

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 on a dark blue bar to the left of the circles, and 'ASSET MANAGEMENT' is on a white bar to the right.

SPECTRUM

ASSET MANAGEMENT

Fact Sheet

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February 2019



Spectrum Strategic Income Fund – Fact Sheet – 28 February 2019

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	\$70.9m

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
28/2/2019	\$1.0899	\$1.0883	\$1.0866

Performance as at 28/2/2019*	1 mth %	3 mths %	6 mths %	1 yr %	3 yr % p.a.	Inception % p.a.
Total Net Return <sup>2</sup>	0.92%	1.48%	1.87%	3.83%	4.55%	8.06%
Average RBA Cash Rate	0.13%	0.38%	0.75%	1.50%	1.55%	2.47%

\*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

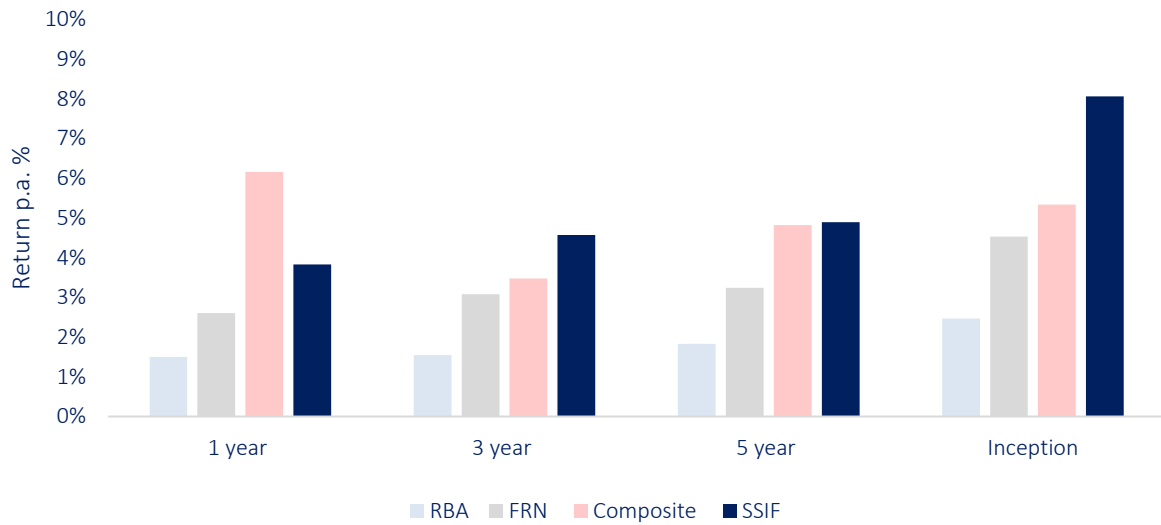
<sup>1</sup> Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

<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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## Return Comparisons



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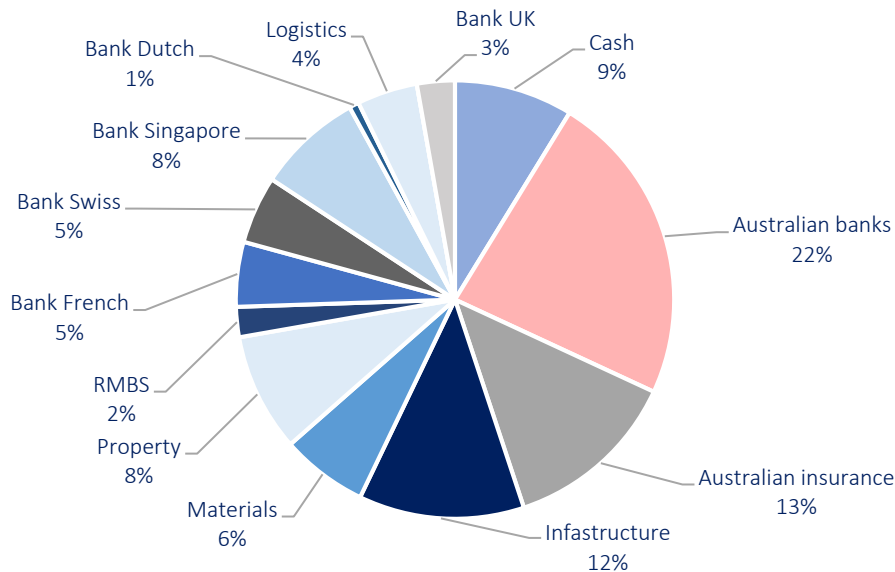
SSIF = Spectrum Strategic Income Fund

