



Fact Sheet

April 2018



Fact Sheet – 30 April 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	\$49.3

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
30/4/2018	\$1.0704	\$1.0688	\$1.0671

Performance as at 30/4/2018*	1 mth %	3 Mths %	6 Mths %	1 Yr %	3 Yr % p.a.	Inception % p.a.
Total Net Return ²	0.24%	0.84%	1.68%	4.01%	4.32%	8.44%
Average RBA Cash Rate	0.125%	0.38%	0.75%	1.50%	1.71%	2.61%

*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

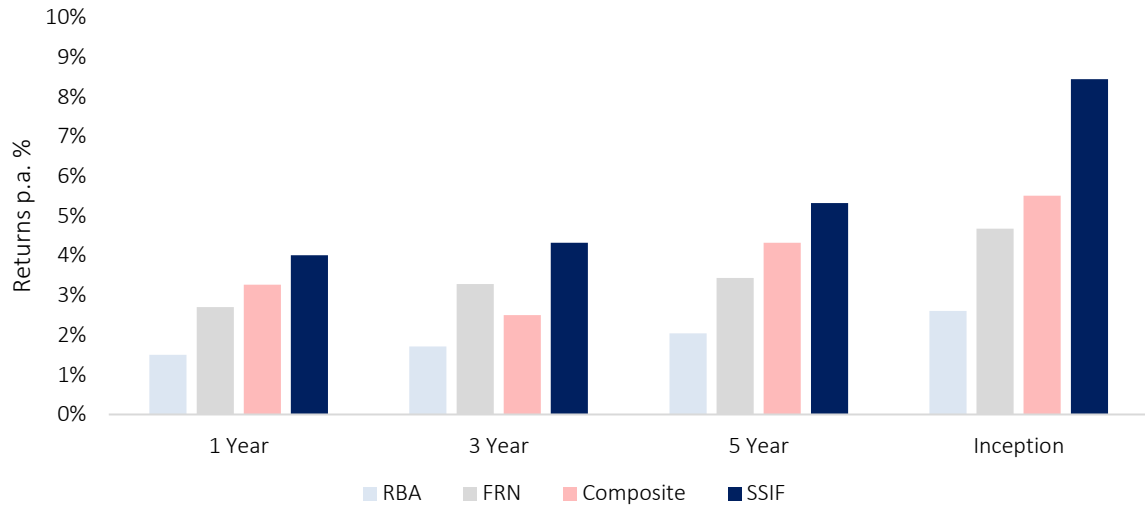
¹ Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

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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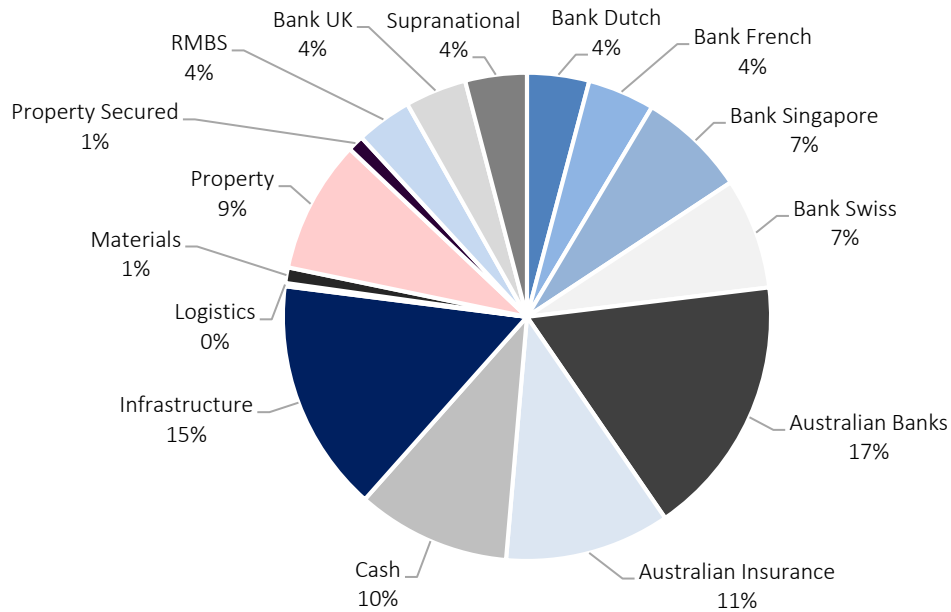
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Return comparisons



