

SPECTRUM

ASSET MANAGEMENT

Fact Sheet

July 2018



Fact Sheet – 31 July 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 equities.
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	\$56.4m

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
31/7/2018	\$1.0718	\$1.0702	\$1.0685

Performance as at 31/7/2018*	1 mth %	3 Mths %	6 Mths %	1 Yr %	3 Yr % p.a.	Inception % p.a.
Total Net Return ²	0.21%	0.82%	1.66%	3.67%	4.60%	8.29%
Average RBA Cash Rate	0.125%	0.38%	0.75%	1.50%	1.65%	2.55%

*Past performance is not an indicator of future performance.

Income distributions	30/9/2017	31/12/2017	31/03/2018	30/06/2018
Distribution rate (cents per unit)	0.5404	0.5631	0.6399	0.7303

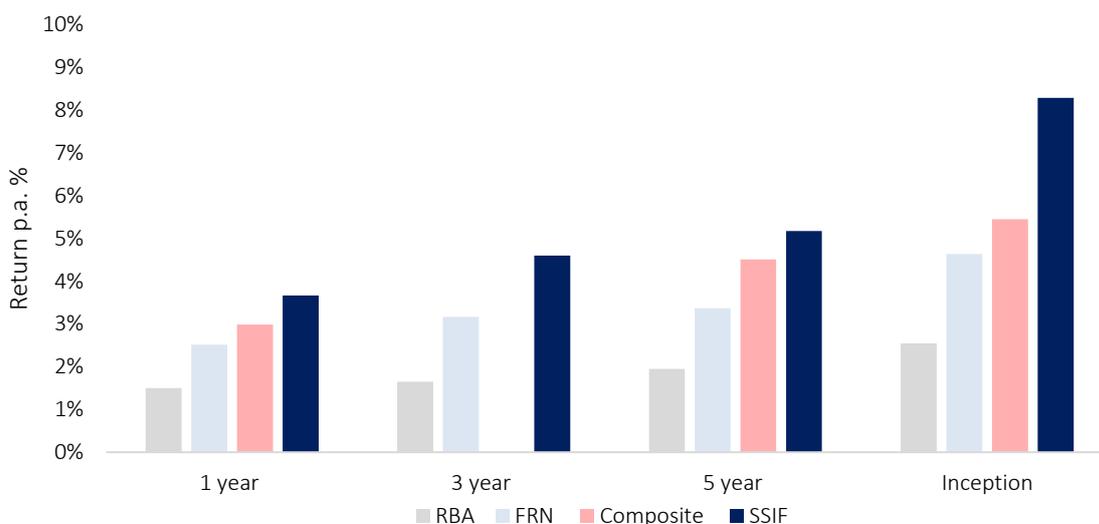
¹ Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

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



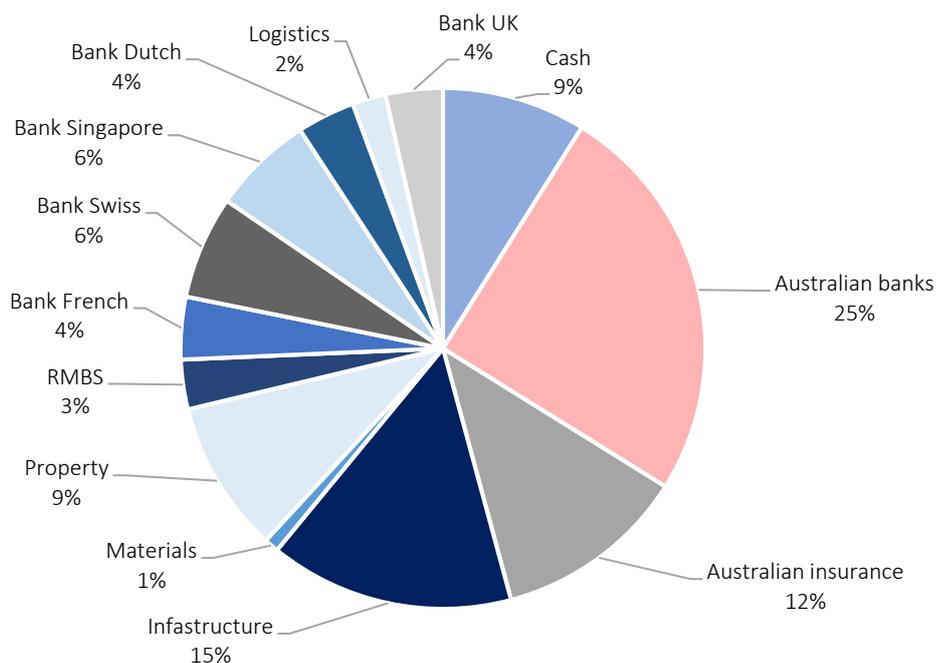
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Composite = The Bloomberg Composite Index.

