



Fact Sheet

January 2018





Fact Sheet – 31 January 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	\$45.6m

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
31/1/2018	1.0678	1.0662	1.0646

Performance as at 31/1/2018*	1 mth %	3 Mths %	6 Mths %	1 Yr %	3 Yr % p.a.	Inception % p.a.
Total Net Return ²	0.33%	0.83%	2.00%	4.71%	4.50%	8.58%
Average RBA Cash Rate	0.125%	0.38%	0.75%	1.50%	1.75%	2.63%

*Past performance is not an indicator of future performance.

Income distributions	31/03/2017	30/06/2017	30/09/2017	31/12/2017
Distribution rate (cents per unit)	0.5705	1.2600	0.5404	0.5631

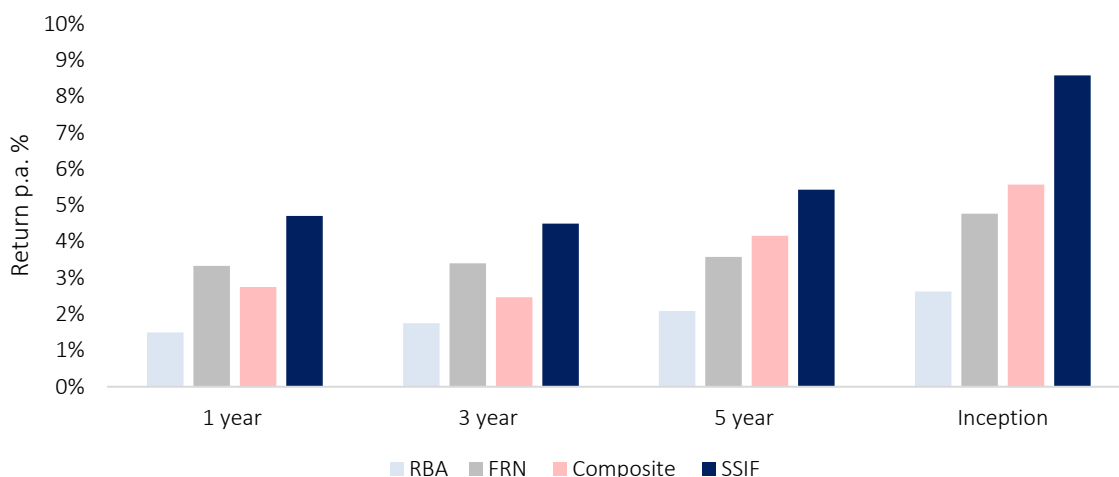
¹ Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

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

For more information visit our website - www.spectruminvest.com.au

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Return comparisons



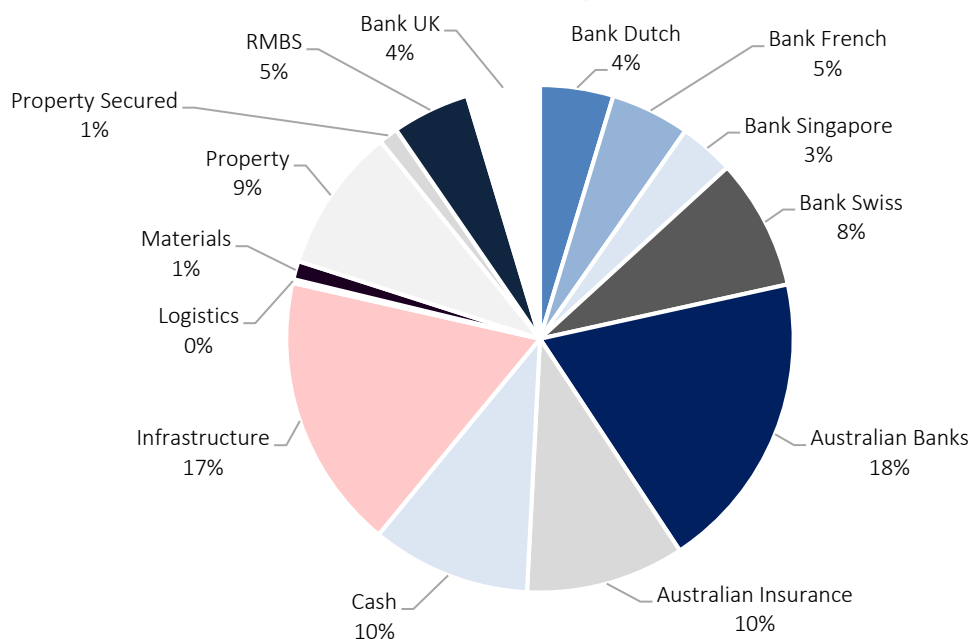
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Composite = The Bloomberg Composite Index.

FRN = The Bloomberg FRN Index.

