

The logo consists of two overlapping circles. The left circle is a vibrant rainbow gradient, transitioning from red at the top to purple at the bottom. The right circle is a solid dark blue. The text 'SPECTRUM' is written in white, uppercase, sans-serif font across the middle of the left circle.

SPECTRUM

ASSET MANAGEMENT

Fact Sheet

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March 2019

A large, stylized rainbow arc is positioned in the bottom right corner of the page. It follows the same color gradient as the logo's rainbow circle, from red at the top to purple at the bottom.





## Spectrum Strategic Income Fund – Fact Sheet – 31 March 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	\$73.3m

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
31/3/2019	\$1.0905	\$1.0889	\$1.0872

Performance as at 31/3/2019*	1 mth %	3 mths %	6 mths %	1 yr %	3 yr % p.a.	Inception % p.a.
Total Net Return <sup>2</sup>	0.74%	1.94%	2.34%	4.45%	4.74%	8.07%
Average RBA Cash Rate	0.13%	0.38%	0.75%	1.50%	1.53%	2.46%

\*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").

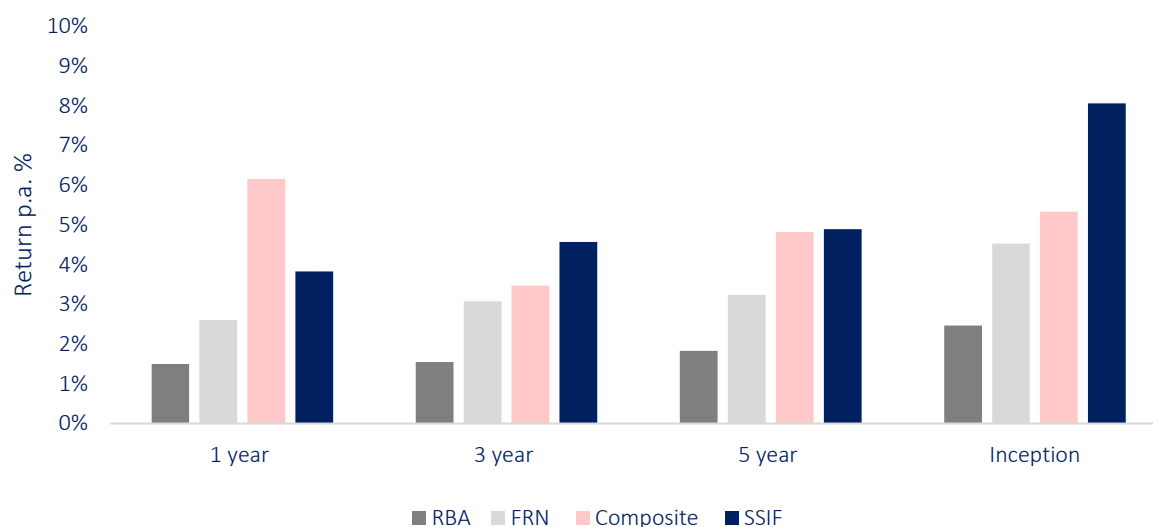
<sup>2</sup> Total Net Return is the Fund return after the deduction of ongoing fees and expenses assuming the reinvestment of all distributions.

