

The logo consists of two overlapping circles. The left circle is a gradient from yellow to orange to red. The right circle is a gradient from green to blue to purple. The text 'SPECTRUM' is in a dark blue box on the left, and 'ASSET MANAGEMENT' is in a white box on the right.

SPECTRUM

ASSET MANAGEMENT

Fact Sheet

December 2018



Spectrum Strategic Income Fund – Fact Sheet – 31 December 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	\$67.8m

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
31/12/2018	\$1.0771	\$1.0755	\$1.0738

Performance as at 31/12/2018*	1 mth %	3 mths %	6 mths %	1 yr %	3 yr % p.a.	Inception % p.a.
Total Net Return ²	0.29%	0.40%	1.59%	3.41%	4.68%	8.07%
Average RBA Cash Rate	0.13%	0.38%	0.75%	1.50%	1.58%	2.49%

*Past performance is not an indicator of future performance.

Income distributions	31/03/2018	30/06/2018	30/09/2018	31/12/2018
Distribution rate (cents per unit)	0.6399	0.7303	0.4500	0.4975

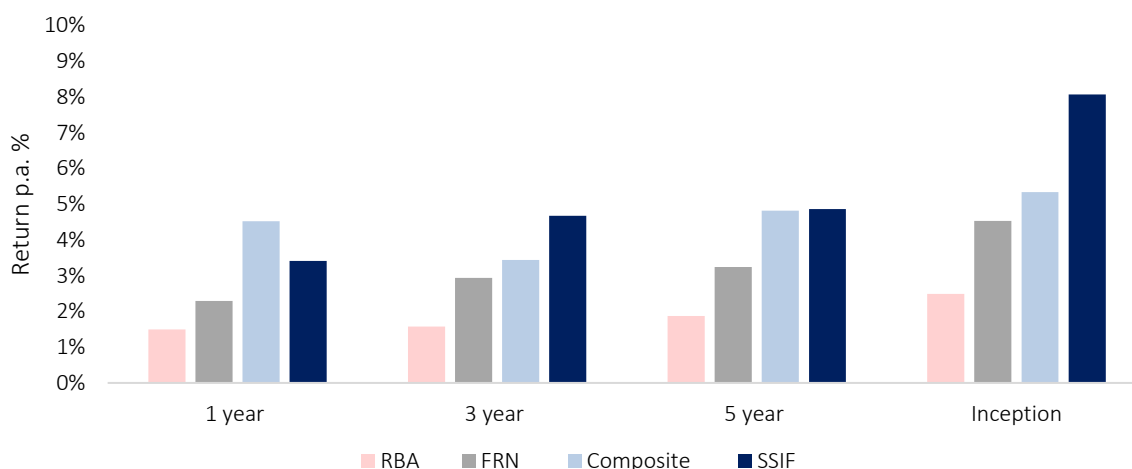
¹ Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

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



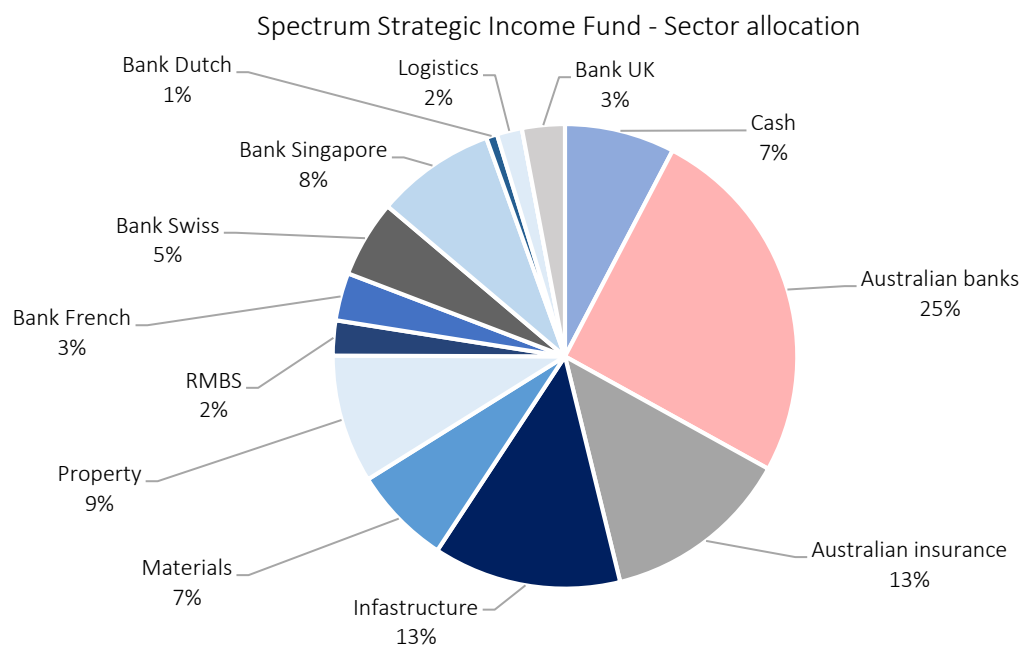
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SSIF = Spectrum Strategic Income Fund

