SPECTRUM ASSET MANAGEMENT

Fact Sheet

August 2018

<u>Spectrum Strategic Income Fund – Fact Sheet – 31 August 2018</u>

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	$65.8m

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
31/8/2018	$1.0794	$1.0778	$1.0761

Performance as at 31/8/2018*	1 mth %	3 Mths %	6 Mths %	1 Yr %	3 Yr % p.a.	Inception % p.a.
Total Net Return[2]	0.71%	1.40%	1.92%	3.93%	4.56%	9.26%
Average RBA Cash Rate	0.125%	0.38%	0.75%	1.50%	1.63%	2.54%

**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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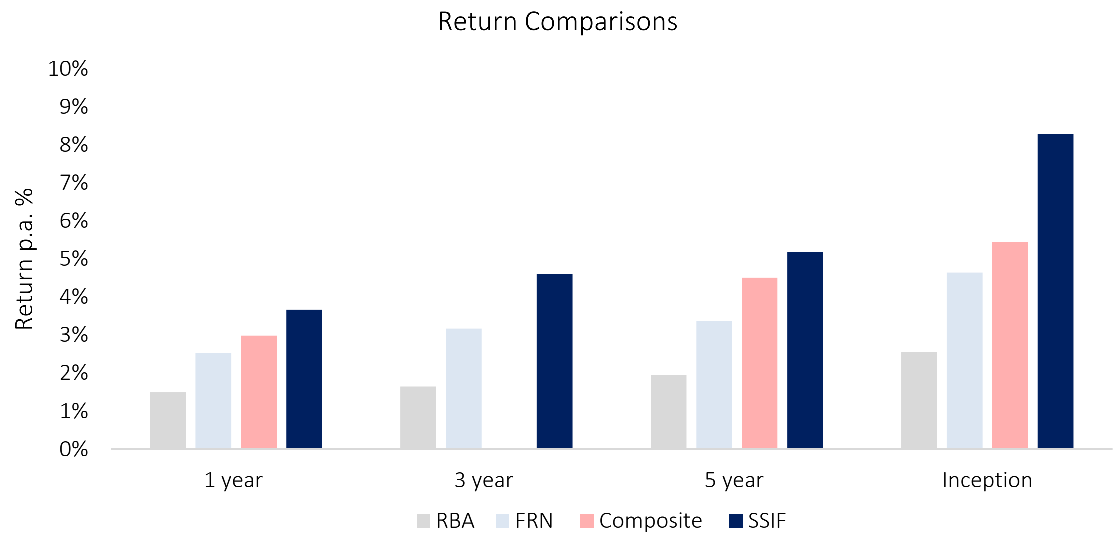

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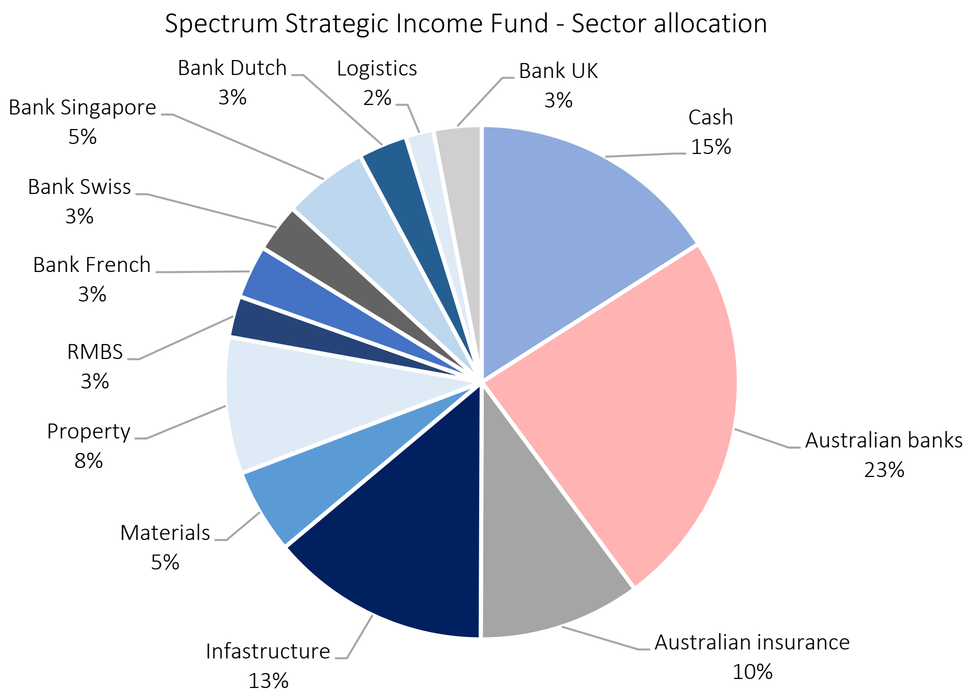
SSIF = Spectrum Strategic Income Fund.
Composite = The Bloomberg Composite Index.
FRN = The Bloomberg FRN Index.
RBA = RBA Cash Rate.