Composite = Bloomberg AusBond Composite 0+ Yr Index

FRN = Bloomberg AusBond Credit FRN 0+ Yr Index

RBA = RBA Cash Rate

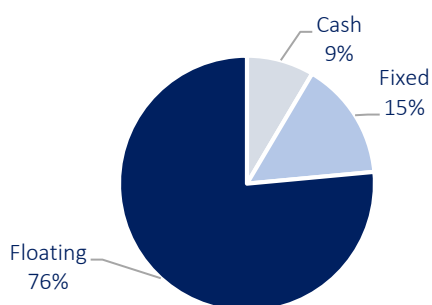
## Spectrum Strategic Income Fund - Sector allocation



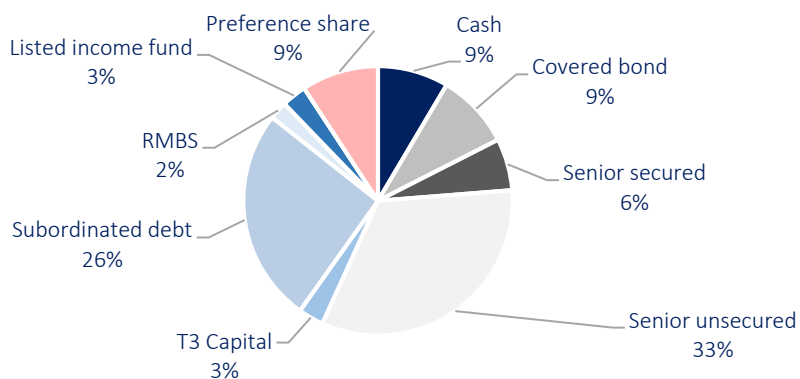
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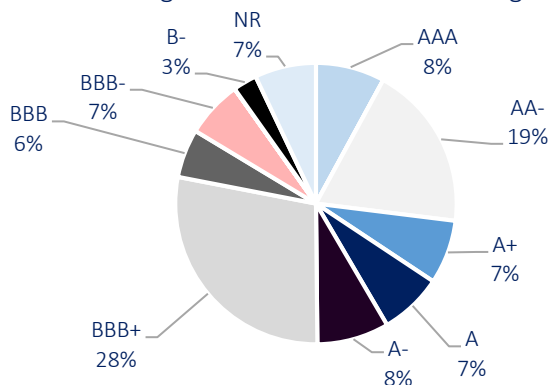
### Spectrum Strategic Income Fund - Fixed / Floating



