



# Fact Sheet

June 2018

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Fact Sheet – 30 June 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	\$55.8m

Management costs <sup>1</sup>	0.75% p.a.	Buy Spread	+0.15%
Minimum initial investment	\$5,000	Sell Spread	-0.15%

Unit Prices	Purchase	Net Asset Value	Withdrawal
30/6/2018	\$1.0696	\$1.0680	\$1.0663

Performance as at 30/6/2018*	1 mth %	3 Mths %	6 Mths %	1 Yr %	3 Yr % p.a.	Inception % p.a.
Total Net Return <sup>2</sup>	0.48%	0.86%	1.79%	3.92%	4.69%	8.35%
Average RBA Cash Rate	0.125%	0.38%	0.75%	1.50%	1.66%	2.57%

\*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

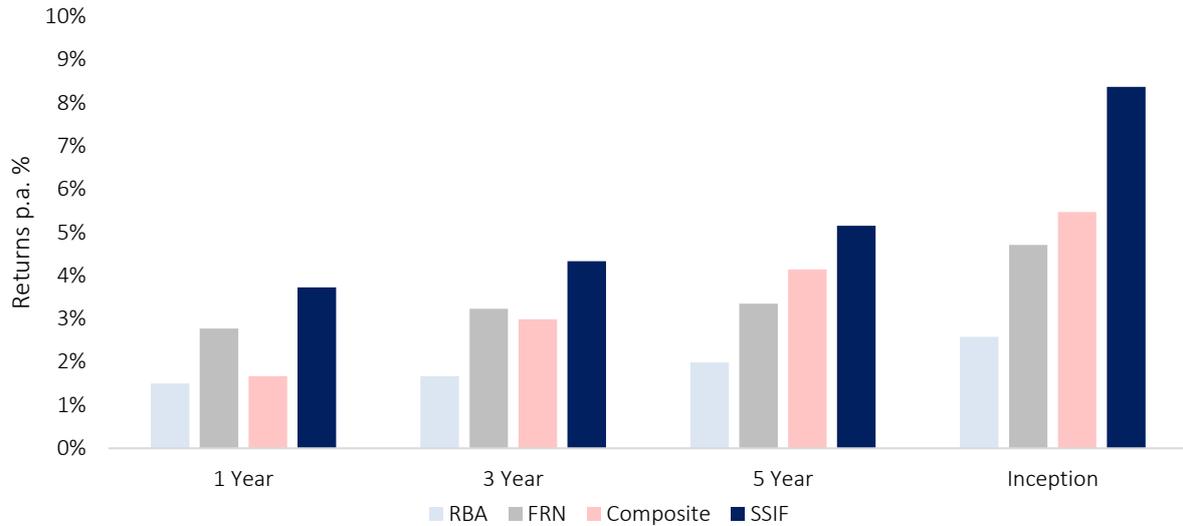
<sup>1</sup> Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

<sup>2</sup> 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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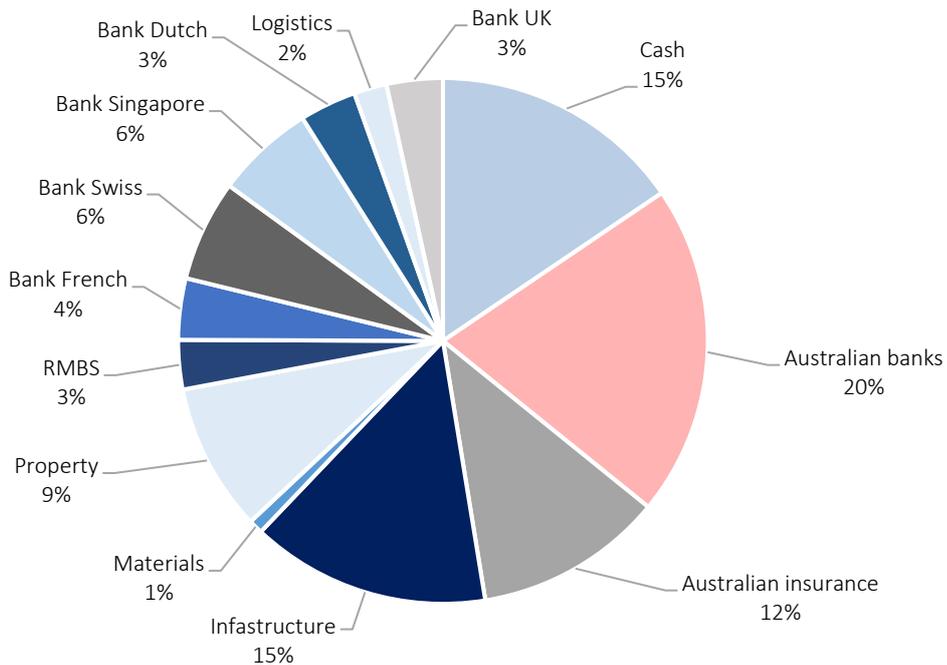
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### Return comparisons