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

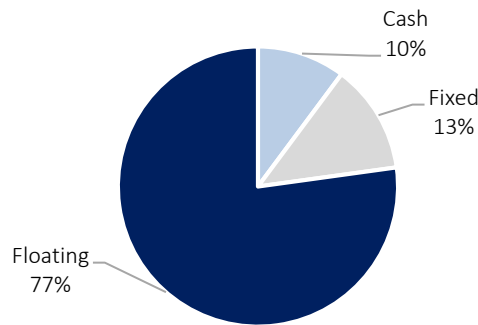
Sector weight



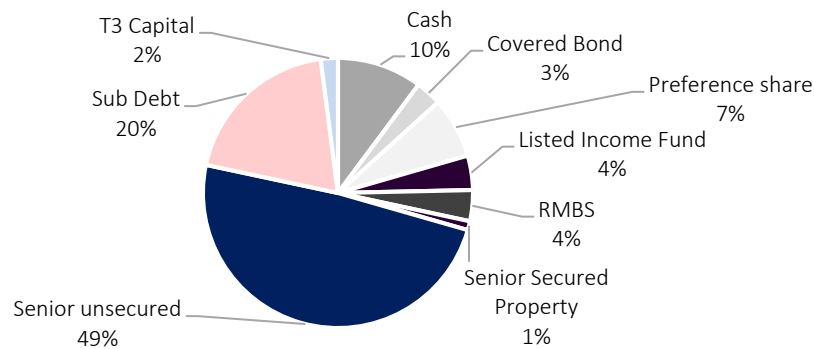
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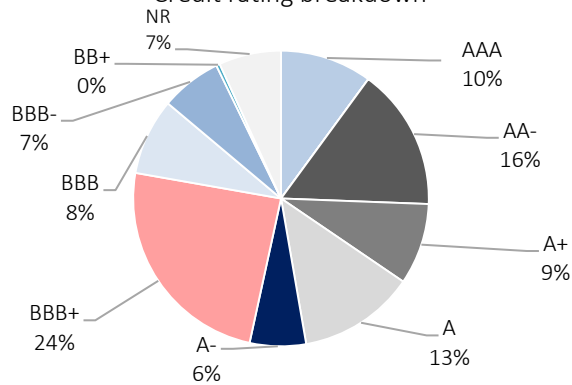
Fixed / Floating



Legal structure breakdown



Credit rating breakdown

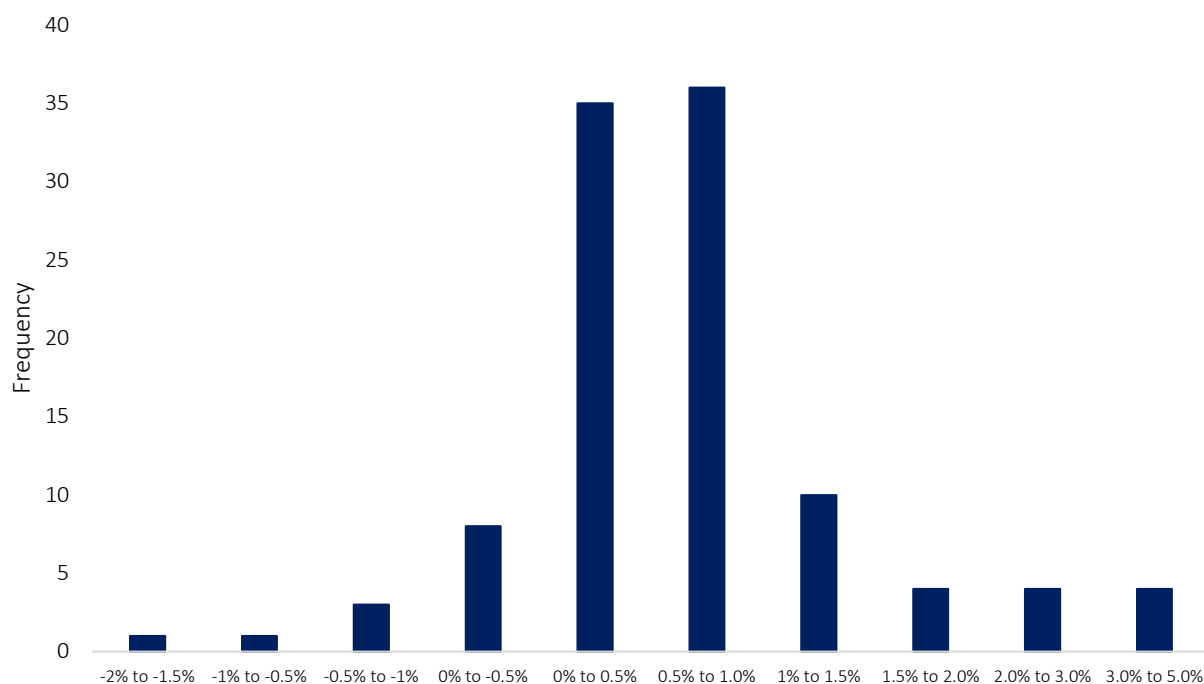


*Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 30th of April 2018, 93% of the portfolio has an official credit rating 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	1.4%
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	29 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	10.2%
Bank of Queensland	5.2%
NAB	4.6%
BNP Paribas S.A.	4.4%
IAG Sub	4.1%
APN Regional Property	4.1%
Verizon	4.1%
UBS AG	4.1%
International Finance Corp	4.1%
DBS Sub	4.1%

Commentary:

The Fund has now produced 29 months of consecutive positive monthly returns.