### Spectrum Strategic Income Fund - Legal structure breakdown



### Spectrum Strategic Income Fund - Credit rating breakdown

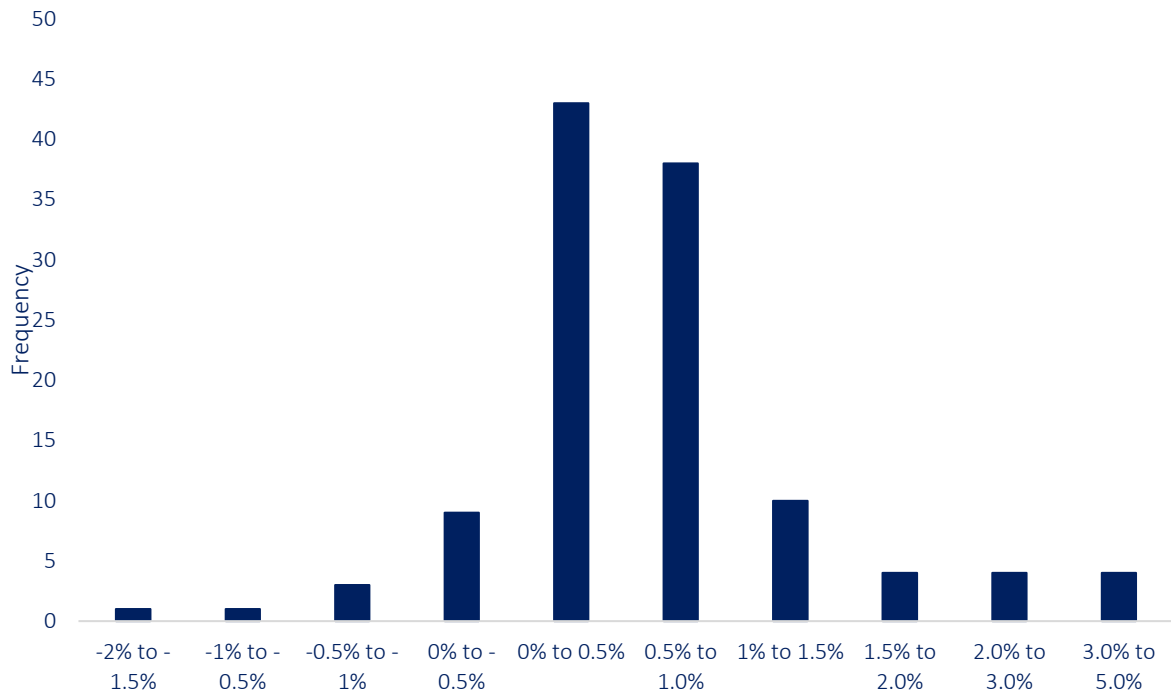


*\*Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 28<sup>th</sup> of February 2019, 93% of the portfolio has an official 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	3 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	8.5%
National Australia Bank	5.8%
DBS Group Holdings	5.5%
AAI Limited	4.8%
Suncorp Metway	4.2%
Toyota Finance Australia	4.1%
Network Finance	4.1%
UBS AG Australia	3.5%
Multiplex	3.4%
APN Regional Property Fund	3.0%

Source: Spectrum

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## Commentary

Favourable conditions for both global and Australian corporate bonds continued in February 2019.

Expectations of sustained or even looser monetary policy continue. Negative yield bonds now stand at around \$US9tn globally. Rather than face certain losses, increasingly, investors are chasing returns by taking risk at ever higher prices.

In corporate bond land this technical force combined with very low corporate bond default rates, supports the lowering of credit spreads internationally and locally. Over the month the ITRAXX index tightened 9bps.

