



Fact Sheet

June 2017



Fact Sheet – 30 June 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	\$32.6mil

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
30/06/2017	1.0531	1.0515	1.0499

Performance as at 30/6/2017*	1 mth %	3 Mths %	6 Mths %	1 Yr %	3 Yr % p.a.	Inception % p.a.
Total Net Return ²	0.27%	1.04%	2.89%	5.03%	4.76%	8.90%
Average RBA Cash Rate	0.125%	0.38%	0.75%	1.52%	1.94%	2.74%

*Past performance is not an indicator of future performance

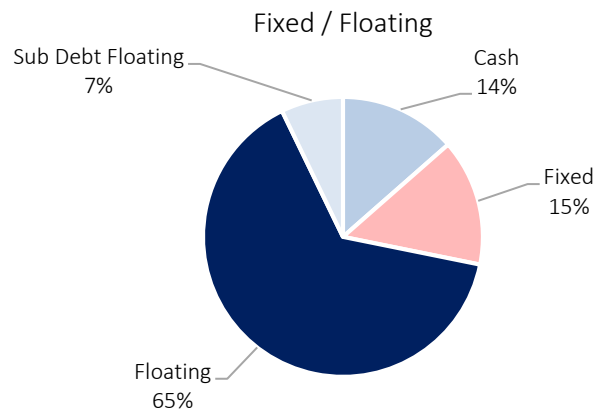
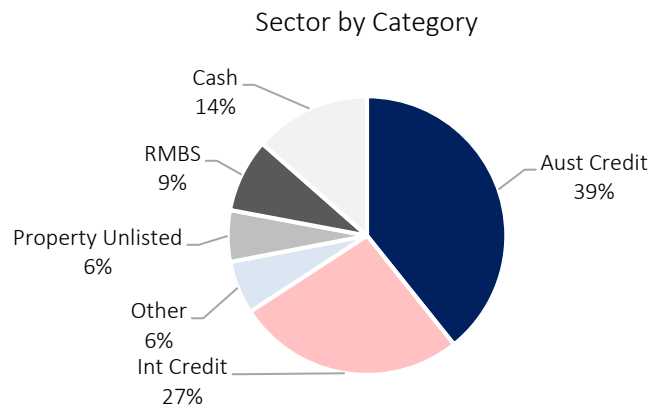
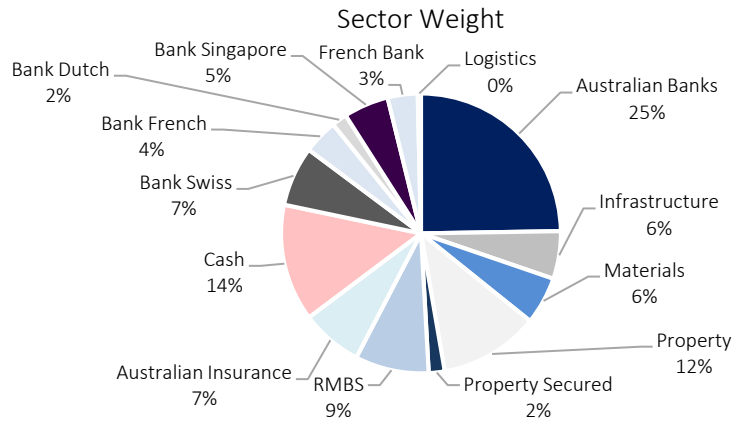
Income distributions	30/09/2016	31/12/2016	31/3/2017	30/6/2017
Distribution rate (cents per unit)	0.5400	0.9578	0.5705	1.2600

