

The logo consists of two overlapping circles. The left circle is a solid dark blue. The right circle is a multi-colored ring with a gradient from yellow at the top to purple at the bottom. The text 'SPECTRUM' is written in white, uppercase, sans-serif font on the dark blue circle.

SPECTRUM

ASSET MANAGEMENT

Fact Sheet

October 2018

A large, stylized graphic on the right side of the page, consisting of two overlapping, multi-colored arcs. The top arc is yellow and orange, and the bottom arc is green and purple. The colors transition smoothly between the two arcs.



Spectrum Strategic Income Fund – Fact Sheet – 31 October 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	\$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
31/10/2018	\$1.0798	\$1.0782	\$1.0765

Performance as at 31/10/2018*	1 mth %	3 Mths %	6 Mths %	1 Yr %	3 Yr % p.a.	Inception % p.a.
Total Net Return ²	0.19%	1.17%	2.00%	3.71%	4.63%	8.19%
Average RBA Cash Rate	0.125%	0.38%	0.75%	1.50%	1.60%	2.52%

*Past performance is not an indicator of future performance.

Income distributions	31/12/2017	31/03/2018	30/06/2018	30/09/2018
Distribution rate (cents per unit)	0.5631	0.6399	0.7303	0.4500

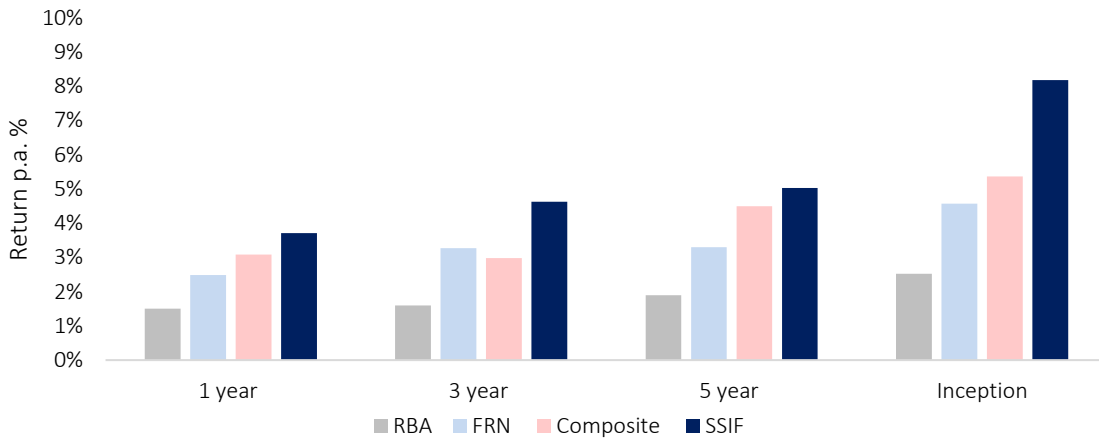
¹ Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

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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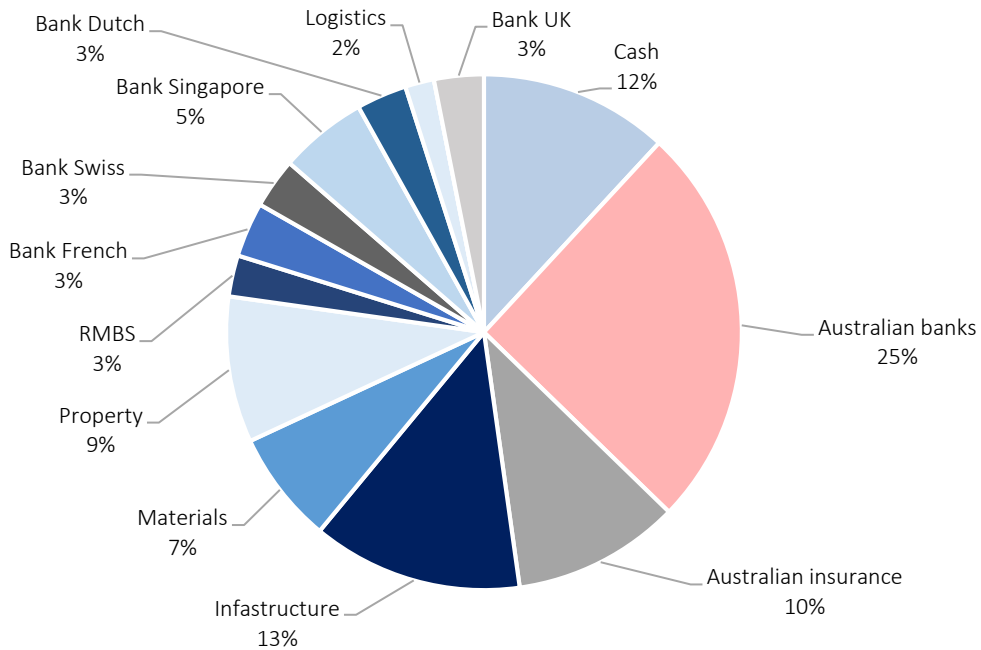
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Return comparisons



**Past performance is not an indicator of future performance.*
 SSIF = Spectrum Strategic Income Fund.
 Composite = The Bloomberg Composite Index.
 FRN = The Bloomberg FRN Index.
 RBA = RBA Cash Rate.