Composite = Bloomberg AusBond Composite 0+ Yr Index

FRN = Bloomberg AusBond Credit FRN 0+ Yr Index

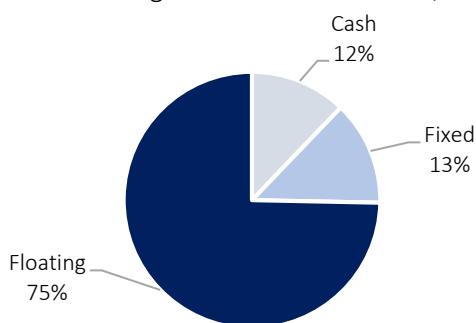
RBA = RBA Cash Rate



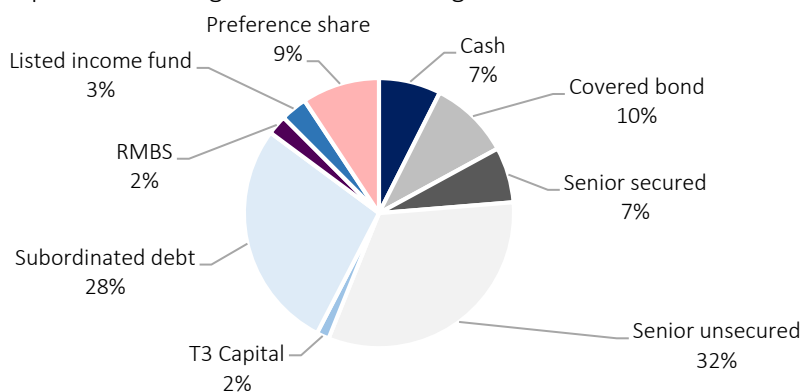
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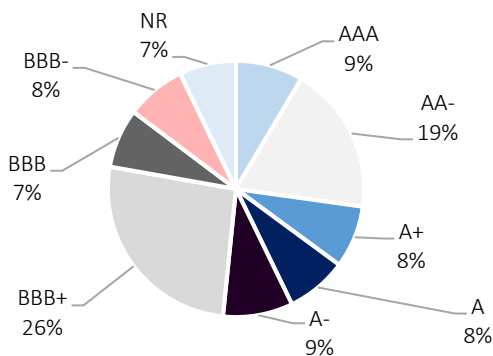
Spectrum Strategic Income Fund - Fixed / Floating



