



Fact Sheet

February 2018

In the bottom right corner of the page, there are two large, decorative curved lines. The upper one is a thick, multi-layered arc in shades of yellow and orange. The lower one is a similar multi-layered arc in shades of green and blue.



Fact Sheet – 28 February 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 | \$45.3m |

| | | | |
|-------------------------------|------------|-------------|--------|
| 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 |
| 28/2/2018 | 1.0727 | 1.0711 | 1.0694 |

| | | | | | | |
|-------------------------------|---------|----------|----------|--------|-------------|------------------|
| Performance as at 28/2/2018* | 1 mth % | 3 Mths % | 6 Mths % | 1 Yr % | 3 Yr % p.a. | Inception % p.a. |
| Total Net Return ² | 0.45% | 0.98% | 2.00% | 4.57% | 4.43% | 8.56% |
| Average RBA Cash Rate | 0.125% | 0.38% | 0.75% | 1.50% | 1.73% | 2.62% |

*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 |

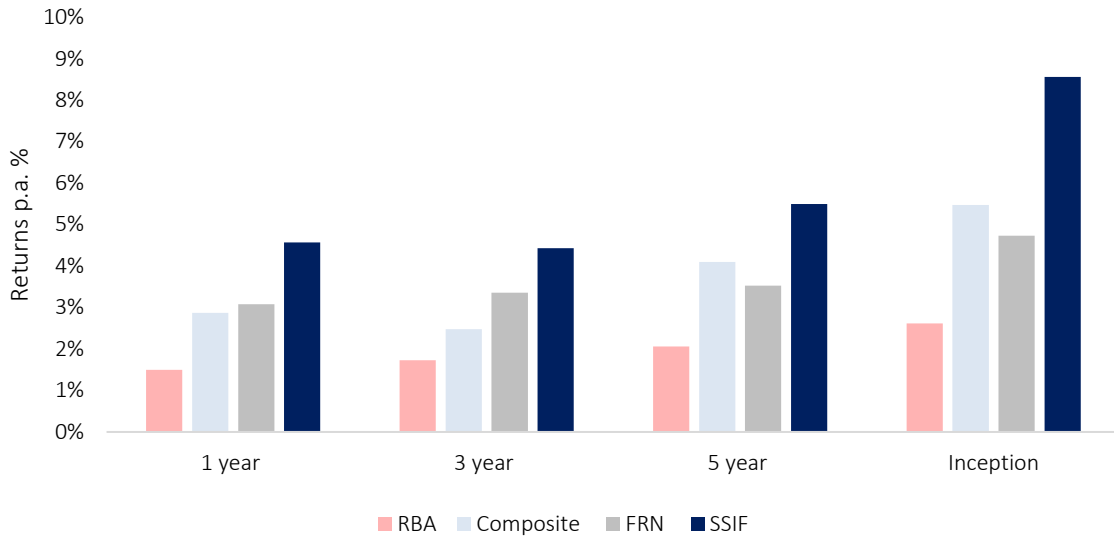
¹ Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

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

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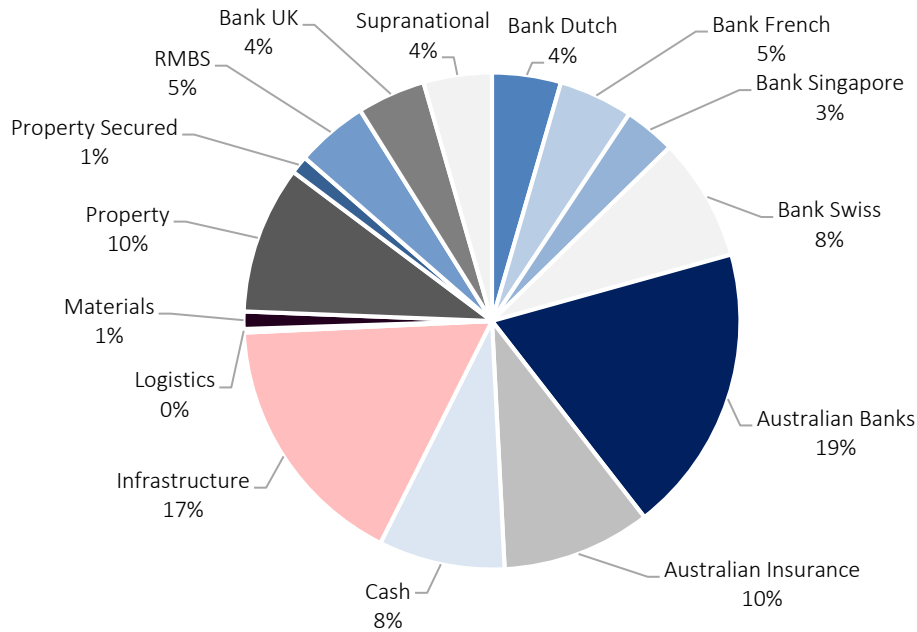
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Return comparisons