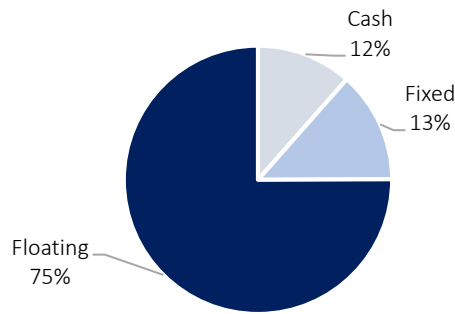
Spectrum Strategic Income Fund - Sector allocation



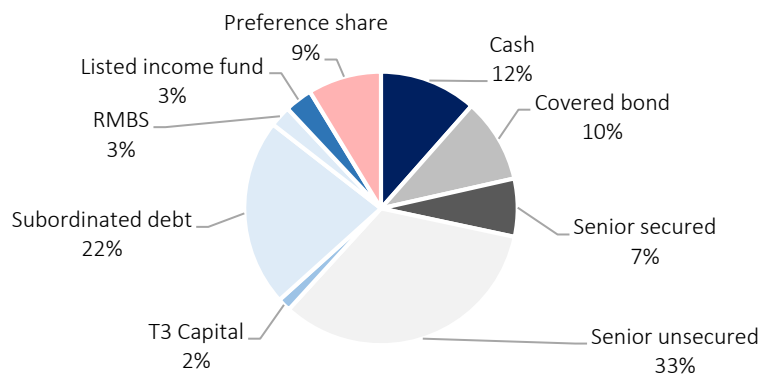
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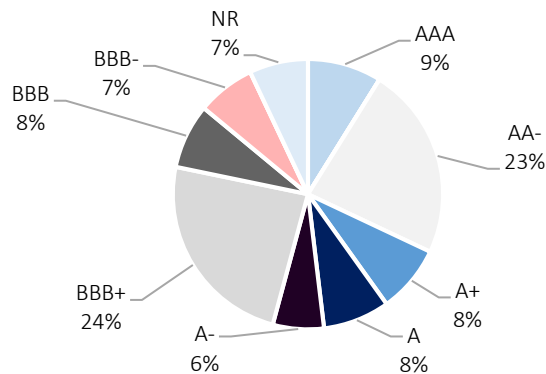
Spectrum Strategic Income Fund - Fixed / Floating



