



Fact Sheet

May 2018





Fact Sheet – 31 May 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	\$51.9m

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
31/5/2018	\$1.0718	\$1.0702	\$1.0685

Performance as at 31/5/2018*	1 mth %	3 Mths %	6 Mths %	1 Yr %	3 Yr % p.a.	Inception % p.a.
Total Net Return ²	0.13%	0.52%	1.50%	3.71%	4.31%	8.37%
Average RBA Cash Rate	0.125%	0.38%	0.75%	1.50%	1.67%	2.58%

*Past performance is not an indicator of future performance.

Income distributions	30/6/2017	30/9/2017	31/12/2017	31/03/2018
Distribution rate (cents per unit)	1.2600	0.5404	0.5631	0.6399

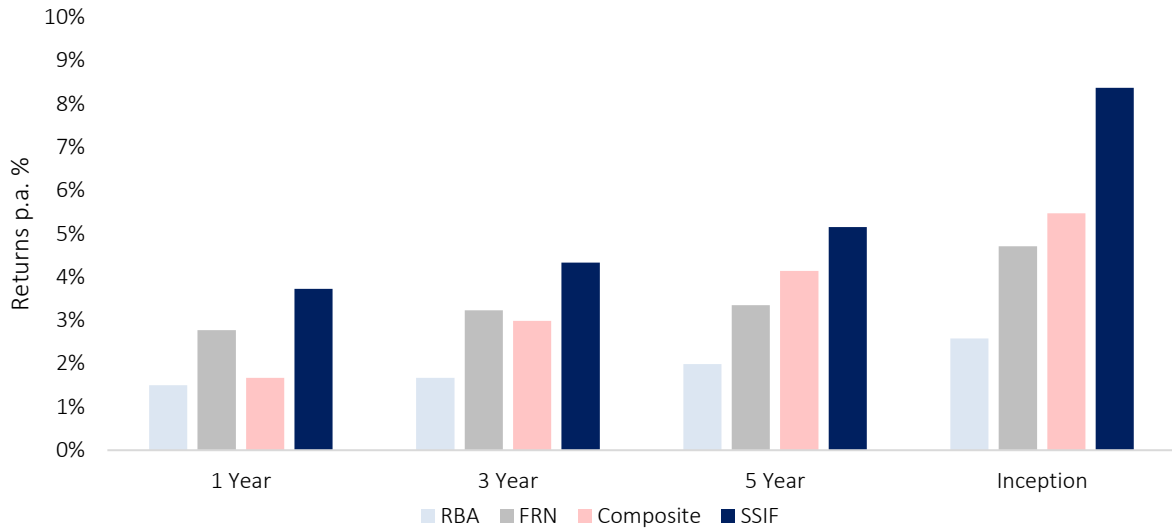
¹ Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

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

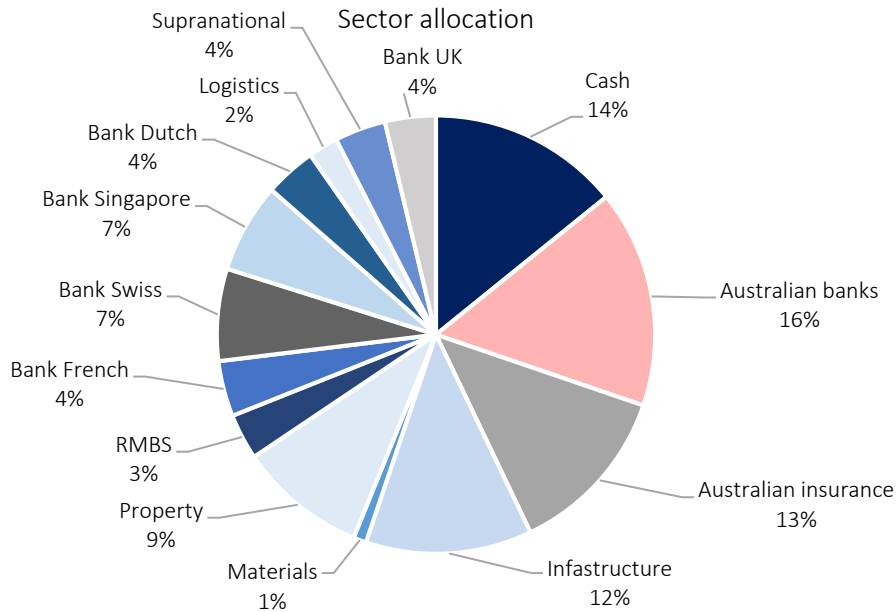
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Return comparisons