RBA = RBA Cash Rate

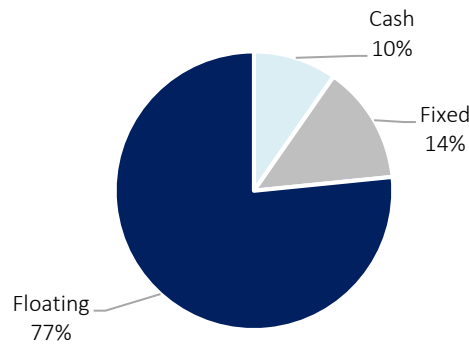
Sector weight



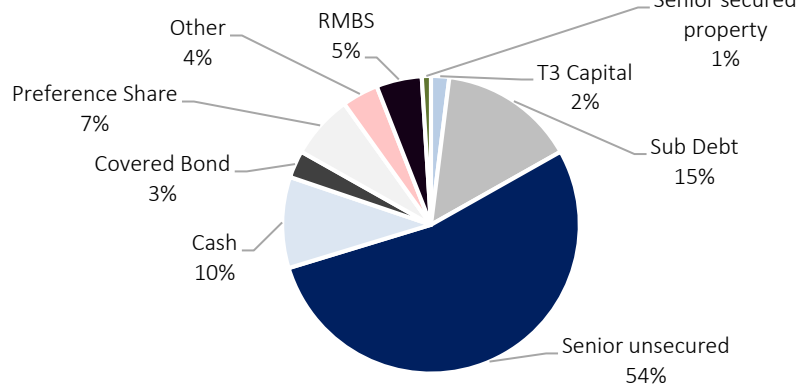
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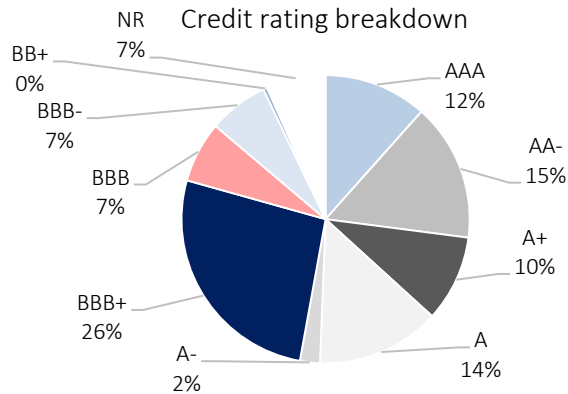
Fixed / Floating