FRN = The Bloomberg FRN Index.

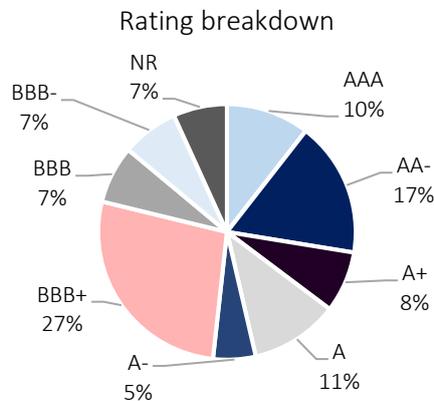
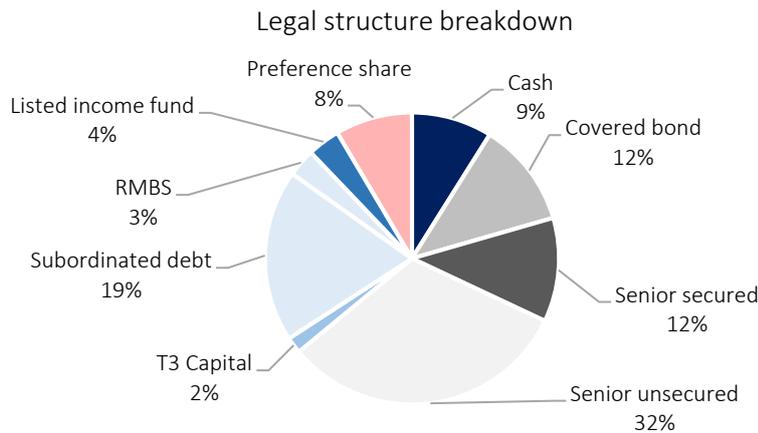
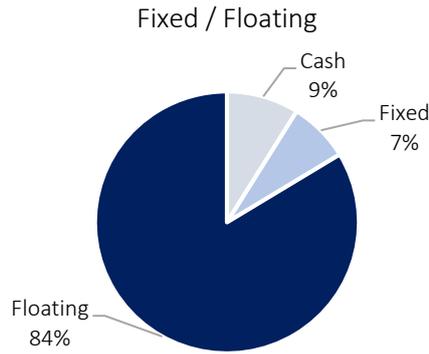
RBA = RBA Cash Rate