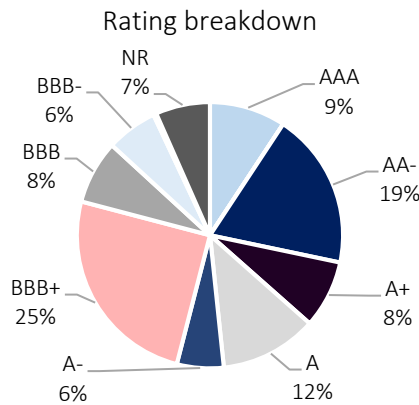
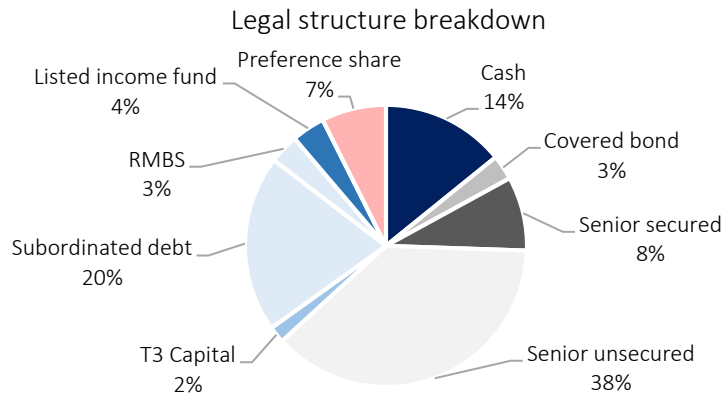
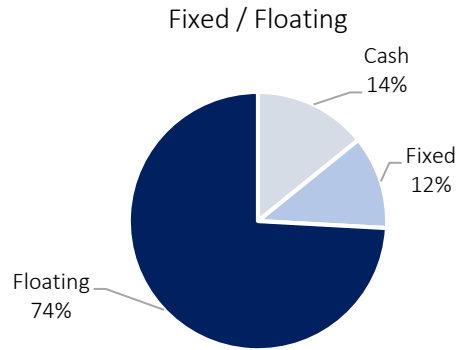


**Past performance is not an indicator of future performance.*
 Composite = The Bloomberg Composite Index.
 FRN = The Bloomberg FRN Index.
 RBA = RBA Cash Rate



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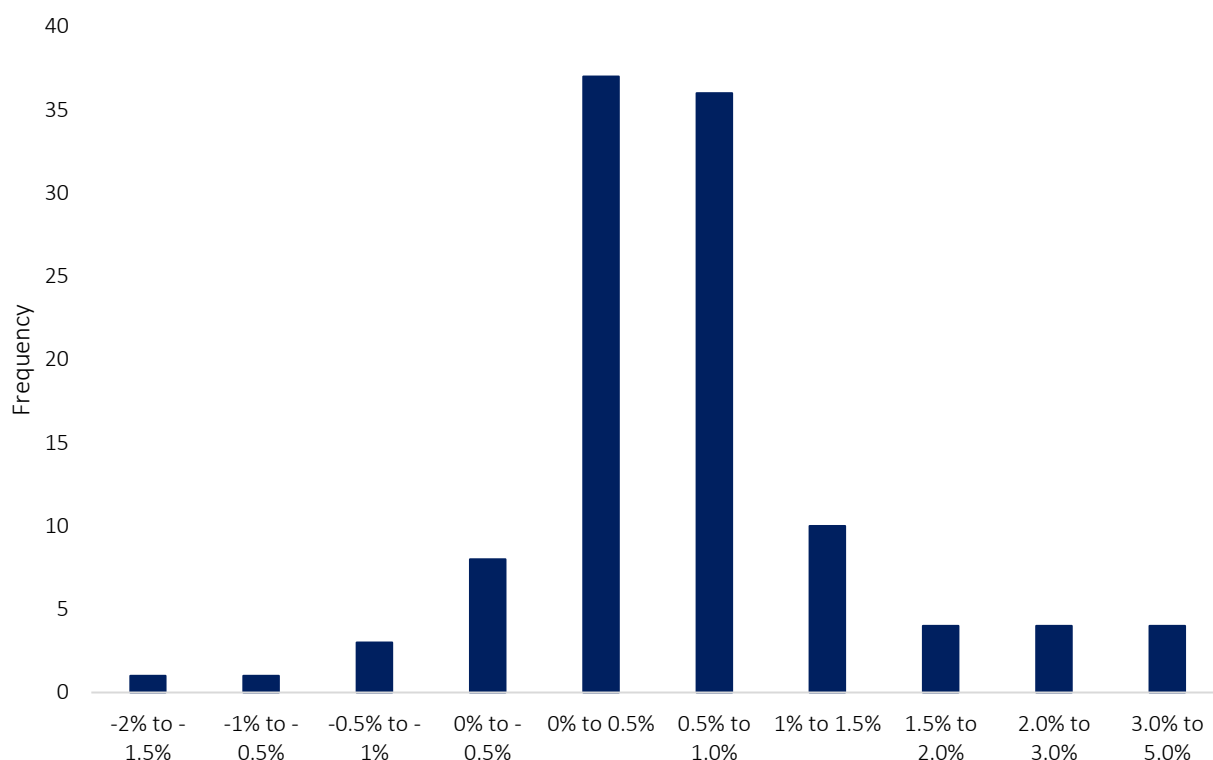


*Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 31st of May 2018, 93% of the portfolio has an official credit rating from 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	37%
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	30 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:

Top ten	Holding %
CASH	14.1%
AAI LTD	5.6%
NATIONAL AUSTRALIA BANK	4.3%
APN REGIONAL PROPERTY FUND	3.8%
VERIZON COMMUNICATIONS	3.8%
DBS GROUP HOLDINGS LTD	3.8%
INTERNATIONAL FINANCE CORP	3.8%
AUSGRID FINANCE	3.8%
NETWORK FINANCE	3.8%
HSBC HOLDINGS PLC	3.8%

Commentary:

The Fund has now produced 30 months of consecutive positive monthly returns.

May was a month of changes. Trump's tariff policy came back to the fore and investors wailed about slowing growth and the impact on free trade. Europe and China were critical of the policy initiative.

During the month, markets were nervous. The ten-year US Treasury traded to a high of 3.1% which is some 30bps higher in yield. Then the U.S. yield curve flattened towards month end.

Markets over the coming months will be wary. An imposition of tariffs by the U.S. will most likely be seen as a negative for both U.S. markets and so too for global markets and growth. Bonds will most likely rally initially with equity markets either subdued or weak. However, this may not be the long-term trend.

A slowing of the U.S. economy will mean the deficit may eventually loom large at a time of potentially falling demand. U.S quantitative easing is being reversed and we await direct from the ECB on when it plans to slow, stop or even reverse QE.

Tariff talk is driving geopolitical risk, and this is affecting the "risk on", "risk off", attitude of traders. Late in the month when political uncertainty in Italy and Spain spiked European and U.S. bond yields collapsed and yields in Italy and Spain rose. Italian bond yields rose significantly with Italian 10 years trading up 7bps and the 2-year revisiting levels last seen in 2014 at 2.7%.

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For Australia the discussion surrounding tariffs and heightened geopolitical tensions between China and the U.S is somewhat of a concern. One can easily think out a scenario where Australia backs the U.S. and China retaliates by slowing goods transported into China, students studying in Australia and Chinese citizens purchasing apartments. Such a scenario would significantly impact on Australia with the net result of a possible recession. Bond yields would fall on heightened risk however the currency would be weak.

Currently, however, the economy is steady and property development is providing the stimulus to keep the economy growing. A marginal increase in mortgage rates could see property slow and this would impact the economy. Anecdotally auction sales have slowed and this is worrying the RBA.

Australian bonds will continue to be sought by offshore investors and this buying along with relatively strong demand for commodities is helping to keep the Aussie dollar relatively stable despite higher interest rates in the U.S. The current scenario is for bonds to drift higher in yield and for the Aussie dollar to remain firm. This outlook can change rapidly especially if markets return to “risk off” trades as a consequence of increased tariffs imposed by the U.S., the failure of NAFTA to reach an agreement and for Europe to reciprocate on tariffs.

Another headwind that has yet to play out on the Australian economy with the prospect of slowing the economy is the risk of drought. With 70% of NSW classed as extreme there is a significant chance that if the rain fails to arrive over the next couple of months much of NSW will be declared drought stricken. NSW is not alone in this regard and droughts have in the past caused a slowing in the economy. Such an event would cause bonds to rally and likely cause a weakening in the Aussie dollar.

As we head into the end of the Financial year in June we should expect to see book squaring and balance sheet restructuring. This activity may cause unexpected movements in assets.

During May the following issuers issued securities into the market:

- Virgin Australia 5 non-callable 3-year notes
- Pepper Prime Services RMBS 2018-S1
- Reds Trust RMBS 2018-S1
- Firstmac RMBS 2018-S2
- Victoria Power Networks
- Deutsche Bahn Finance GMBH
- QIC Finance (Shopping Centre Fund) Pty Ltd

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