little while yet. This is important for credit because credit is dependent on the economic environment and the strength of corporate balance sheets. U.S. credits have tightened considerably over the last month, however sub-investment grade credits after tightening quite considerably have started to widen. This movement could suggest that higher grade credits could soften or that equity markets could weaken. Either way it is a movement that needs to be monitored.

Within Australia the debate however is housing. The RBA appears somewhat frustrated when one listens to Dr Phillip Lowe or reads the Minutes as the boom in house prices in Sydney and Melbourne is causing alarm. Some 40% of all purchases are for investors as interest only loans. This is staggering. The RBA has concerns about the economy and according to the Minutes there is a distinct frustration about not being able to lower interest rates. I believe the fear is misplaced and that the economy is reasonably sound tracking about 2% with inflation at similar levels. What is of a concern is the high number of investor loans and to that end APRA has raised the regulatory hurdles for the Banks and this is causing the investor loans to rise and also requires larger deposits on the property for

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investors. This regulatory hurdle is being used to slow the rate of growth of investor loans in the housing sector.

Overall the outlook for the Australian economy is for modest growth. This implies that credit markets can tighten further from already tight levels. However, at this stage we are concerned with credit being too tight and equity valuations, which in our view, are being driven by expectations and technicals rather than a strong positive outlook. We are improving the quality of underlying assets and are reducing risk within the portfolio.

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