Sector allocation



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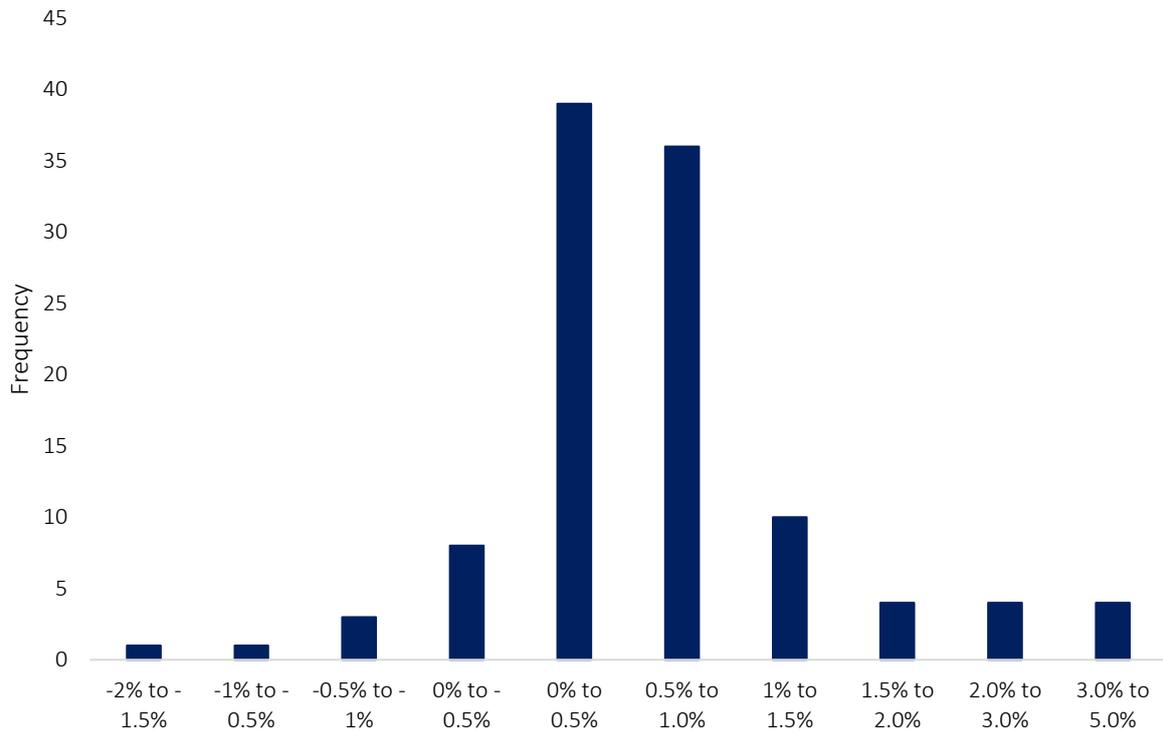


*Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 31st of July 2018, 93% of the portfolio has an official credit rating 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	1.4%
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	32 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	8.9%
SUNCORP METWAY	5.4%
NATIONAL AUSTRALIA BANK	5.3%
AUSGRID FINANCE	5.3%
NETWORK FINANCE	5.3%
AAI LTD	5.3%
APN REGIONAL PROPERTY FUND	3.6%
VERIZON	3.6%
UNITED OVERSEAS BANK	3.6%
DBS GROUP HOLDINGS	3.6%

Commentary:

Trump's trade tariff policies weighed heavily on markets during the month of July. With the possible introduction of tariffs many countries scrambled to avoid them. The EU was one group that ceded to Trump's demands in order to avoid tariffs on automobiles and possibly tariffs on steel and aluminum products.

The U.S. economy ground ahead in what is rapidly becoming a robust economy. However, there are possible storm clouds. The great earnings results will be difficult to improve upon as many of the results were dependent upon the tax cuts the Trump administration implemented. Unemployment continues to fall in the improving economy, however, wages remain steadfastly stagnant.

The trick for Fed Chairman Powell will be how he ensures the economy keeps growing without stymying growth with rate hikes. For the Fed to not overshoot on its hiking activity the economy does need to see a continuing surge in jobs and wages growth with some productivity gains.

