



Fact Sheet

October 2017

Two large, decorative, overlapping rainbow-colored arcs are positioned on the right side of the page, one above the other, mirroring the color scheme of the logo.



Fact Sheet – 31 October 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	\$39.2mil

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
31/10/2017	1.0646	1.0630	1.0614

Performance as at 31/10/2017*	1 mth %	3 Mths %	6 Mths %	1 Yr %	3 Yr % p.a.	Inception % p.a.
Total Net Return ²	0.52%	1.13%	2.32%	5.05%	4.70%	8.74%
Average RBA Cash Rate	0.125%	0.38%	0.75%	1.50%	1.83%	2.67%

*Past performance is not an indicator of future performance.

Income distributions	31/12/2016	31/3/2017	30/6/2017	30/9/2017
Distribution rate (cents per unit)	0.9578	0.5705	1.2600	0.5404

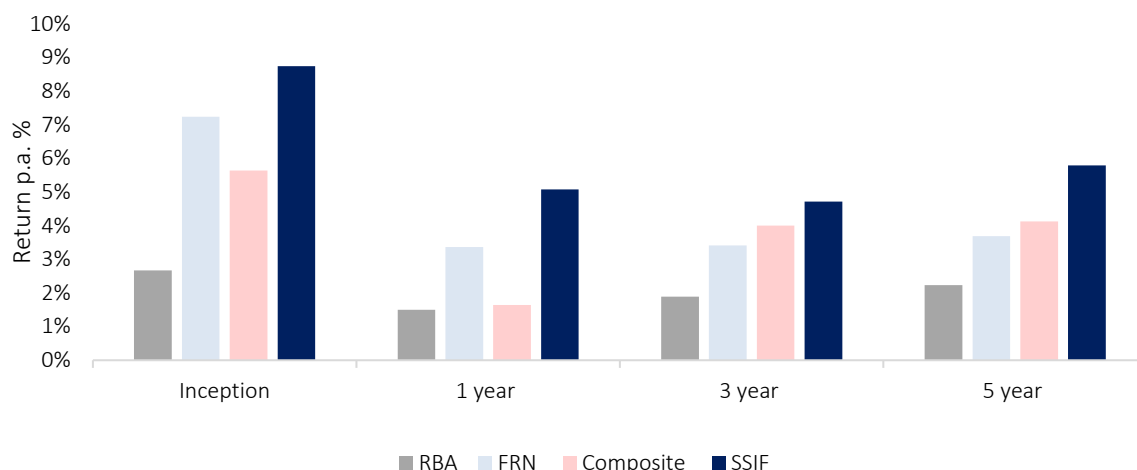
¹ Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

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

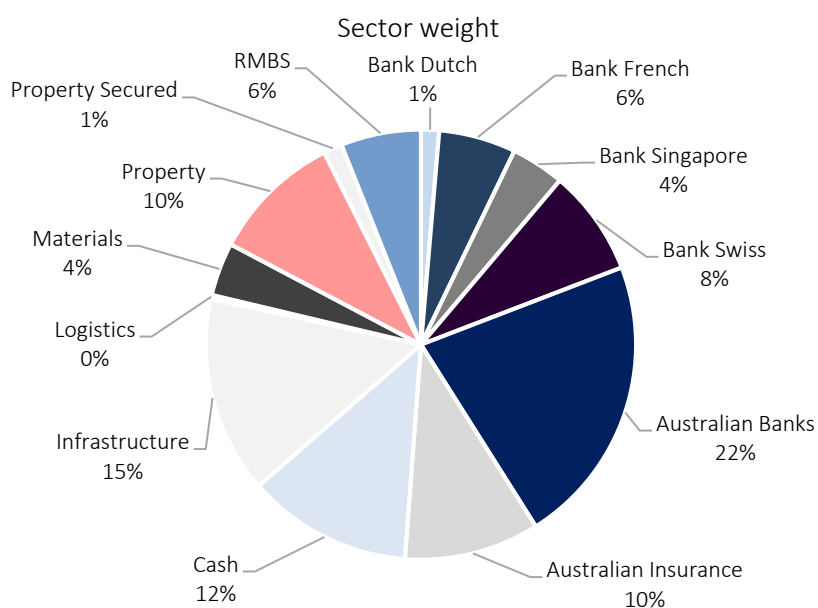


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Composite = The Bloomberg Composite Index.

