

SPECTRUM

ASSET MANAGEMENT

Fact Sheet

May 2019



Spectrum Strategic Income Fund – Fact Sheet – 31 May 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	\$65.2m

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
31/5/2019	\$1.1014	\$1.0998	\$1.0981

Performance as at 31/5/2019*	1 mth %	3 mths %	6 mths %	1 yr %	3 yr % p.a.	Inception % p.a.
Total Net Return <sup>2</sup>	0.69%	1.75%	3.25%	5.10%	4.68%	8.04%
Average RBA Cash Rate	0.13%	0.38%	0.75%	1.50%	1.51%	2.44%

\*Past performance is not an indicator of future performance.

Income distributions	30/06/2018	30/09/2018	31/12/2018	31/03/2019
Distribution rate (cents per unit)	0.7303	0.4500	0.4975	0.7400

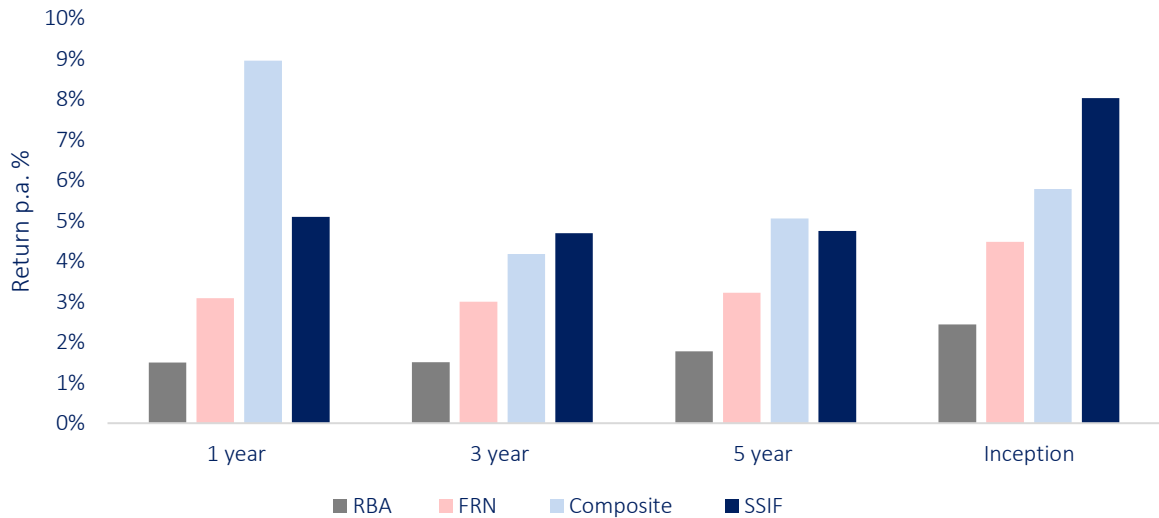
<sup>1</sup> Includes estimated GST payable, after taking into account Reduced Input Tax Credits (“RITC”).

<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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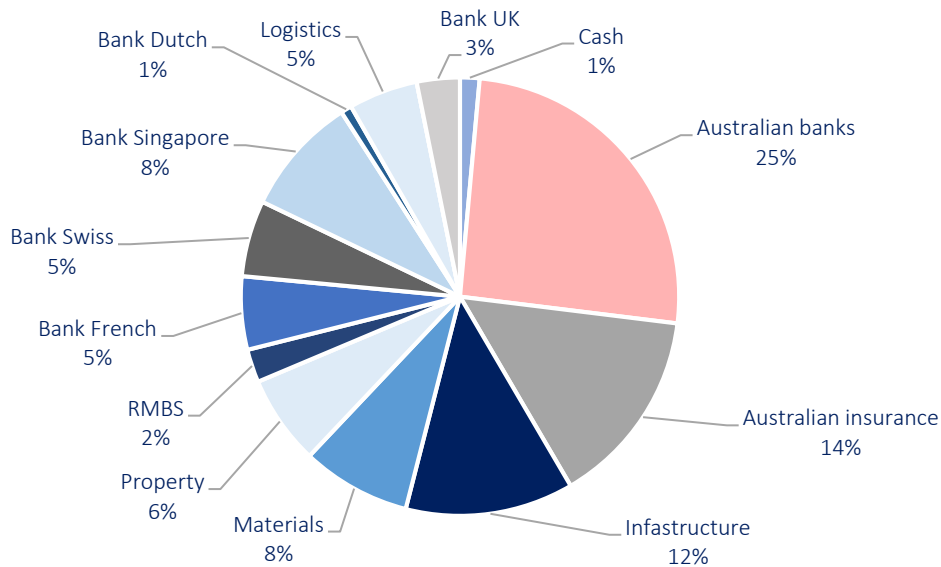
SSIF = Spectrum Strategic Income Fund