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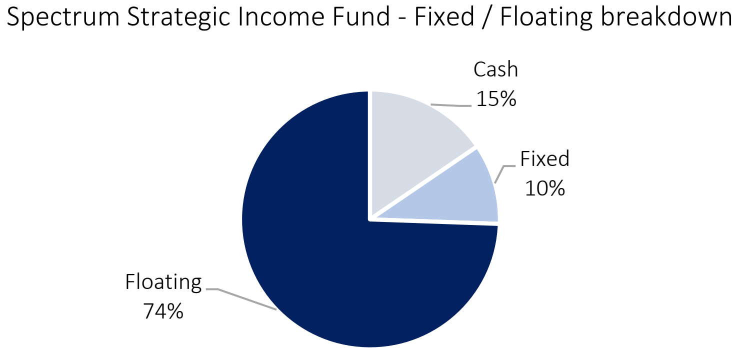

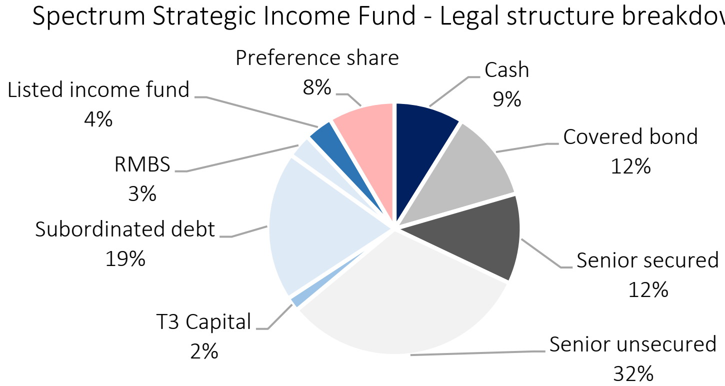

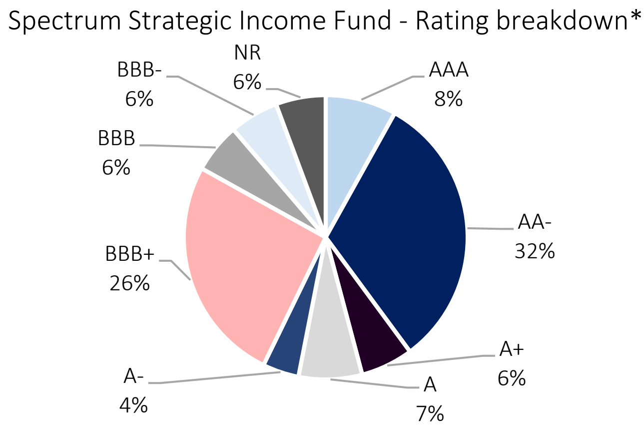

Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 31st of August 2018, 93% of the portfolio has an official credit rating 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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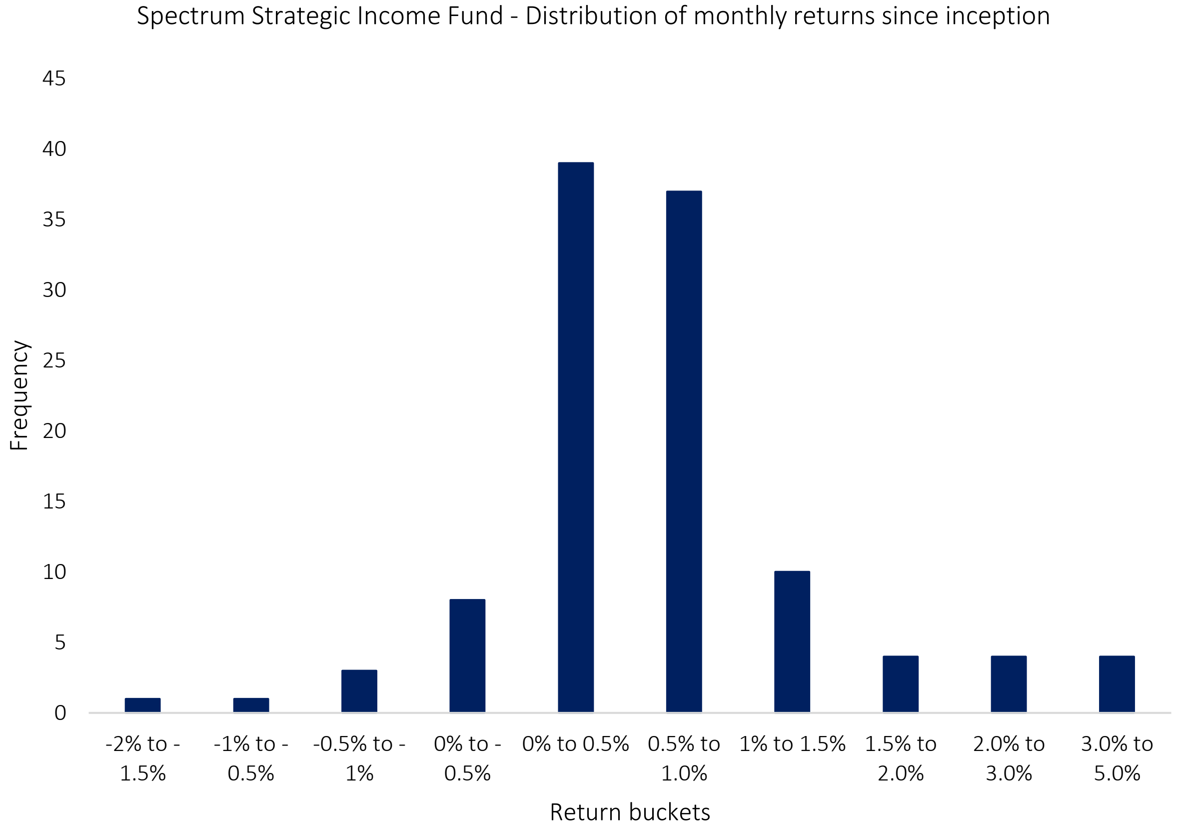
This report was prepared by Spectrum Asset Management Limited (Spectrum) (ABN 31 096 442 198, AFSL 225069) as investment manager for the Spectrum Strategic Income Fund (Fund). Equity Trustees Limited (ABN 46 004 031 298, AFSL 240975), a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly 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.



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	1.6%
Tracking error to Bloomberg FRN Index	1.8%
Proportion of positive Fund returns %	88%
Proportion of negative Fund returns %	12%
Number of consecutive positive returns	33 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	15.5%
NATIONAL AUSTRALIA BANK	4.6%
SUNCORP METWAY LTD	4.5%
TOYOTA FINANCE AUSTRALIA	4.4%
AUSGRID FINANCE	4.4%
NETWORK FINANCE	4.4%
AAI LTD	4.4%
APN REGIONAL PROPERTY FUND	3.2%
VERIZON COMMUNICATIONS	3.0%
SHINHAN BANK	3.0%

Commentary:

The Fund has produced 33 consecutive positive monthly returns.

August was month where trade fear was the primary driver for markets. The possibility of trade tariffs being introduced initially led to “risk off trades”. Then when the Trump Administration suggested that deals with China, Canada and Europe were distinct possibilities financial markets rallied. That pretty much sums up the raw emotion and trading strategies for the month.

What was interesting to note was once again the bond market was somewhat pessimistic on Trump’s ability to wage a trade war and for that to not affect the U.S., bond investors appeared to sit on the sidelines. They were, however, active when the 10-year traded above 2.9% and the 30-year traded through 3%. In both these instances a rally in the longer dated maturities occurred whenever trade barriers were mentioned and as the month wore on, an upper trading level in U.S treasuries was established.

International investors appear to be paring their holdings in U.S. treasuries, however domestic “real money” accounts and major banks have been active buyers. The large short futures positions suggest that a number of major participants are managing their duration via shorting treasury futures, and as repo rates remain steadfastly stable, this activity points to duration hedging rather than traders taking the other side of the trade and shorting the market.