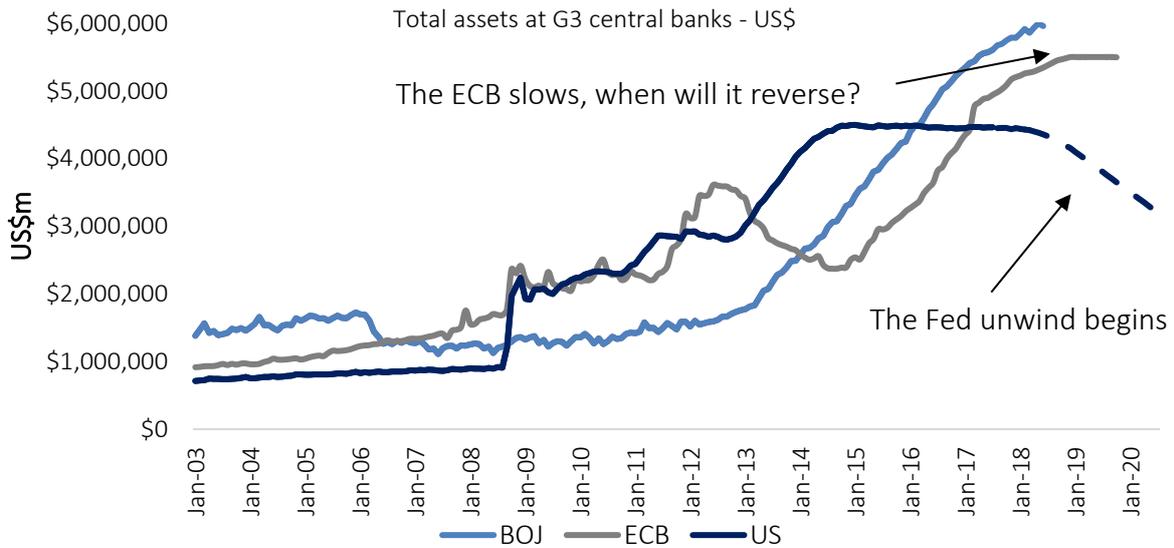
The Fed must also weigh up how its own activities will impact markets as it seeks to reduce the size of its balance sheet. We have recently seen the impact of ripples within bond markets when the BOJ tweaked its quantitative easing policy. Bonds initially sold off sharply before some recovery. Europe has seen similar impacts as the ECB is seeking to transition from its aggressive quantitative easing policies of the past.

The major central banks, in aggregate, are contracting their balance sheets and this could lead to lower total demand for bonds at current yields.

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The great central bank splurge coming to an end