Composite = Bloomberg AusBond Composite 0+ Yr Index

FRN = Bloomberg AusBond Credit FRN 0+ Yr Index

RBA = RBA Cash Rate

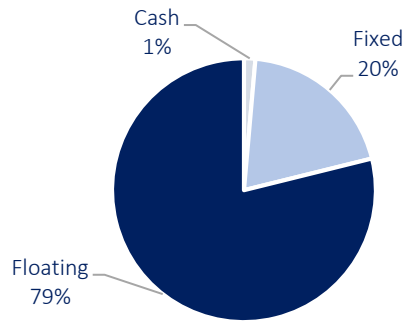
## Spectrum Strategic Income Fund - Sector allocation



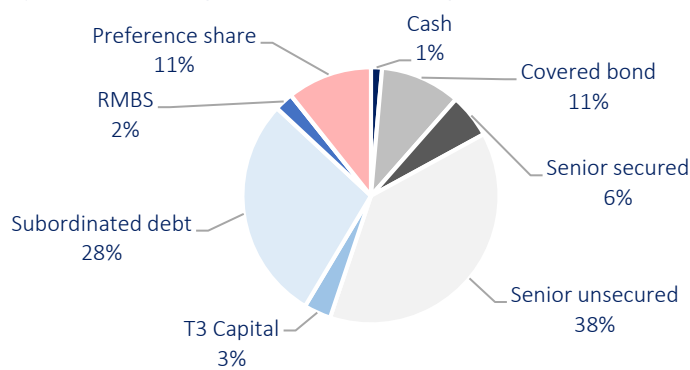
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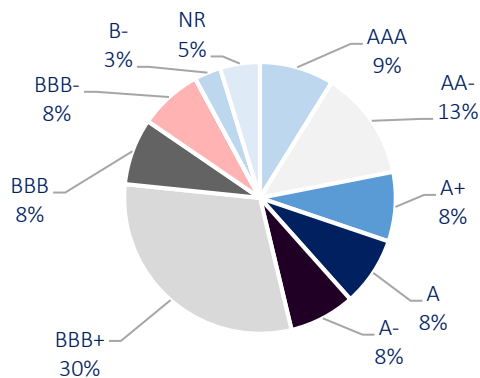
### Spectrum Strategic Income Fund - Fixed / Floating