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

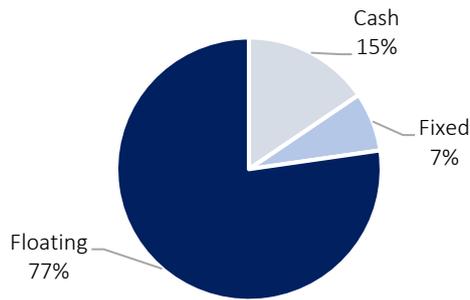
### Sector allocation



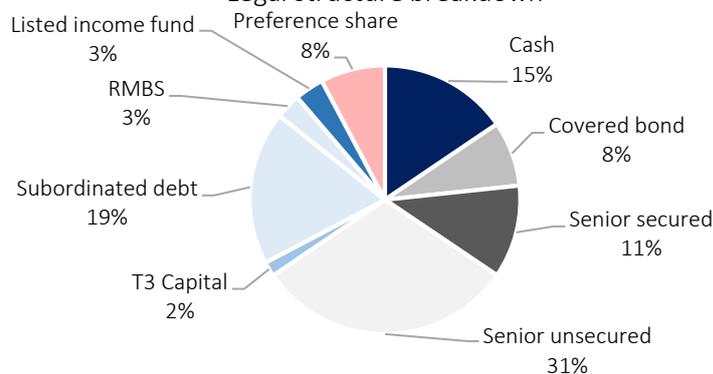
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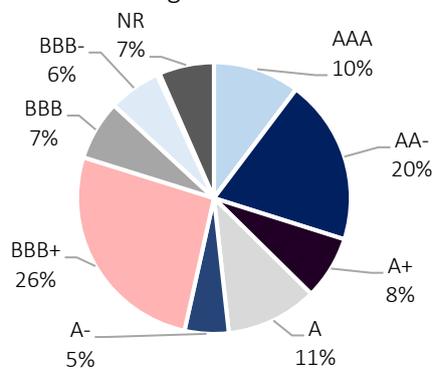
### Fixed / Floating



### Legal structure breakdown



### Rating breakdown

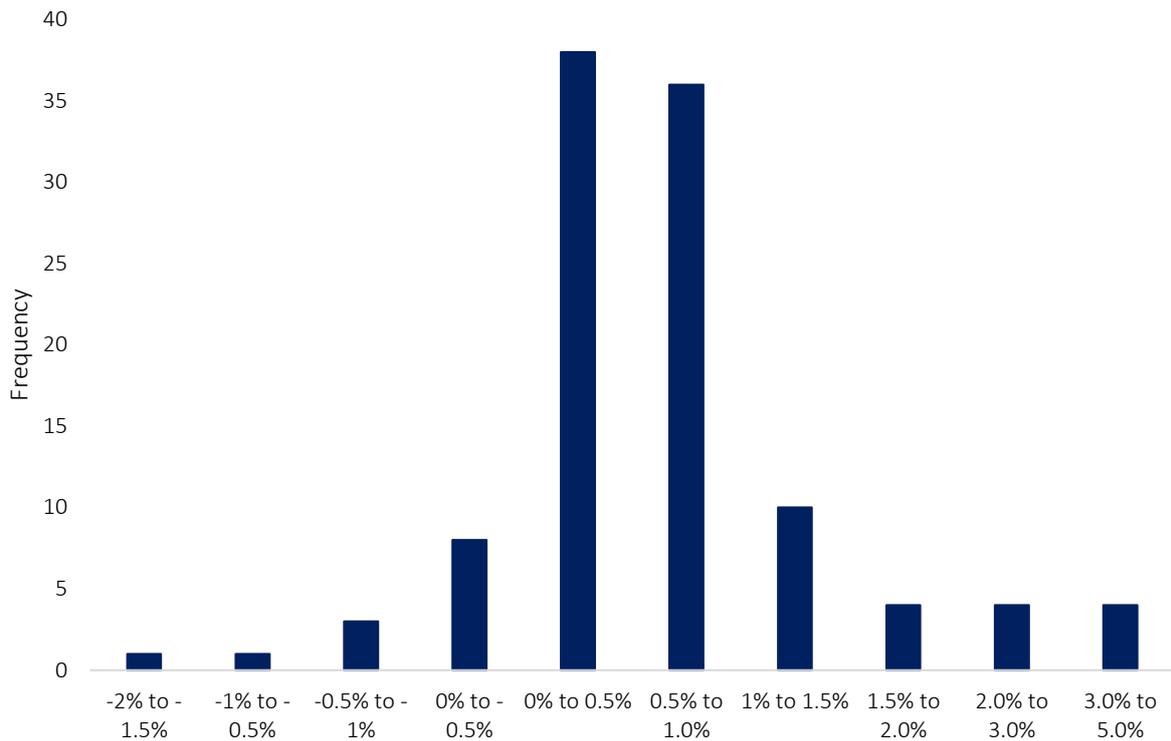


\*Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 30<sup>th</sup> of June 2018, 93% of the portfolio has an official credit 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	31 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	15.1%
SUNCORP METWAY	5.3%
AUSGRID FINANCE	5.2%
NETWORK FINANCE	5.2%
AAI LTD	5.1%
NATIONAL AUSTRALIA BANK	4.4%
APN REGIONAL PROPERTY FUND	3.5%
VERZION COMMUNICATIONS	3.5%
DBS GROUP HOLDINGS	3.5%
HSBC HOLDINGS	3.4%

## Commentary:

The Fund has produced 31 consecutive positively monthly returns.