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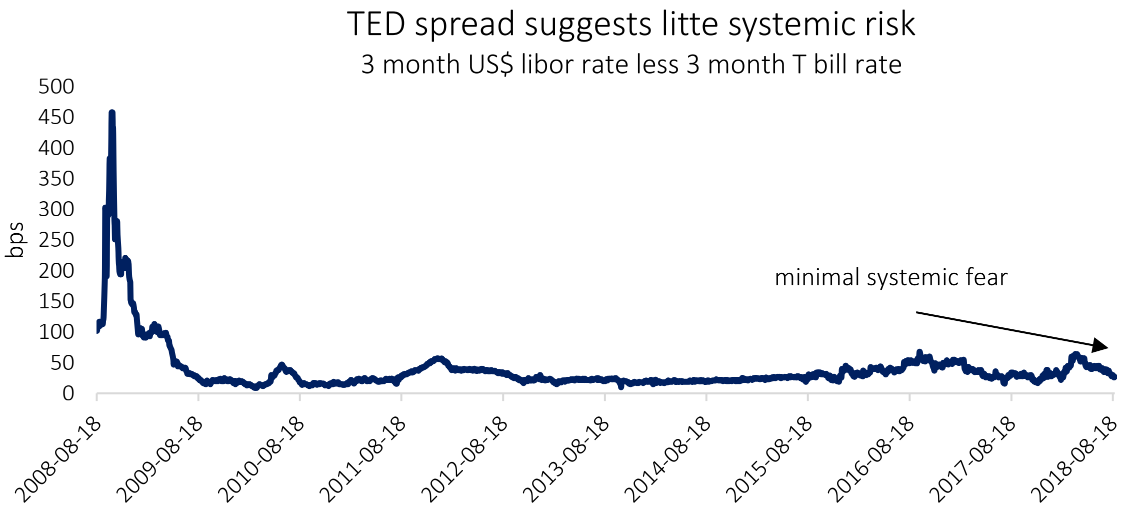
The Fed is likely to tighten in September and this activity may well cause further flattening of the yield curve. However, this flattening should not be seen as a strong indicator of recession just yet. With a lot of cash about globally and real money buying yield in the longer end of the curve the signs are somewhat confusing.

For recession we would need to see substantial slowing in activity from the current levels. Currently the TED spread, a measure of concern over the riskiness of banks, is benign. Markets are currently of the belief that inflation is under control and that the economy can grow at a rate between 2.5% and 3%.



Source: St Louis Fed Reserve

In Australia, August was almost a month of excess. Credit issuance was near record volumes. With a large amount of issuance and with government bonds rallying on fear of tariffs, swap spreads ground in over the month between a basis point to several basis points depending upon the maturity.

Geopolitics was a key driver for the rally in the Australian government market. As the bonds rallied the currency was sold for similar reasons. Local politics also played its hand in markets. The domestic political uncertainty explains some of the weakness in equities and the rally in government bond yields towards the end of the month.

The movements in bond markets were countered somewhat by high issuance of credit securities. Issuance for the month of August was approximately $12.9 bio and represents the heaviest monthly issuance volume since July 2009. Issuance this year has now passed the $50 bio mark.

With all this issuance one could perhaps expect the market to show some signs of fatigue and sell. This appears to not be the case and credit held steady over the month. As long as the equity market does not panic, and we see a positive tone in bond markets, credit should continue to perform reasonably well.

During August some of the more notable issues are below: -

- Toyota Finance issued $600 mio of 2-year notes.
- HSBC Sydney Branch issued $1 bio of 3-year notes.
- World Bank issued the first block chain security.
- Sumitomo Mitsubishi Branch issued 2-year notes $700 mio.
- CBA issued $5 bio 2, 5-year notes.
- DBS issued $600 mio, 3-year notes.
- Suncorp issued $600 mio 10.25 NC 5.25 subordinated notes
- Shinhan Bank issued $500 mio 10-year tier 2 notes
- Optus issued $500 mio 5-year notes.
- Bank Nova Scotia issued $2.7 bio 3, 5-year FRN.

The RBA maintained the cash rate at 1.5% - a rate it set in August 2016. There are mixed views which direction RBA will take in the future and when it will do so.

For some the next leg for the RBA is to hike rates as the economy appears to be growing at a moderate rate - with the exception of housing. If this continues the fear of inflation may resurface and the RBA will have its hand forced to tighten. Should the A$ continue to fall it may also consider raising rates to defend the currency.

Reducing the chance of a rate hike is the banks are already doing some of the work. That is, they raised mortgage rates due to rising cost of funds. Wholesale funding became more expensive for banks. The rise in mortgage rates may also lead to a further slowdown in investor purchases of housing placing pressure on the RBA to not rate the official cash rate.