### Spectrum Strategic Income Fund - Legal structure breakdown



### Spectrum Strategic Income Fund - Credit rating breakdown

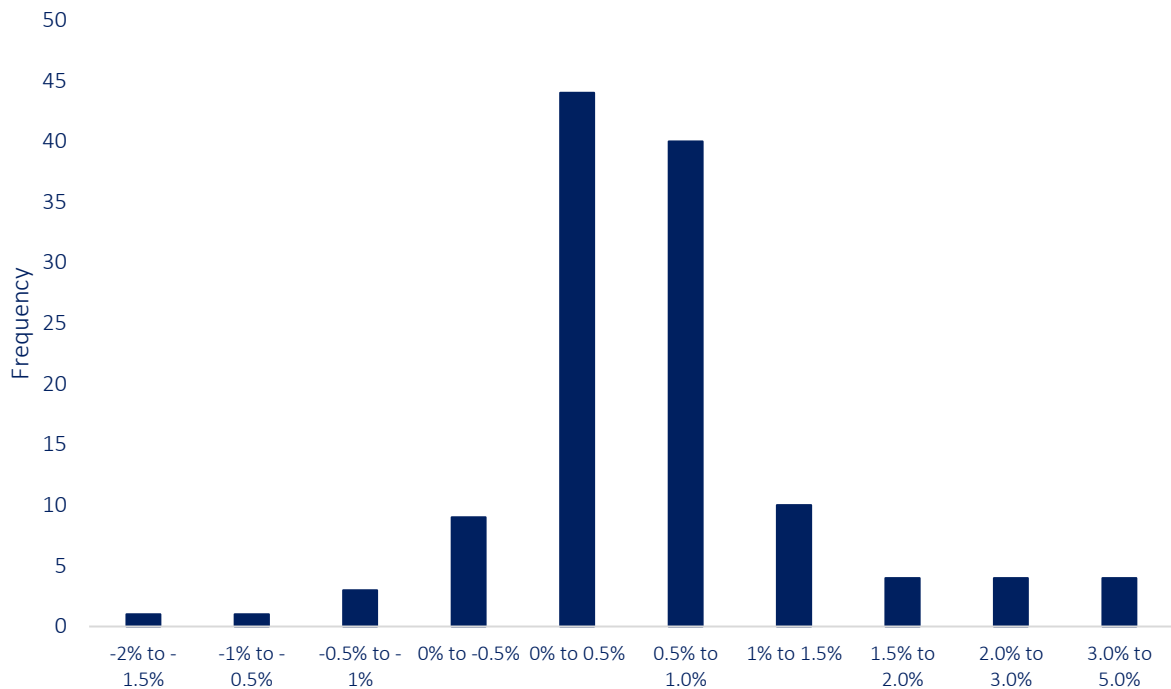


\*Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 31<sup>st</sup> of May 2019, 95% of the portfolio has an official credit 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*	-15%
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	5 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 %
National Australia Bank	6.7%
DBS Group Holdings	6.2%
AAI Ltd	5.3%
Suncorp Metway	4.7%
Toyota Finance Australia	4.6%
Multiplex Sites Trust	4.0%
UBS AG Australia	3.9%
Shinhan Bank	3.4%
Virgin Australia Holding	3.2%
Verizon Communications	3.1%

Source: Spectrum

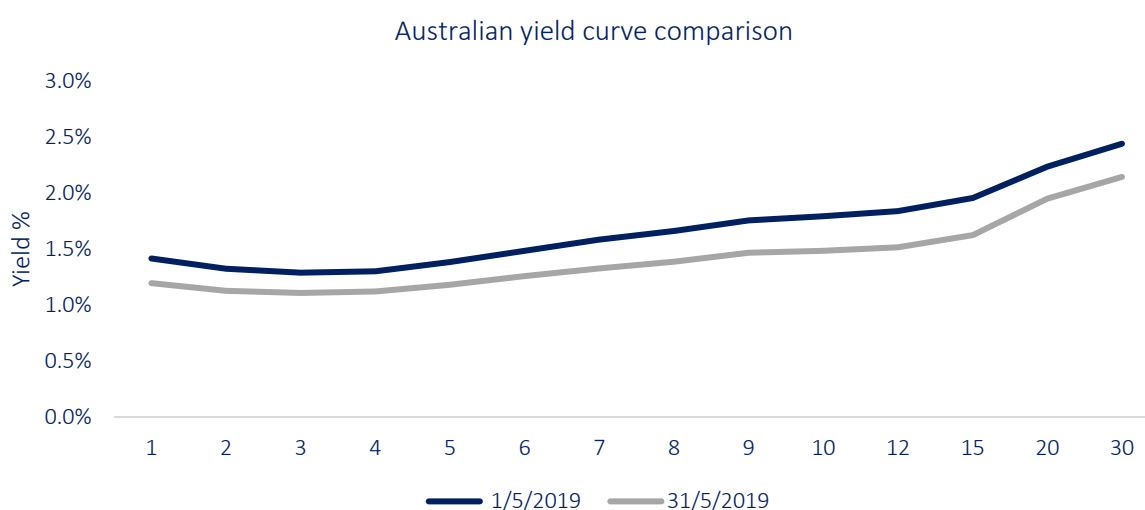
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## Gathering Storm Clouds