The fortunes of the global markets remain linked to the Trump Administration's trade policy. With tariffs expected to be enforced come the 6<sup>th</sup> of July, markets are expected to move towards a risk reduction strategy.

The desire to enforce tariffs has been met with fierce opposition from China, Europe, and NAFTA. The resulting situation has caused confusion for investors because it is extremely difficult to model the effects of an increase in tariffs and especially so when all the details have yet to be released.

The confusion has led to increased volatility as reflected in the Vix index, treasuries rallying, and the yield curve flattening to levels last seen in 2007.

The resulting flat yield curve is causing consternation for bond investors as they grapple with increasing Fed fund rates and rallying long end securities as concerns mount over the U.S. economy. Corporate bond indices in the U.S. continue to underperform, however, much of this underperformance is not entirely due to credit spreads widening, but rather due to the effect of duration. These indices will underperform further should bond yields increase from current levels.

Looking ahead it is expected that the U.S. economy will hold steady and because of the tax cuts we should see around 2.5% to 3% GDP growth over the year. This sluggish economy combined with

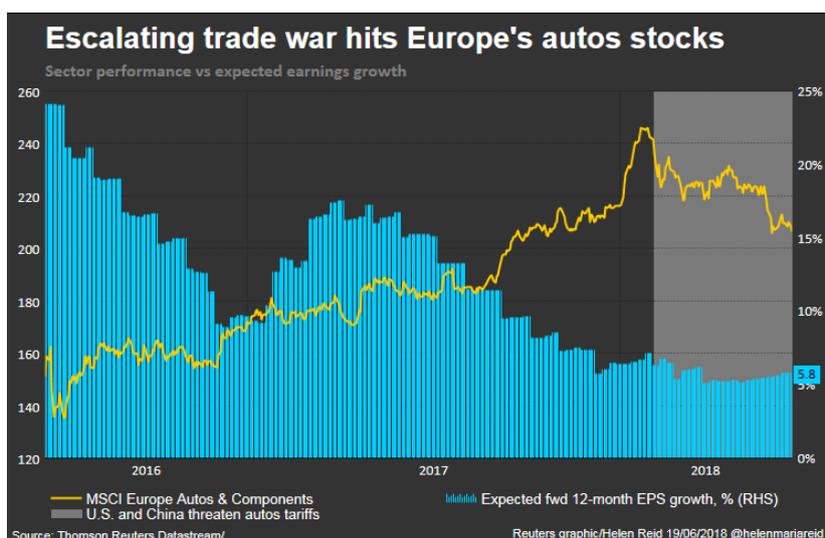
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increasing treasury issuance as a result of the economy not exceeding 3% growth, also means that the budget deficit may continue to increase. A widening deficit under normal conditions would see bond yields rise. Meanwhile, corporate profits in the second half of 2018 are expected to shrink.

The economic data out of China and Europe also points to slowing growth and this slowdown could also impact global growth. We have seen that impact recently with slowing manufacturing numbers in Germany and China. Mexico and Canada are also showing signs of slowing economies. The slowing growth is expected to impact equities through lower expected EPS.



Slowing global growth hurts Australian commodity exports and this may be exacerbated by the potentially slowing economy in China. Currently, slowing of the housing market is of concern to the RBA and most likely one of the reasons Australia's central bank has not raised rates and is not expected to anytime soon. Housing has fallen over the year. The Aussie dollar is reflecting a slowing global growth story and the Australian dollar has now fallen back to 74 cents against the USD.

Credit spreads have also widened over the month and this widening has been significant in percentage terms given where spreads have recently been. The widening of credit spreads is expected to continue partly because of increased issuance and rising bond yields causing borrowing costs to rise. The ECB is also expected to wind down its QE programme in September, thus removing a significant buyer of bonds and a steadying hand for bond markets.

The outlook for Australian securities is rather cloudy. Future performance will one way or the other be impacted by any increase in tariffs by the U.S. Tariffs in the U.S. are expected to be levied on the

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6<sup>th</sup> of July. Should the tariffs proceed there is an expectation of risk being reduced. This reduction could impact adversely both the currency and government bond yields, with the larger impact most likely being on the Australian dollar.

During June the following issuers issued:

- Teachers Mutual 3-year MTN
- AMP Progress 2018-1 RMBS
- Pepper 1-Prime 2018-1 Trust
- Zurich Finance Australia
- Flexi Group Limited (Q Card Trust)
- Westpac 10nc5 Subordinated Notes
- Barclays PLC 5&10 Yr Holdco Senior Unsecured
- Firstmac Mortgage Funding Trust no 4 series 2-2018

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