Spectrum Strategic Income Fund - Legal structure breakdown



Spectrum Strategic Income Fund - Credit rating breakdown*

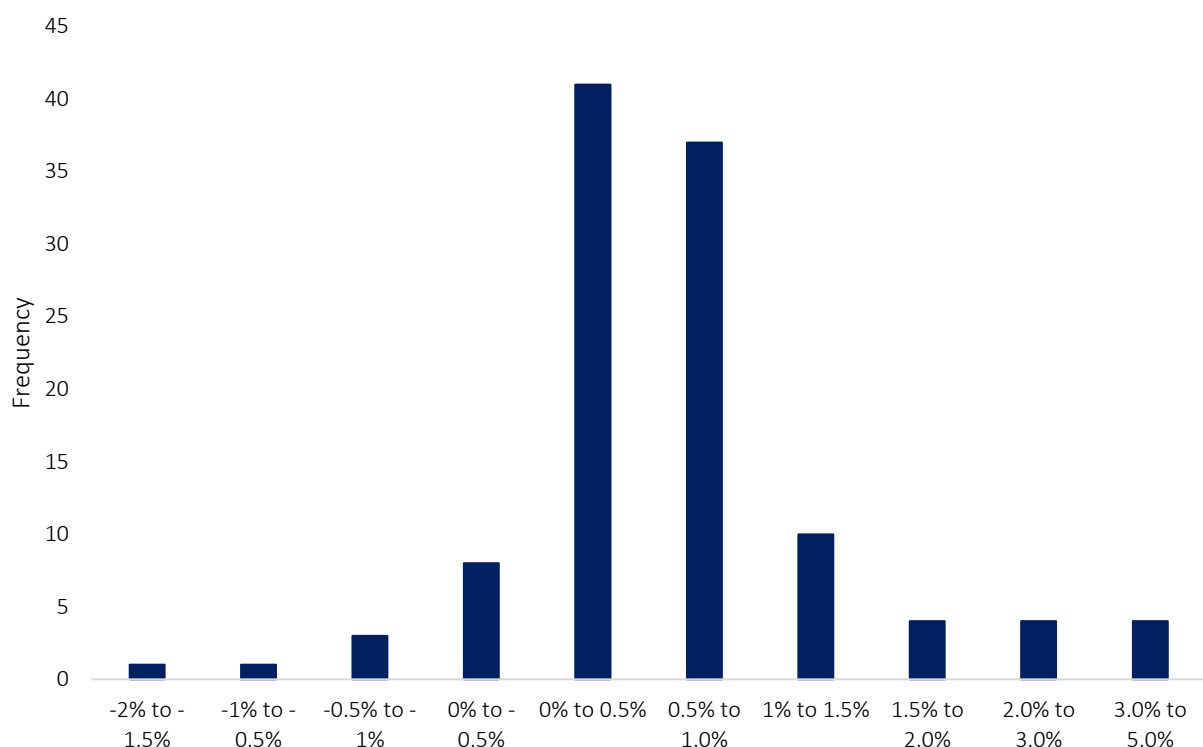


*Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 31st of October 2018, 93% of the portfolio has an official credit rating 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 Fund - 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*	59%
Correlation to Bloomberg Composite Index*	-15%
Tracking error to Bloomberg FRN Index*	3.1%
Proportion of positive Fund returns %	89%
Proportion of negative Fund returns %	11%
Number of consecutive positive returns	35 months
Largest drawdown %	-1.6%
Time to recovery from largest drawdown	2 Months
Average drawdown %	-0.2%

Source: Spectrum

*Since inception – 31/5/2009

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Top ten holdings:

Top ten	Holding %
CASH	11.5%
NATIONAL AUSTRALIA BANK	5.4%
SUNCORP METWAY LTD	4.6%
TOYOTA FINANCE AUSTRALIA	4.6%
NETWORK FINANCE CO PTY	4.5%
AAI LTD	4.5%
MULTIPLEX SITES TRUST	3.3%
APN REGIONAL PROPERTY FUND	3.3%
SHINHAN BANK	3.1%
VERIZON COMMUNICATIONS	3.1%

Commentary:

The Fund has now generated 35 consecutive positive monthly returns.

Red October is how best to describe the month if you were an equity investor around the world. For fixed income globally trading over the month was range bound and data dependent. The issues that were affecting equity markets were somewhat removed from the bond markets generally. However, the negative correlation that often is sporadic exists between bonds and equities. Many of our preconceived relationships have started to go awry as central bank emergency policies are slowly being reversed.

For many in the markets there were few places to hide. Not only did equities retreat but so too bond prices at times. In the U.S. bond indices recorded the third steepest decline since 1970 (BoA), for declining equity prices bonds did not provide a sufficient flight to safety.

The decline in the bond indexes is partly due to increasing issuance of government bonds by central banks. As their weights have increased in the index, so too has duration. In a rising yield environment this will lead to falls in those bond indices.

Trump's tweeting account set the markets off on a merry chase. Earlier in the month trade barriers were an issue and so too the deluge of treasuries that were being issued as a necessity because of the ballooning budget. That all came to a sudden halt when Trump tweeted that a deal with China could be reached and a market massacre was averted.

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The looming U.S. budget deficit and a fear of inflation combined with data that is indicating the economy may have peaked are causing investors to rethink their investment strategies. Rates look set to rise in Europe and the U.S. and that probably means the U.S. curve steepens for the time being.

For Australia it was a different story. The Australia to U.S. 10-year spread is now a whopping 50 bp negative. Despite the Aussie Itraxx widening some 7bps credit spreads remained largely immune to the movement and that was possibly because issuance for the month of October was light. Only \$2.6bn in eight transactions was issued.

The Australian economy looks somewhat precarious. With housing undergoing a downturn, expected negative impacts from the drought, and a slowing global economy, the RBA has a tricky path to tread. Housing is unlikely to receive any short-term boost as banks are tightening their lending standards in response to criticisms emanating from the Royal Commission on Financial Services.

Interest rates are having been steady over the month as BBSW fell 3-5bps depending upon the maturity. CPI is still tracking about 1.9% for the year and employment conditions are steady however there was a large fall in the participation rate. That may have sent shudders through the RBA.

Australia's fortunes appear to be tied with Asia and China in particular. Currently our exports to China are at records however this could change if Global growth slows and the trade war between China and the U.S. intensify. The AUD characterizes this relationship and is being used as a proxy by some that wish to bet against the yuan. Those investors are selling Aussie if they believe the yuan is likely to weaken.

Geopolitical turmoil may not likely to ease any time soon and steadfastly remains as one of the key risks that the portfolio seeks to mitigate.



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