Spectrum Strategic Income Fund - Legal structure breakdown



Spectrum Strategic Income Fund - Credit rating breakdown*

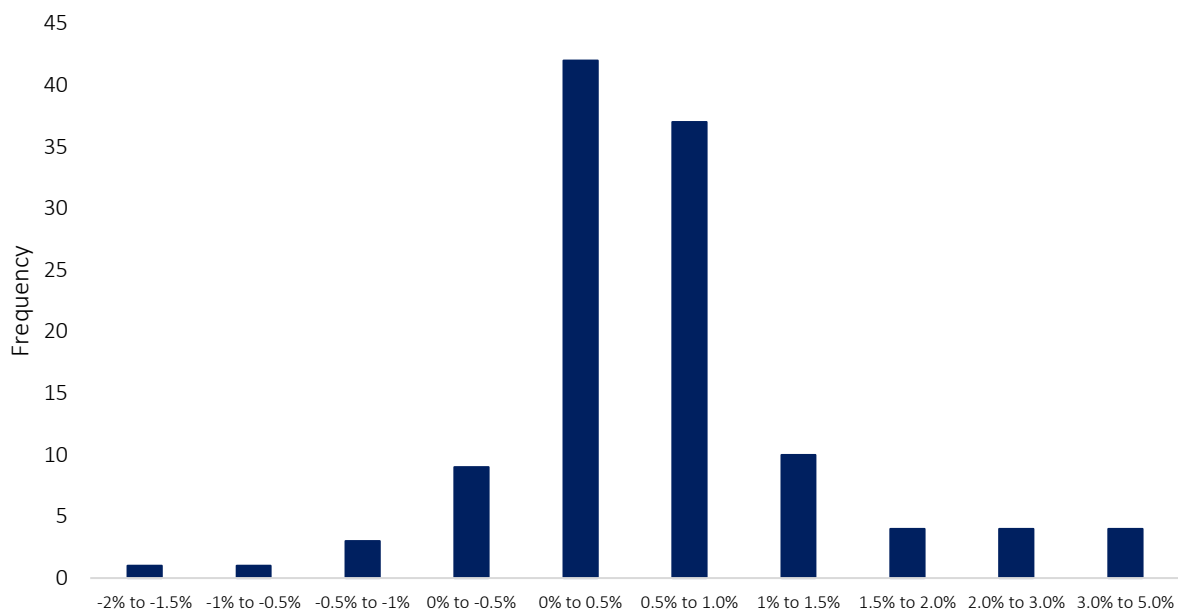


*Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 31st of December 2018, 93% of the portfolio has an official credit rating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

Spectrum Strategic Income Fund - statistics	
Correlation to Bloomberg FRN Index*	52%
Correlation to Bloomberg Composite Index*	-16%
Tracking error to Bloomberg FRN Index*	3.1%
Proportion of positive Fund returns %	88%
Proportion of negative Fund returns %	12%
Number of consecutive positive returns	1 Months
Largest drawdown %	-1.6%
Time to recovery from largest drawdown	2 Months
Average drawdown %	-0.5%

Source: Spectrum

*Since inception – 31/5/2009

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Top ten holdings:

	Holding %
Cash	7.4%
National Australia Bank	6.1%
DBS Group Holdings	5.8%
Suncorp Metway	4.5%
Toyota Finance Australia	4.4%
Network Finance	4.4%
AAI Limited	4.3%
UBS AG Australia	3.7%
Multiplex Sites Trust	3.2%
APN Regional Property Fund	3.2%

Source: Spectrum

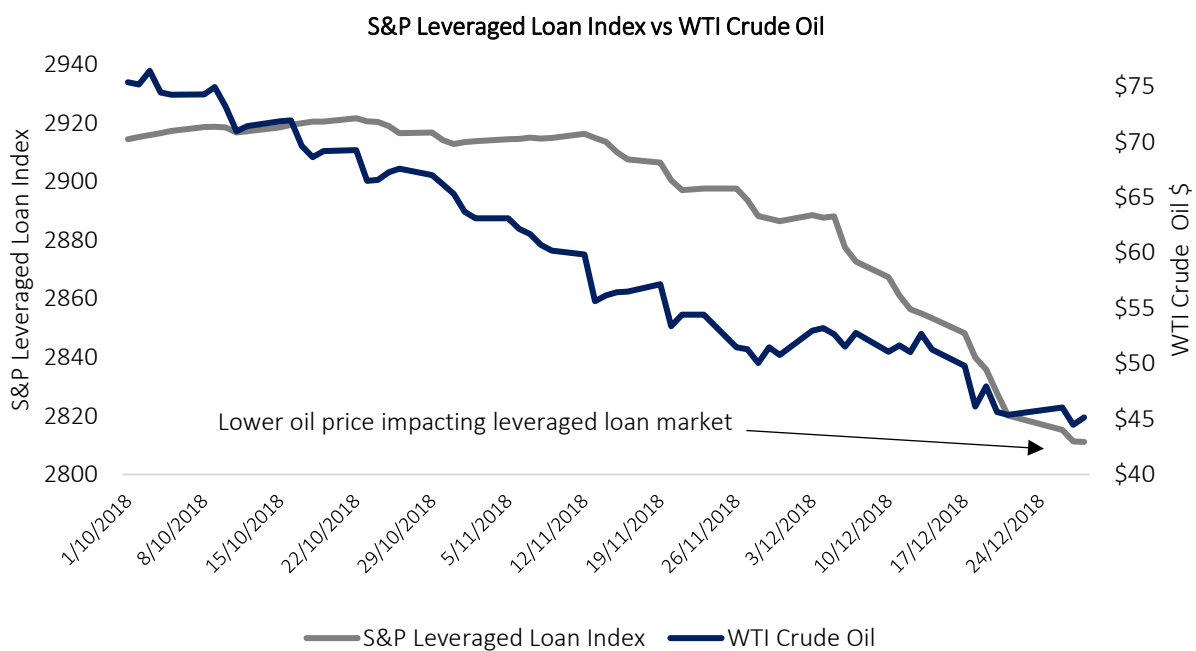
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Commentary:

Fear re-awakens

A confluence of factors caused global risk asset prices to fall and government bonds to rally in concluding month of 2018. Among them, weaker global economic indicators and heightened geopolitical risk, in particular, Chinese-US trade risk, confronted demanding valuations for many asset classes across the globe. In the background, central banks overall were accelerating their draining of liquidity as the ECB halted its asset purchase program, the U.S Federal Reserve was upping the unwind of quantitative easing, and the Fed hiked official rates - again. At the heart of the global credit market weakness was plummeting oil prices. The fall raised doubts on the credit health of many marginal oil producers in the U.S.