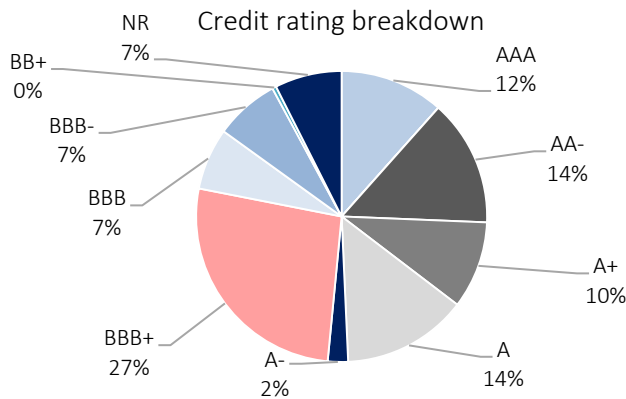
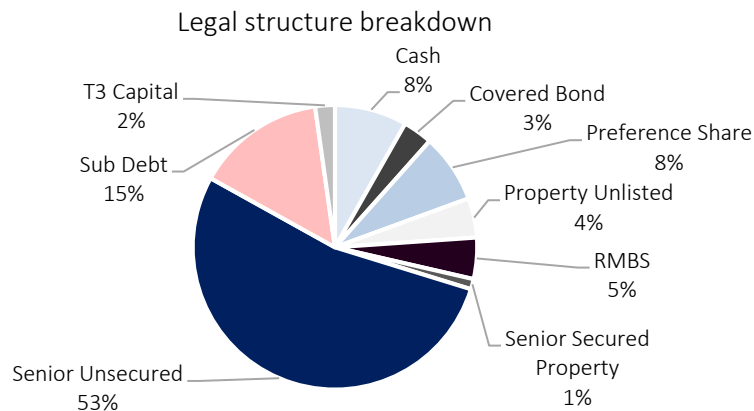
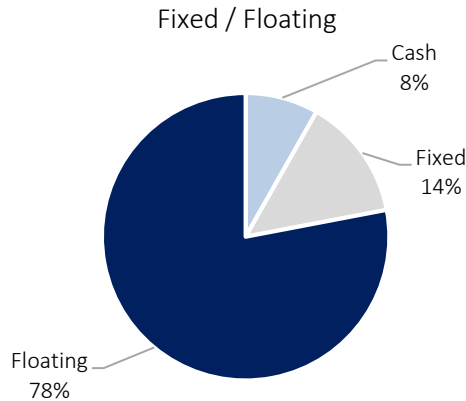
**Past performance is not an indicator of future performance.
 Composite = The Bloomberg Composite Index.
 FRN = The Bloomberg FRN Index.
 RBA = RBA Cash Rate*

Sector weight



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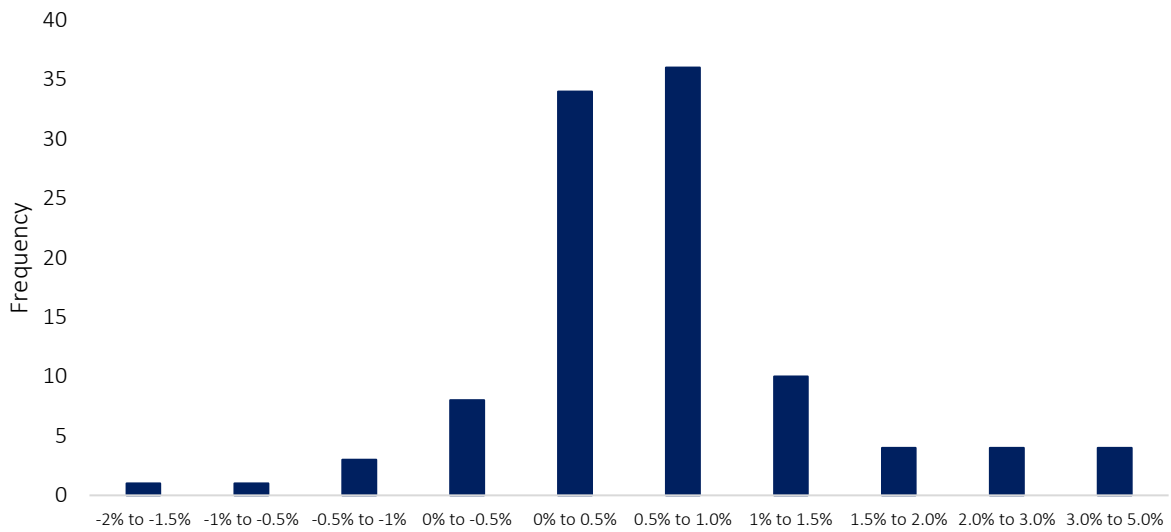


*Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 28th of February 2018, 93% of the portfolio has an official credit rating 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 % | 88% |
| Proportion of negative Fund returns % | 12% |
| Number of consecutive positive returns | 27 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 | 8.2% |
| Bank of Queensland | 5.6% |
| NAB | 4.9% |
| BNP Paribas S.A. | 4.8% |
| APN Regional Property Fund | 4.5% |
| Verizon | 4.5% |
| UBS AG | 4.5% |
| International Finance Corp | 4.5% |
| HSBC | 4.5% |
| UBS AG | 4.4% |

Commentary:

The Fund has now generated 27 months of consecutive positive monthly returns.

February 2018 was a month that failed to deliver for equities but equally so for fixed income. Several new investment themes have emerged during the month and as the year progresses they will, in all likelihood, wield greater importance.

Volatility is back. Whilst the re-emergence of volatility may be painful for some equity investors, it does help bring back sobriety to asset pricing. Should markets continue to “normalize” there should be opportunities to invest at wider credit spreads than currently available.

Confidence in the global economy may also wane. The launch of a trade war by Trump, imperils not only U.S. economic growth, but so too global growth. Countries trying to curry favour with the U.S will no doubt acquiesce. There may be many countries, however, that will do a “tit for tat” and increase tariffs on U.S. goods whilst recognising agreements held between other countries. This is an important point as just because the U.S. imposes tariffs on non-U.S. produced goods, other countries may choose to increase trade between themselves without involving the U.S.

Another theme unfolding is whether the U.S can hit and exceed a GDP growth rate of 3% per annum over the next ten years. This is the estimated growth rate required to balance the budget. Anything less could see a significant widening of the deficit.

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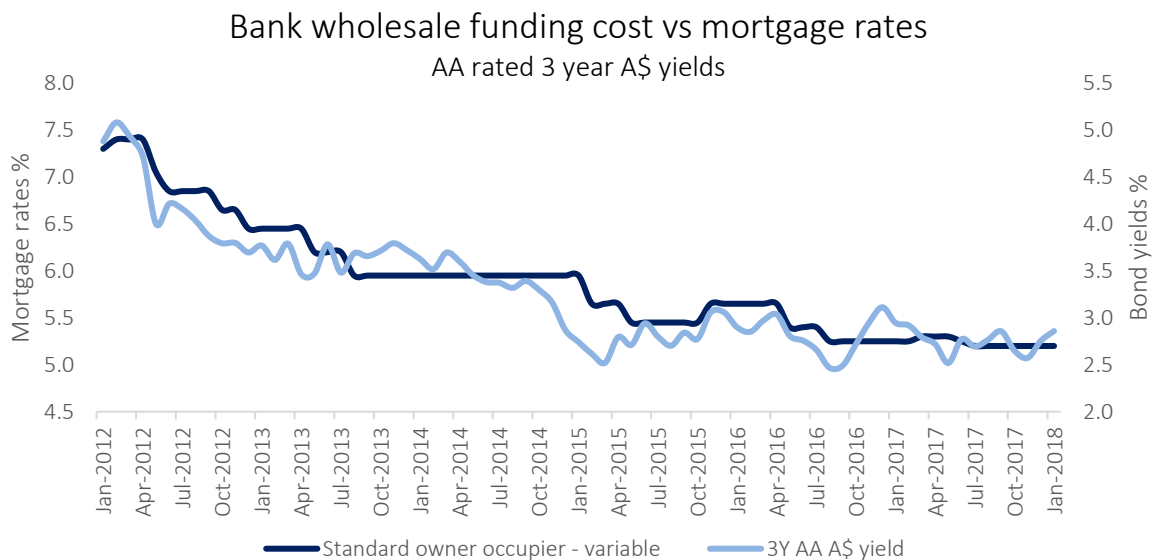
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Running in concert with GDP growth risk is the mounting issuance of bonds from the U.S Treasury to fund its Government. The funding target this year is approximately \$1.2tn and will probably require significant offshore participation. A notable fall in offshore investors could see a significant increase in bond yields. Add to this the Fed is looking to hike rates three times in 2018 and is in the process of winding back QE, which means US bonds yields are vulnerable to sharp rises.