Any discussion about returns requires a discussion about other benchmarks, comparing the benchmark with the portfolio return. By way of comparison, we will use the CBA Fixed Income Index as a proxy for the Bloomberg Composite Index. The CBA index returned 1.86% for the month versus 1.7% for the Bloomberg Composite Index. The analysis shows that 1.45% of the return was attributed to duration, the interest component was just 0.16%, slope (i.e. the yield curve changes across the maturity structure, the spread between short, intermediate and long maturities) provided another 20bps and contracting spreads of 5bps contributed the rest. The interest component is falling and unless we have another significant fall in interest rates it's hard to see how the fixed indices can continue to perform. The 10-year ACGB for example fell 33bps over the month and the 3-year ACGB fell 21bps.



The Fund on the other hand is well poised to see some gains. As the yield curve is inverted, bills at the end of May were 1.42% and the 3-year bond was at 1.11%. Any adjustment in bank bill rates will be reflected in the return. Any rate cut will allow the FRN Index perform as prices adjust for the new interest rate levels.

The Fund gained 69bps after fees for the month. Most of the return is attributed to credit although a portion is duration and slope as we do have some fixed securities. The Fund easily outperformed the Bloomberg FRN Index which returned 17bp for the month of May.

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Storm clouds gathered on a number of fronts during May. Trump upped the ante with China in the trade standoff by sanctioning Huawei. China has responded by looking to investigate FEDEX and has suggested it may restrict the export of rare earths which are vital components in a number of technologies and defence industries. China has also significantly restricted the importation of soybeans in an effort to hurt Trump's supporter base. Trump has also escalated his trade concerns with the EU and many other countries in an effort to renegotiate trade deals on a global scale. Trump's sanction of Huawei may yet return to haunt him as a number of large U.S. technology companies depend on Huawei to buy their products - these companies, including Google and Broadcom intervened to seek relief for the imposed sanctions due to the detrimental effect on their businesses. Trade is complex and so too logistics chains, these are not easily changed.

The net result of Trump's efforts saw a classic risk off event. Equities were sold, high yield was sold, and bonds enjoyed a rally. U.S. 10-year treasuries rallied 37bp and the 10-year ACGB rallied 33 bp over the month. The catalyst to further gains for the bonds was Trump's missive relating to Mexico. Trump threatened to impose tariffs on Mexico if Mexico did not stop immigrants attempting to cross the U.S. border. For number of U.S. companies any increase in tariffs is material as Mexico is one of the largest markets for the U.S. and is a major manufacturer of goods for many U.S. companies. India was not spared the rod either as it has lost its developing country designation. This means any exports to the U.S. will now have a tariff imposed. Risk off looks certain to continue for as long as fears of trade remain elevated and Trump looks for further opportunities to impose tariffs.

The future direction of credit under this scenario is uncertain. As equities unravel, credit spreads will widen, however some spread widening is also as a result of swaps widening to bonds as fixed rate bonds rally. Credit has widened over the month. The Aussie Itraxx widened from 67.125 to 79.875 representing a widening of 12 points. With equity weakness this widening should continue, and the Fund is well positioned to take advantage of this movement in spreads.

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

- PACCAR Financial – 4 Year A\$ Senior unsecured FXD - \$150m @ Swaps + 88bps.
- SMBC Sydney – 2 Year A\$ Senior unsecured FRN - \$500m @ BBSW+62bps.
- Credit Agricole SA – 15-year A\$ Subordinated FXD - \$600m @ 4.2% YTM.

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**PDS**

**ONLINE APPLICATION**

**APPLICATION FORM**

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