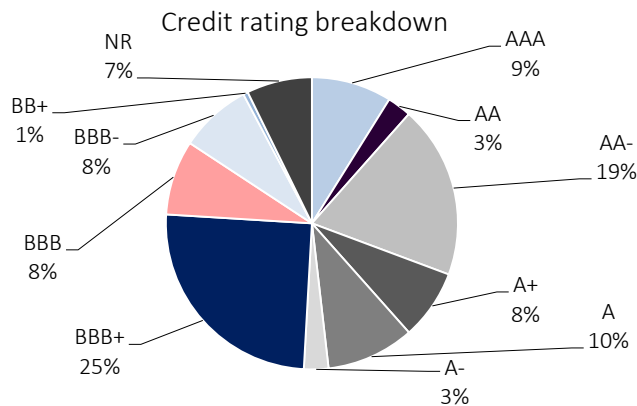
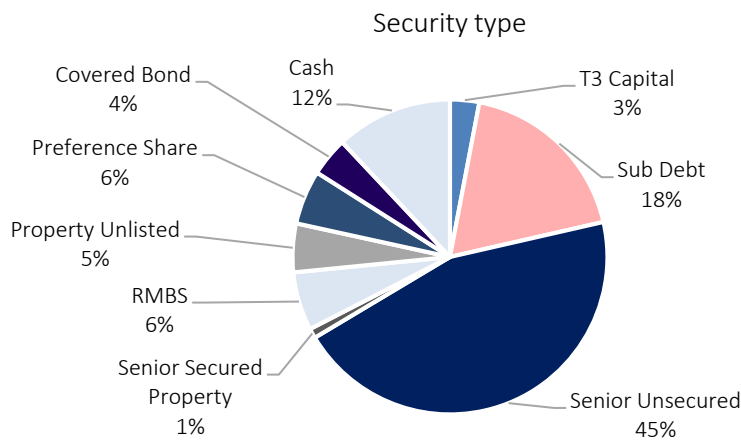
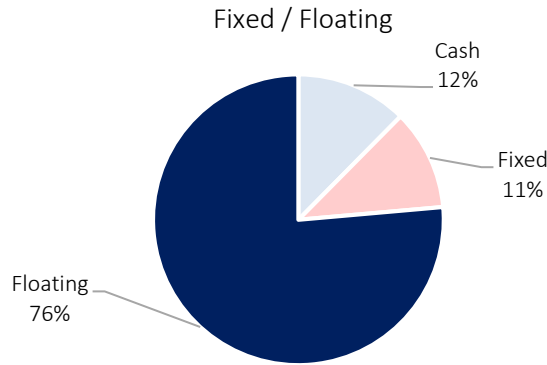
FRN = The Bloomberg FRN Index.

RBA = RBA Cash Rate



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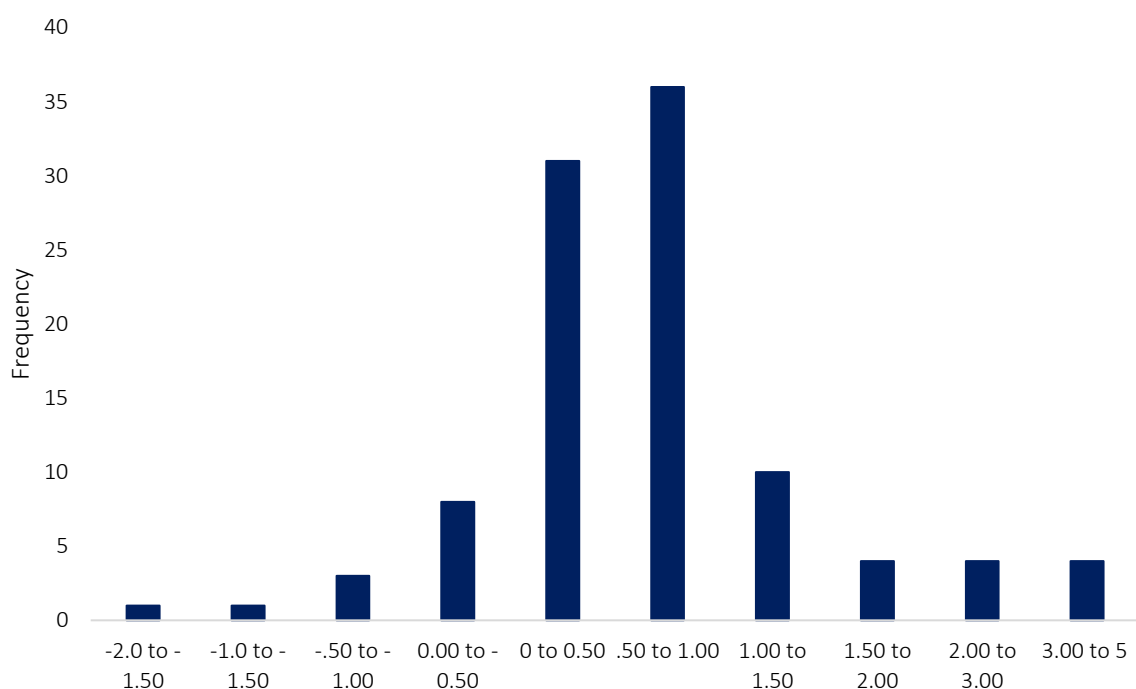


*Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 31st of October 2017, 93% of the portfolio has an official credit rating 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 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	23 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 23 months without a loss.

October was a mixed month. After bonds rallied in the U.S on strong demand they then retreated as the GOP looked set to release the budget and tax package on the 23rd of October. Whilst some aspects of the package were released, the disappointment for many was the lack of detail. Nonetheless the U.S. equity market to then continue its rally. Bond yields moved higher, in part, due to the expectation of a stronger economy.

The Tax Policy was finally released on the 2nd of November 2017 and within the document there were a few surprises. The taxation benefit largely goes to corporates, and there will be taxes of 10% on funds held offshore. For multinationals that are not domiciled in the U.S. they will be taxed at 20% if they repatriate funds home. Taxes on mortgages are also changed. The ambition for the GOP is for tax budget to be passed by Thanksgiving which is on the 23rd of November. This is a very ambitious objective.

The release of more details of the Tax Policy in the U.S. may be a driver of markets there and influence markets elsewhere.

Another key development for bond markets was former Carlyle Group CEO Jerome Powell is the new Fed Chairman nominee (will require Congressional approval). Powell is viewed as a dove and likely to maintain relatively easy monetary conditions.

The ECB also recently recommitted to QE, albeit at a slower rate, at least until September 2018.

At present the markets are reacting as if any retracement in risk assets is a buying opportunity. To some degree this makes sense as there is around \$8tn of excess liquidity sloshing around financial markets. Until this surplus liquidity evaporates most risk markets' prices will be underpinned. Returns may be mixed in the case of bonds, with credit spreads narrower and government bond yields higher.

What we are seeing though is a distortion within markets and one wonders how long markets can remain so buoyant. European high yield bonds are at the same level as U.S. 30-year treasuries. Countries such as Mongolia, Iraq, and Egypt have all recently issued bonds that were considered very tight credit spreads. The US treasury curve recently flattened to a 10-year low.

As offshore influences such as U.S. default rates and U.S. bond markets are the primary drivers of the Australian domestic corporate bond market, the outlook looks steady. Default rates are still falling in

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the U.S and globally. Rates are likely to rise in the U.S. in December and while this may mean U.S. bond yield inch higher, rates overall are likely to remain contained in Australia.

The economy in Australia appears to be robust. A fall in Chinese buyers of property, however, is causing some concern in the property market and this in turn could feed into the larger economy. Property is now an important second leg for the domestic economy after mining. A fall in property prices may distort the RBA's view and affect the current government's thinking. A rate cut would then suddenly loom as a possibility should property fall significantly. If that were to happen then there is a possibility that the currency could fall sharply and fixed rate bonds to rally.

The current point of view, however, is that the RBA remains on hold. Credit should continue to be well bid, and opportunities should arise in both fixed and floating rate notes.

The Fund's performance for the month of October saw growth contribute 25bps and income contribute 27bps to the total return. Banks overall were a laggard albeit losing 3bps. Insurance contributed 5bps. Corporates and non- financials contributed 38bps.

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