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## Return comparisons



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

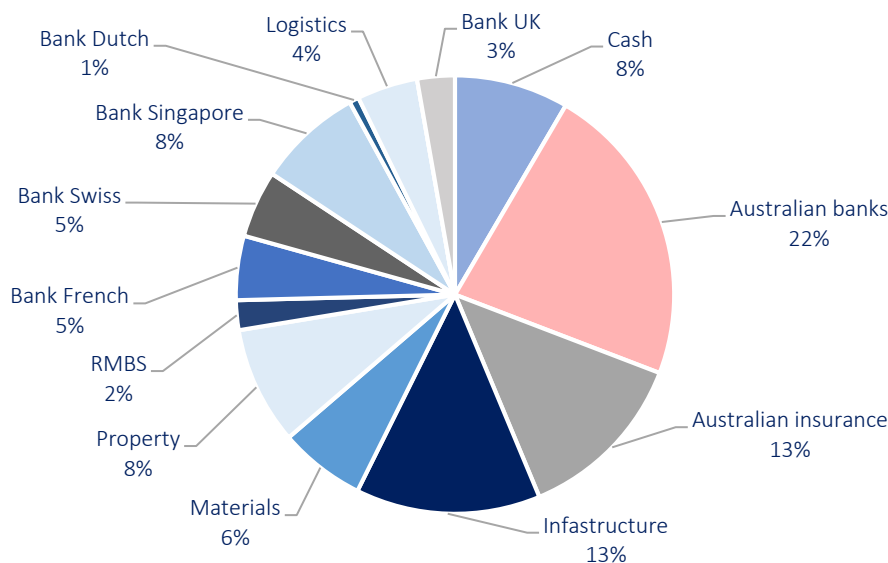
SSIF = Spectrum Strategic Income Fund

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

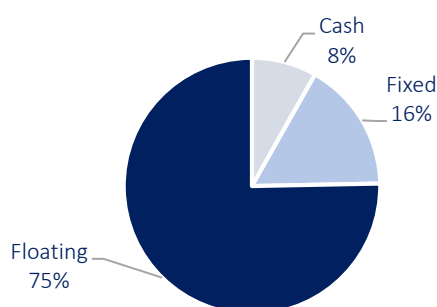


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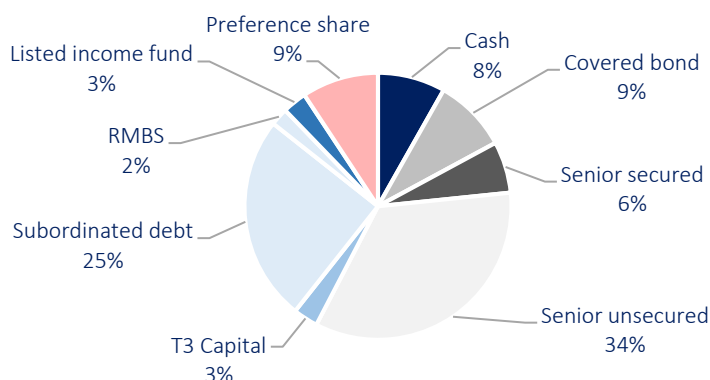
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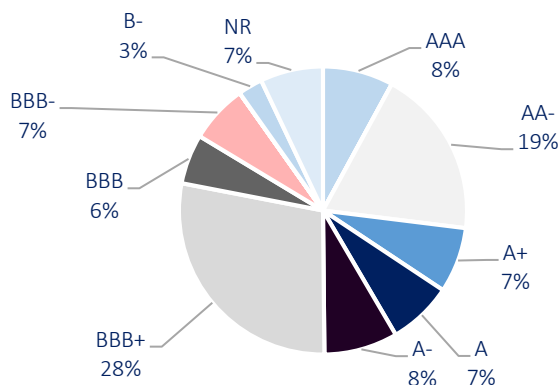
### Spectrum Strategic Income Fund - Fixed / Floating



### Spectrum Strategic Income Fund - Legal structure breakdown



### Spectrum Strategic Income Fund - Credit rating breakdown



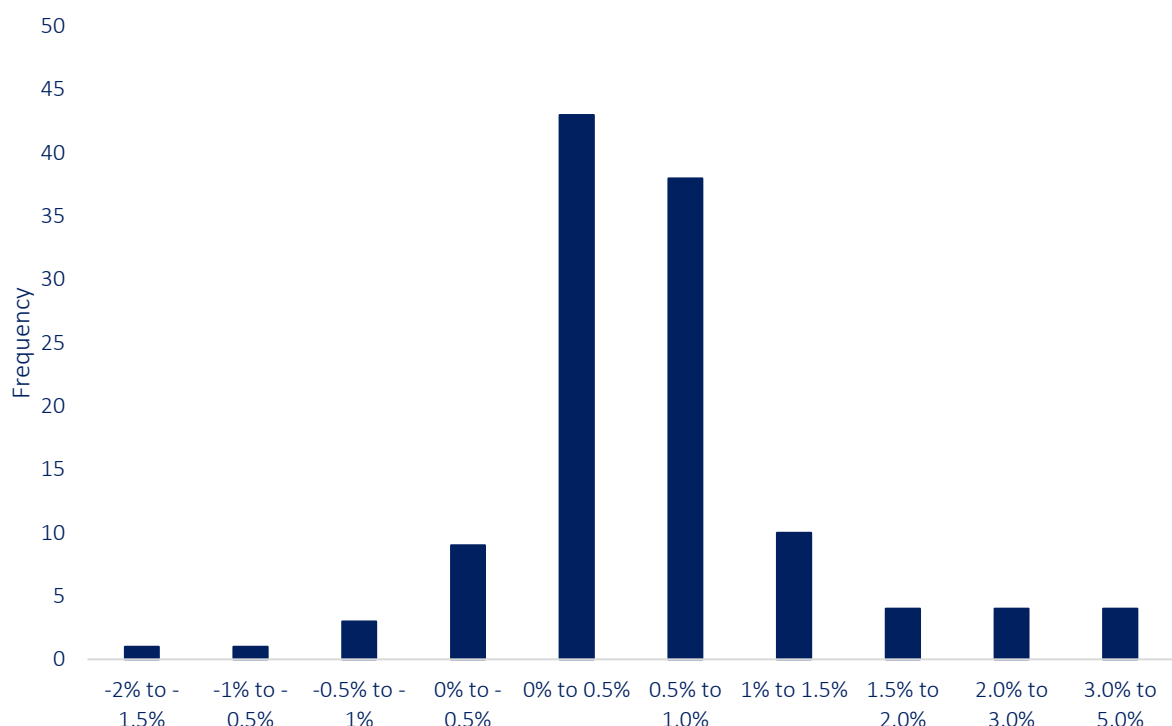
\*Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 31<sup>st</sup> of March 2019, 93% of the portfolio has an official credit 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	4 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	8.2%
National Australia Bank	5.9%
DBS Group Holdings	5.5%
AAI Limited	4.7%
Suncorp Metway Limited	4.1%
Toyota Finance Australia	4.1%
Network Finance	4.1%
UBS AG Australia	3.4%
Multiplex Sites Trust	3.4%
APN Regional Property Fund	2.9%