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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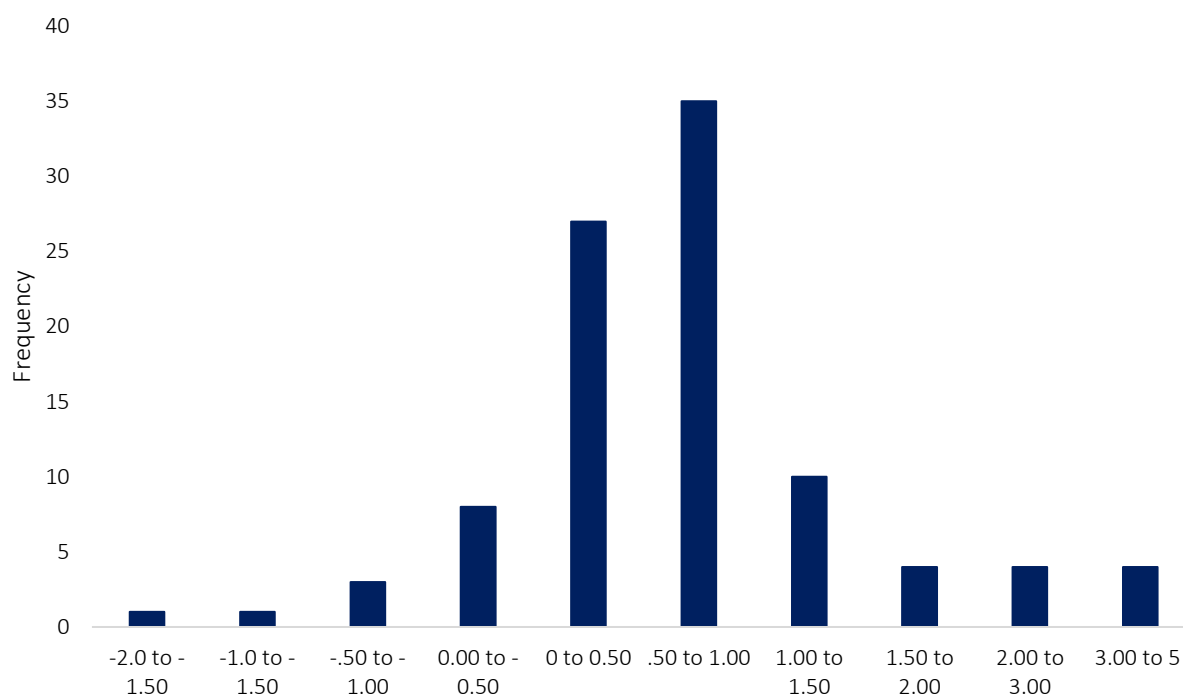
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Spectrum Strategic Income Distribution of Returns since Inception



Sources: Spectrum

returns in bucket of 50 bp range.

each bucket contains the number of results in each band

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	Fund Statistics
Correlation to Bloomberg FRN Index	35%
Correlation to Bloomberg Composite Index	-0.4%
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	19 Months
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 19 consecutive positive months.

The month of June was volatile for several reasons. Earlier in the month the bond market lost faith in the Trump administration's ability to legislate the removal of Obamacare, tax cuts and the infrastructure spend promised on the campaign trail. With the expectations of Trump's promises receding fast, the bond market in the U.S. rallied significantly with the 10-year at one-point trading to a low of 2.10%. Even with the expected rate hike the 2-year note traded to 1.28%.

Following the rate hike by the Fed, markets took a turn for the worst. The rate hike was not responsible for the selloff, rather it was the announcement by the Fed that QE had come to an end and that the Fed may be a seller of bonds or at best no longer an investor. The \$4.8 trillion buying program had come to an end and so too the purchases of about \$90 billion per month of RMBS, treasuries, and some municipal bonds. This announcement was then followed by the Bank of Canada, the ECB, and the BoE, all stating a reluctance or an end to their respective QE's. Easy money had come to an end.

The net result was an end to the bull market in bonds for the moment. Fixed income managers must now consider what the market will do without major purchases by the central banks. The expectation is for rates to normalise and for the yield curve to steepen. Such a scenario would be good for financials.

So far what we have seen is that bonds have weakened by about 20 bp since the respective announcements and equities have rallied. In the U.S. the rally in equities was led by financials.

This trend has also continued into the Australian markets.

What investors now have to ponder is whether growth is sufficient and whether it may be stalled by what is in effect, a substantive tightening. Investors will be looking toward the Trump administration for indications that the far-reaching policies on taxation and infrastructure can proceed. Because much of the expected global growth is tied towards Trump's infrastructure plan. For example, commodities have been hoarded on the basis they will be required for the construction of Trump's wall. Steel, copper, zinc and tin have rallied on this expectation. Chinese mills geared up to produce more steel and so too the Germans. Without the wall proceeding then factories would slow, demand for commodities would fall, and economies could slow. Much is riding on a few Senators and Congressmen and Congresswomen passing Trump's legislation.

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Over the coming months we expect that the bond curve will normalise. That means bonds should rise (fall in price) and the yield curve could steepen. This movement towards higher yields will most likely occur as a series of steps.

What we fear though is that bonds could overreact and we could see slowing growth. This is the dilemma that the U.S. faces and likewise Australia. U.S. data has been soft over the last few months with the GDP number fully reflecting the Trump expectation. Inflation remains persistently low and with employment, whilst rising, the Phillips Curve effect that many central bankers are looking for is not translating into a sharp rise in wages. Wages remain slack despite unemployment in the U.S being around 4.4%. The same effect can be noted for Australia. Wages remain sluggish and with personal income to debt at an all-time high, one should be wary of a significant slowdown. Should such an event occur then the Australian Dollar would become weak and bonds will rally.

Overall, markets look fully priced and vulnerable to a slowdown due to failing expectations.

The Fund's duration is 0.6 year, credit spread duration is 3.4 years, and the adjusted linear rating is equivalent to a rating of single A.

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