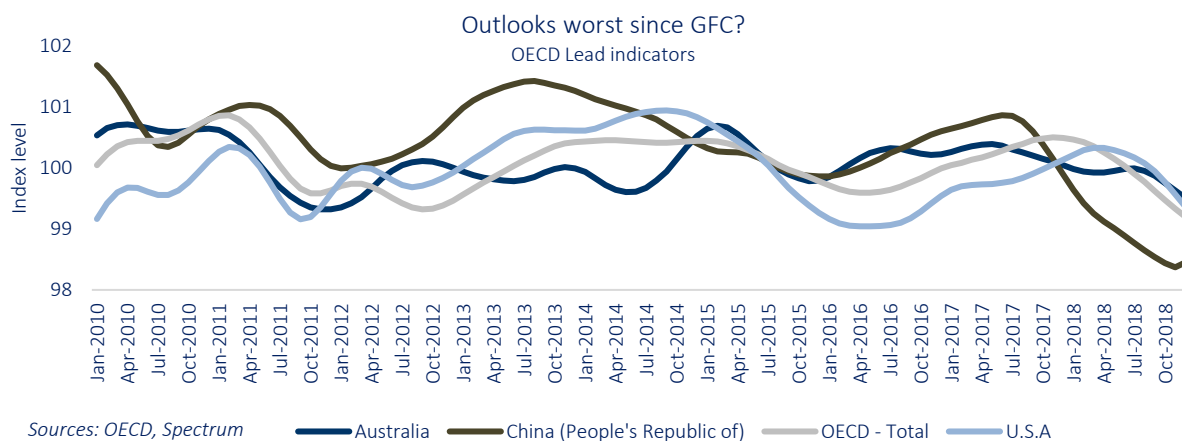
The Australian floating rate note index returned 43bps for the month. The Spectrum Strategic Income Fund generated 92bps. The outperformance was largely due to price jumps in a handful of positions in the fund.

Funds that rely heavily on fixed rate bonds tended to perform well over the month. Government bond yields fell (and bond prices rose) in many countries including Australia. The Australia 10-year government bond yield fell from 2.34% to 2.10% and the composite index saw a health contribution from the outright fall in yields. Duration had an incremental impact of approximately 0.7% to the return of the composite index.

	1 Month	3 Month	6 Month	1 Year
<b>Spectrum Strategic Income</b>	<b>0.9%</b>	<b>1.5%</b>	<b>1.9%</b>	<b>3.8%</b>
<b>Bloomberg FRN Index</b>	0.4%	0.8%	1.4%	2.6%
<b>Bloomberg Fixed Index</b>	0.9%	3.1%	3.4%	6.2%
<b>RBA cash rate</b>	0.1%	0.4%	0.8%	1.5%

SSIF = Spectrum Strategic Income Fund  
 Composite = Bloomberg AusBond Composite 0+ Yr Index  
 FRN = Bloomberg AusBond Credit FRN 0+ Yr Index  
 RBA = RBA Cash Rate

International economic conditions have declined so much of late that Bloomberg Economics puts global growth rates at its lowest since 2008. Recent lead indicators from the OECD support the trend of cutting global economic growth forecasts from market pundits. Low global bond yields look set to be with us for at least the next few quarters.



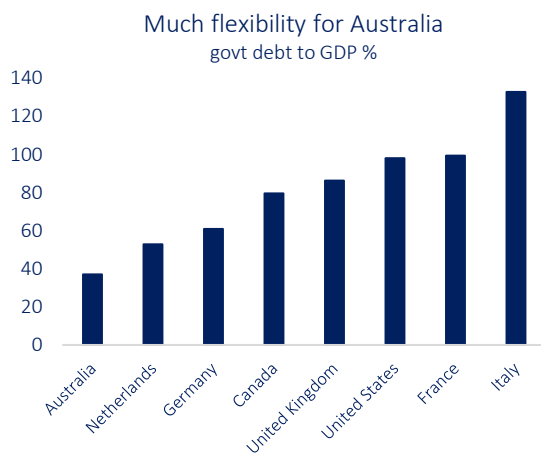
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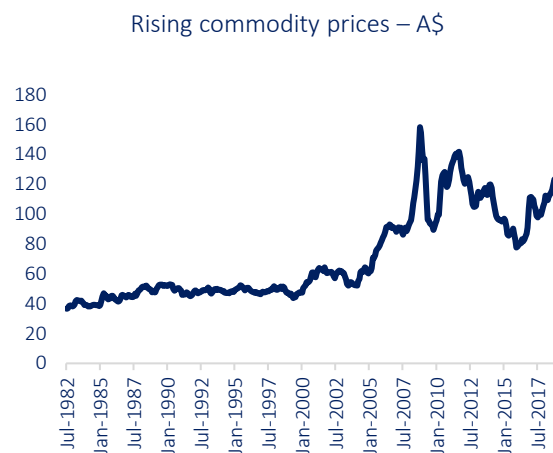
Australia's economy has its own set of problems. What concerns us most is the potential economic fallout from a weakening property sector. That said Australia is different to many other developed economies in many aspects. For example, consider the following:-

- Australia's export prices have rebounded
- many government-sponsored large infrastructure projects are now underway which will absorb some of the discarded property market labour, and
- the government has fiscal flexibility that is the envy of much of the world.