Legal structure breakdown



Credit rating breakdown

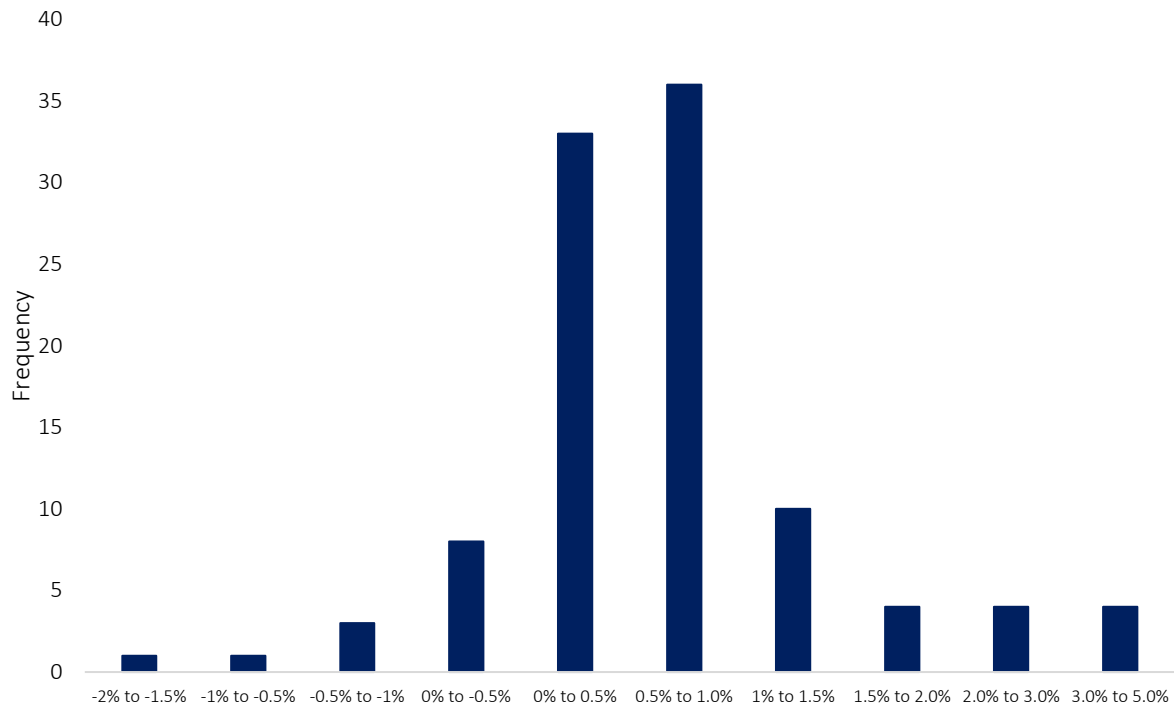


*Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 31st of January 2018, 93% of the portfolio has an official credit rating 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	1.2%
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	26 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	9.7%
Bank of Queensland	5.6%
BNP Paribas	4.8%
Verizon	4.5%
International Finance Corp	4.4%
HSBC	4.4%
UBS	4.4%
National Australia Bank	4.4%
Ausgrid Finance	4.4%
Network Finance	4.4%

Commentary:

The Fund has now generated 26 months of positive monthly returns. The Fund's performance saw the contribution of capital growth as flat, whilst income contributed 30bps to the total return for the portfolio.

January 2018 was a month of change. During the month we saw bond yields rise, the U.S. yield curve flatten and commentary from central bankers suggesting that the era of free and easy money is rapidly coming to an end. Well, at least, slowing considerably.

As a result, bond markets weakened over the month. In the U.S. the hurdle of the debt ceiling was avoided - just. However, negotiations over raising the ceiling continue and the ceiling may be breached early February. Bond markets globally are becoming wary as they see issuance by governments rising and central bank support for prices falling. This could lead to broader market uncertainty and eventually credit spreads widening.

The outlook for A\$ credit spreads is relatively stable in the near term with prospects of widening in late 2018. A number of issuers came to A\$ market over January. These have generally been well bid post launch. The tenor of choice for issuance was five years. Bonds came from the following issuers:

- United Energy Distribution
- Bank of Queensland
- ANZ
- CBA
- NAB

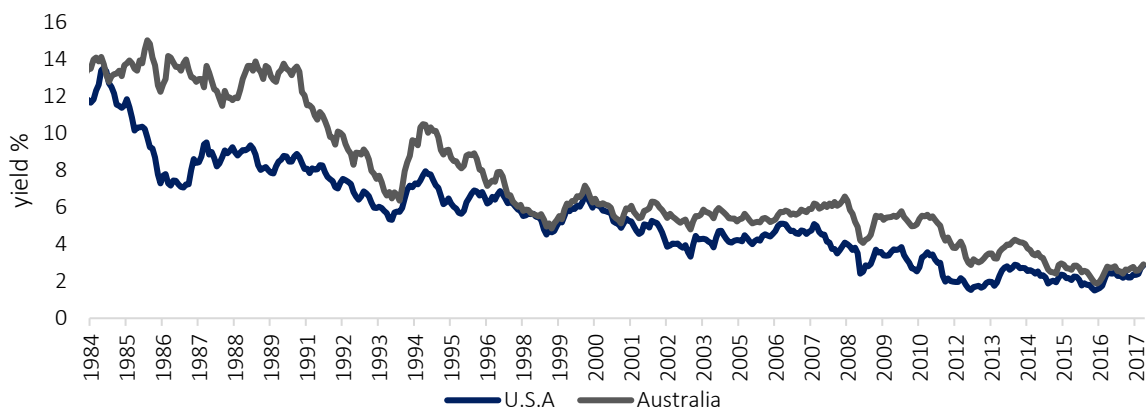
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- Qatar National Bank
- Bendigo and Adelaide Bank
- Deutsche Bank
- Rabobank
- Suncorp-Metway
- Newcastle Permanent Building Society

The Fund did not participate in any of these deals as spreads or diversification benefits were considered insufficient. A\$ 10-year fixed rate bond yields have risen over 30bps so far, this year and look set to be dragged up by global yields over the next year. Australian government 10-year bonds now are sitting at just 5bps higher yield than US Treasuries. This is well below its historical norm.

US vs Australian government 10 year bonds



Sources: RBA, US Fed

For bank issuance the five-year sector is a key bellwether. This is a key source of funding for Australian mortgages. Should US\$ and A\$ bond yields keep rising there may be some pain for mortgage holders. This will cause some issues with the RBA as it tries to keep rates steady and the economy growing. The increase in mortgage rates may also prove to be an interesting discussion for the banks as they attempt to explain to the public why mortgage rates have risen.

Nonetheless an increase in bond yields and mortgage rates generally will have the impact of slowing the economy. The RBA may find itself constrained as it will be difficult to ease rates when rates are rising globally. In such a case the currency could become a casualty. Looking towards February the key movements in the Australian market will be influenced by both the European and U.S. bond market movements. Rising high yield spreads are starting to pressure spreads in the U.S. and this could lead to a widening of investment grade spreads in Australia. Volatility looks to be increasing and this could prove opportune for the Fund.

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