Sources: Thomson Reuters, S&P Global, Spectrum

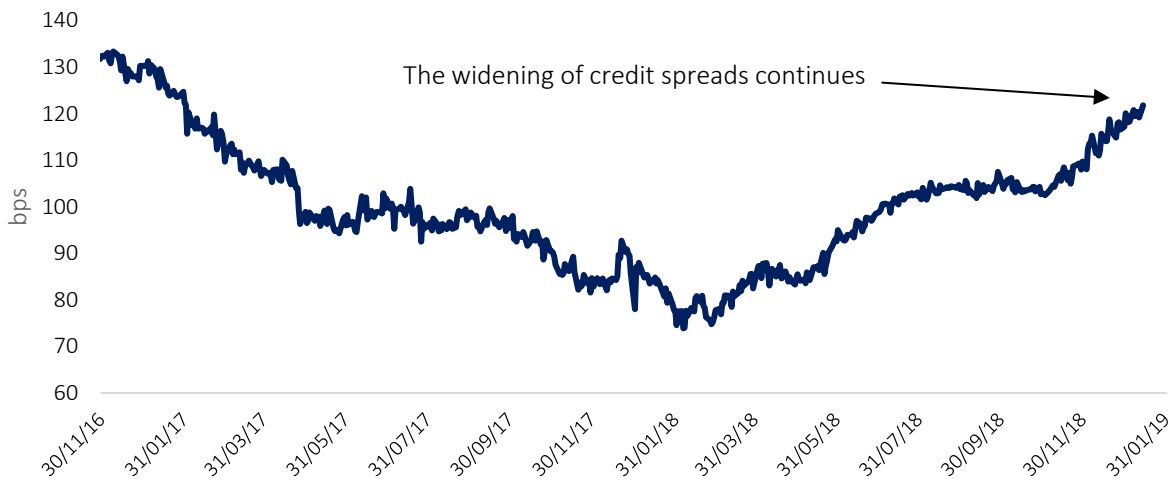
Closer to home, A\$ credit spreads expanded as well. For example, credit spreads on “A” rated bond rose around 8bps over the month reaching their highest level since early 2017.

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A\$ credit spreads drifting wider

Credit spreads "A" rated 5 year bonds



Sources: Thomson Reuters, Spectrum

The global market themes noted above were echoed in the local credit market. What compounded the impact though were domestic fundamental and technical factors.

The Australian housing market continues to fall in value. This in turn raises concerns over the credit standing of property developers, RMBS securities, our banks and ultimately the health of the domestic economy. Note the Australian economy grew by just 0.3% in the quarter to September 30, 2018.

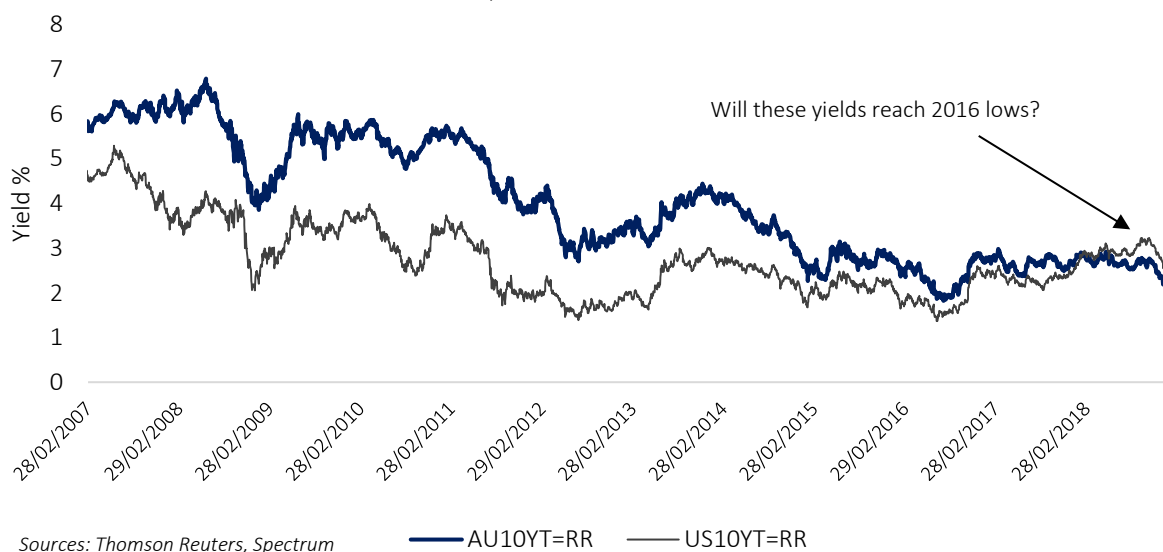
At the same time the local market was still mulling how it would digest an extra \$75bn in [major bank subordinated debt supply as proposed by APRA](#).