Hence, we do not subscribe to the *inevitability* of a hard-economic landing in Australia.



Sources: BIS, Spectrum



Sources: RBA, Spectrum

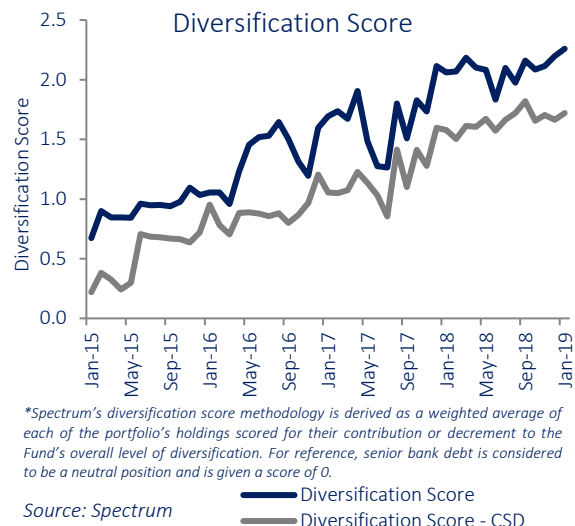
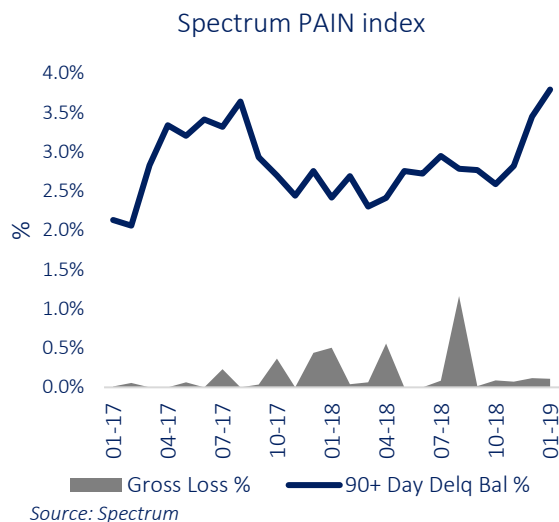
That said the risk of widespread financial stress in the property and related industries is rising. Therefore, we continue to attempt to shelter the portfolio by diversifying away from direct and indirect residential property risk.

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As noted above, the deteriorating economic growth outlook is resulting in some positive influences for credit spreads. We note, though, this could be a temporary benefit. Fundamentals eventually come to the fore. Defaults rates will eventually rise. Hence our decision making remains centred around protecting the capital for investors, collecting coupons, and trying to take advantage of mis-pricings and technical forces in the A\$ corporate bond market.

Over the month the following entities worth noting issued into the market;

- BNP Paribas – 5.25 Year Senior non-preferred FRN - \$375m @BBSW+175bps
- Virgin Australia – 5YNC3 - Senior non-secured Fixed - \$250m @Swaps+607.5bps
- McDonalds Corp – 5 Year Senior non-secured FRN - \$300m @BBSW+115bps
- General Motors – 4 Year Senior unsecured Fixed - \$300m @Swaps+205bps
- Mizuho – 3 Year Senior unsecured FRN - \$1.5bn @BBSW+91bps

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PDS

ONLINE APPLICATION

APPLICATION FORM

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As at 28/2/2019 <sup>TM</sup>

SQM Rating 



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