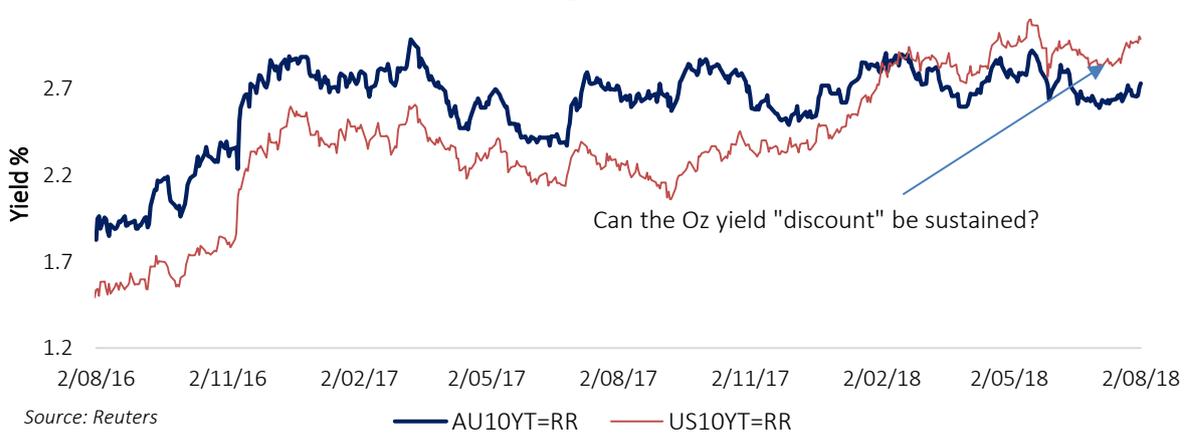


Sources: FRED, Spectrum, ECB, US Federal Reserve

JPY held static as 111 USD, EUR at 1.1643

The U.S Federal Reserve will also have the balancing act between Treasury and investors to contend with. The U.S Treasury is issuing more bonds as it fills the shortfall left by the tax cuts. At the same time investors are weighing up the increasing deficit and the associated problems caused by a ballooning deficit. The last quarterly growth number that the Trump administration trumpeted was 4.1% however the annualised number was 2.8% and that is less than the 3% growth required to offset the lower tax receipts. U.S bonds, generally, have been reactive to events. Bonds initially rallied earlier in the month, with the benchmark 10-year treasury trading to a level of 2.75% before rebounding towards 3%.

Rising UST yields to drag Australia higher? US vs Australia 10 year government bonds

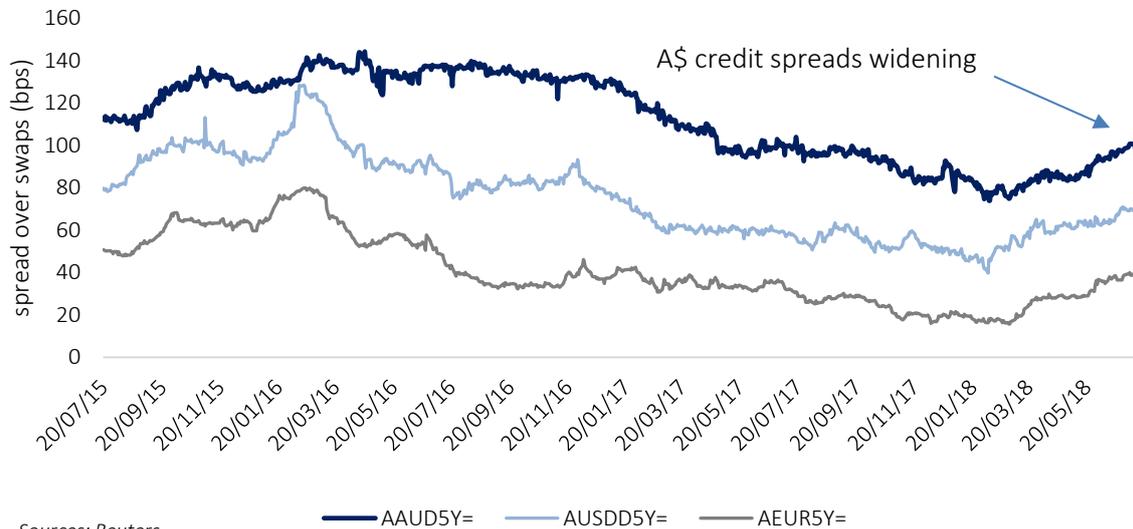


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For the Australian market this volatility caused by concerns on tariffs has had a major impact. The currency weakened at every hint of tariffs being imposed, whilst the bond market reacted to gyrations in bond markets elsewhere. Some A\$ credit spreads were dragged wider by weaker international corporate bond markets.

A\$ credit spreads follow global trend A rated 5 year bonds compared



Sources: Reuters

The Australian economy, like the U.S. economy, is steadily growing. Concerns remain over the state of the housing market with many offshore investors holding back their purchases. Banks are also tightening their lending standards with a stronger desire to lend to owner occupiers rather than investors.

One dark cloud on the horizon is the looming drought. Both Queensland and NSW are affected with almost 70% of NSW expected to slip into drought should rains fail to materialise. For the farming community the situation appears to be dire. Should such a major drought eventuate then the economy could slow markedly.

A\$ credit fundamentals appear solid with many companies showing reasonable gains in earnings and operating in a benign environment. On top of this there is a low level of corporate indebtedness. There is certainly room for issuance, but given most corporates don't have demand for debt, the lack of issuance can become problematic. The lack of issuance could mean spreads recover further in the near term.

Bond issuance was mainly restricted to banks and structured deals. Corporates did not issue over the month of July which is consistent with many restricted due to full year financial reporting in August.

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