While corporate credit spreads suffered government bonds rallied in Australia as they did in most key economies. The Australian 10-year bond yield joined the party with yields falling from 2.6% to 2.3%.

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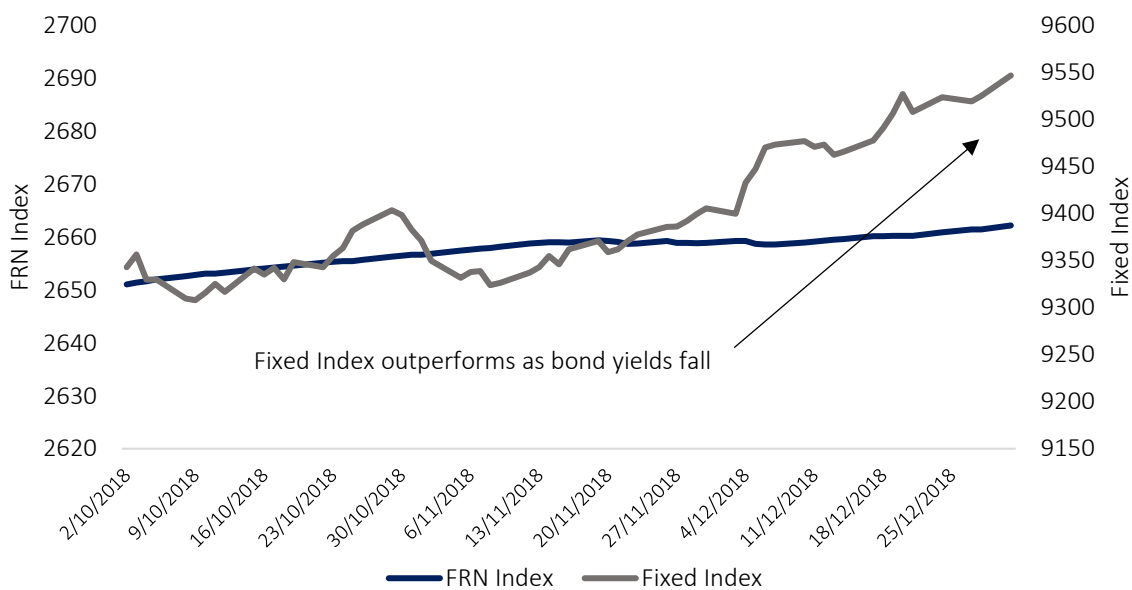
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Sharp fall in government bond yields of late 10 year bonds U.S vs Australia



The contrast in performance is seen when comparing the government dominated fixed rate index compared to the bank credit risk heavy floating rate note index in the A\$ bond markets.

Floating vs Fixed A\$ bond indices



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The good news is valuations have improved for corporate bonds globally. Many rating categories' current credit spreads are near historical averages as opposed to the far tighter levels in late 2017.

The bad news is, the domestic residential property market, is showing no signs of stabilising. We remain concerned the price declines in Sydney and Melbourne look set to continue. If so, this could impact on the health of the economy and bond issuers, directly and indirectly linked, to the Australian residential property market.

We remain concerned about a possible slowing of the Australian economy. A\$ bonds from internationally headquartered issuers look appealing as we seek to look outside of the Australia for opportunities. Utilities too look attractive especially as the market is repricing risk and spreads have widened with little deterioration in credit quality. Capital preservation remains paramount in our decision making. Spectrum maintains a strong floating rate note bias in A\$ corporate bonds.

Over the month, issuance was thin given the upcoming holiday season with only two new issues entering the market –

- Bank of Queensland 2.25-year FRN – BBSW+98bps
- Qudos Bank 1-year FRN – BBSW+85bps

PDS

ONLINE APPLICATION

APPLICATION FORM



SQM Rating 

As at 31/12/2018 TM



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