April was a month of consolidation for markets. Geopolitical risk appeared to wane over the month as North Korea made soothing noises towards South Korea seeking to reduce tensions. Remarkably over the month the Trump Administration, aside for talks relating to trade, was relatively quiet.

A key risk to economic growth is the introduction of trade barriers. The Trump Administration is keen to renegotiate various trade agreements and, in particular, those with China.

Earlier in the month aluminium and steel prices soared as Trump imposed tariffs. China retaliated to the tariffs by imposing their own tariffs on agricultural products that directly affect Trump's support base. Such products include soya beans and soy-meal, a key product in the production of pork.

A trade spat between the U.S. and China would not be good for world growth which is just starting to show signs it could be stumbling. Such a shock could send world growth weaker and imperil Trump's grand vision for U.S. economic growth. The U.S. requires growth in excess of 3% to meet its budget constraints.

A key signal to ponder over the coming months is the U.S. 10-year treasury bond. A sustained break through 3% could send jitters through both the equity and bond markets. To Spectrum, an eventual move well above 3% is highly probable. This is because quantitative easing in the U.S. is now in

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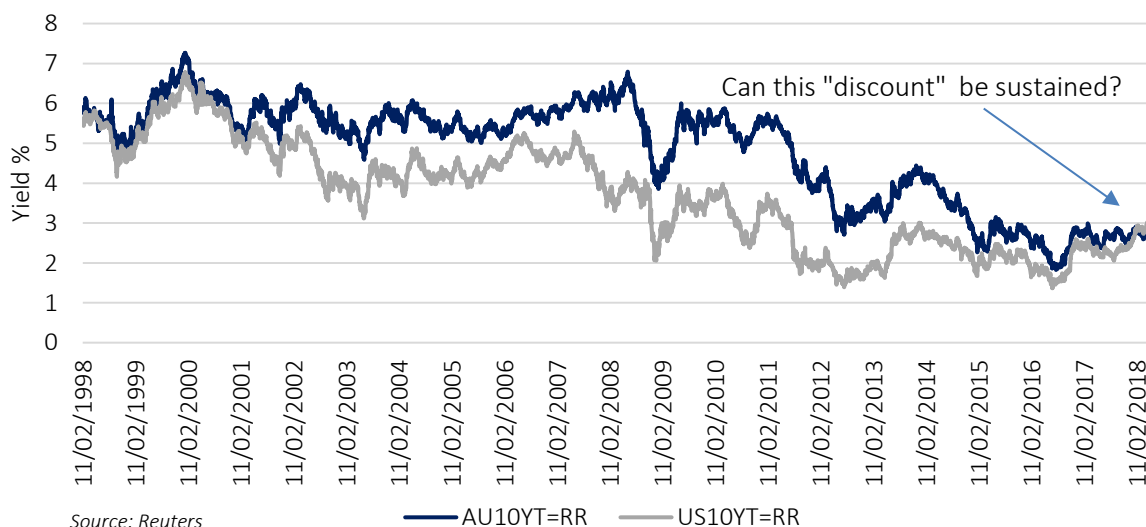
reverse and the ECB has slowed its asset purchases and is likely to finish by year end. This means that there will be a lot less demand for U.S and European government bonds. Meanwhile issuance of treasury bonds has doubled in 2018 and total bonds outstanding is set to increase by around 5% per annum for the next eight years.

Why is this important in the context of Australian markets? Simply put - increasing bond yields in the U.S. will lead to yields increasing across the globe, including Australia. This will put a strain on markets and could eventually result in some spread widening in credit markets.

Australia, as a trading nation, is in a perilous position if the Chinese, U.S. tariff war escalates. Australia will be impacted as its major trading partner's economy slows and that effect will be compounded as many of the emerging market nations that Australia exports goods to also slow. Australia is also seeing a slight slowdown in the economy as retail sales are weaker than expected whilst inflation remains low and wages stagnate.

The impact of trade uncertainty and sluggish economy has helped the Australian 10-year bond to trade approximately 20bp inside the U.S. 10-year. This situation is rare and with U.S. bond yields set to rise further either Aussie bond yields must rise, or the currency weakens or a combination of both. To date we are observing a weaker currency. Currency weakness could persist for some time until the bond spread gap narrows or reverses. Traditionally the spread between U.S. 10-years and Aussie 10 years is in the region of 90bps not -20bps which is the current position.

Rising UST yields to drag Australia government bond yields higher?



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