These trends will all have an influence on markets globally and will impact the global economy in different ways.

Should bond yields in the U.S rise sharply it could provide a headwind for its economic growth.

Australian investors will have to weigh up the likelihood for an increase in bond yields affecting home mortgages. The RBA has stated that there is no problem in Australia between interest rates and mortgages. At Spectrum, however, we are not so convinced.



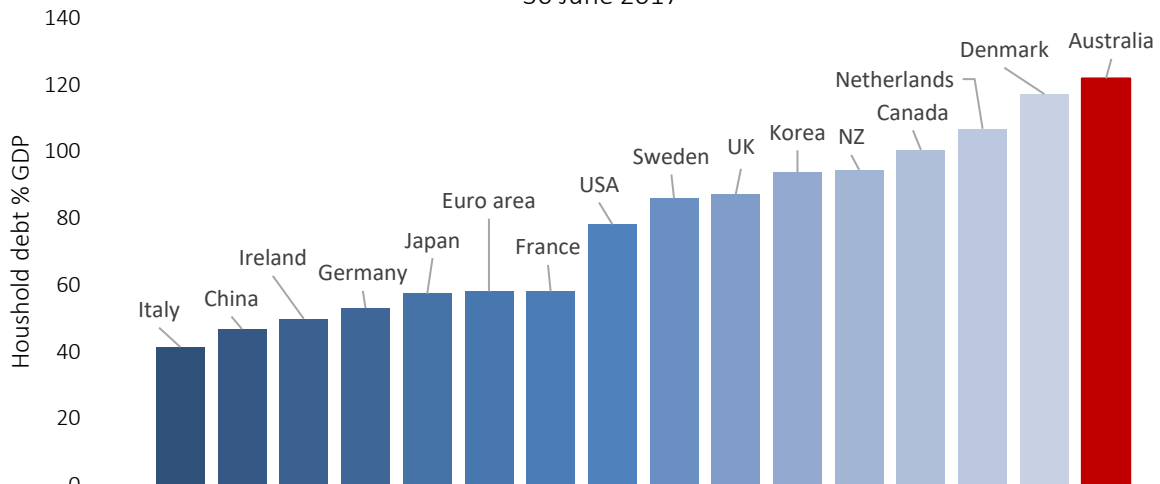
Australia may have to contend with falling demand for commodities and an increase in mortgage rates at the same time. Households in particular have high levels of indebtedness – largely to do with financing property purchases.

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Australia - world leader in household debt

30 June 2017



Sources: BIS, Spectrum

The likely trend is for rates to rise. If so, the portfolio should benefit over the medium term from a rise in interest rates and a widening of credit spreads. The Australian corporate sector, in general, has a relatively sustainable borrowing level.

The outlook for A\$ credit spreads is relatively stable in the near term with prospects of widening in late 2018. That view has not changed for a while and is consistent with how the portfolio is being managed.

A number of issuers came to A\$ market over February. These have generally been well bid post launch. A trend is starting to evolve where there is good demand for shorter dated maturities and especially FRN's, whilst demand for longer dated fixed rate securities appears to be waning.

During February the following issuers issued: -

- WATC 5-year FRN
- Lloyds Bank 7 year
- UBS OPCO 3 year and 5-year FRN / Fixed
- Westpac 5 year senior unsecured
- Pepper Group RMBS
- Northern Territory 15 year Fixed
- Medallion 2013-1 Class A3-R Notes RMBS
- Toyota Finance 5 year senior unsecured
- Ausnet Services Holdings 10.5 year
- China Construction Bank Corporation 1-year FRN

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