Source: Spectrum

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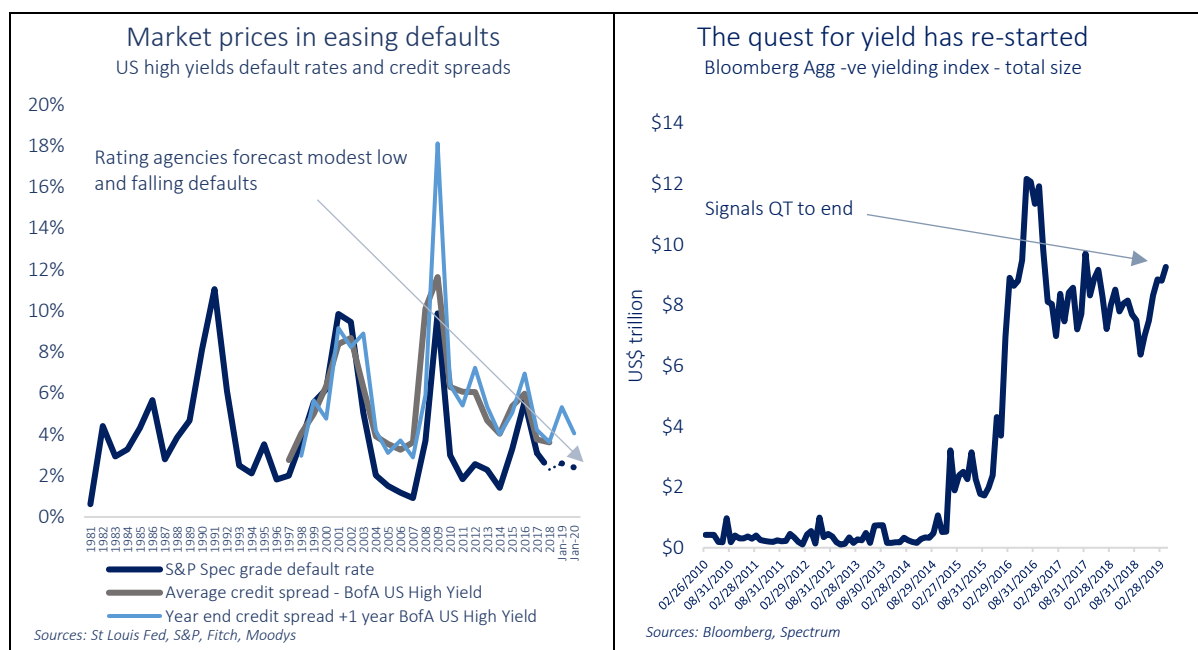
## Market commentary

Favourable conditions for both global and Australian dollar corporate bonds continued in March 2019. That said, the fund generated 74bps outperforming the Bloomberg floating rate note index by 34bps for the month. The outperformance was largely due to price gains in a small number of securities.

	1 Month	3 Month	6 Month	1 Year
SSIF	0.7%	1.9%	2.3%	4.6%
FRN	0.4%	1.1%	1.6%	3.0%
Fixed	1.8%	3.4%	5.7%	7.2%
RBA cash rate	0.1%	0.4%	0.8%	1.5%

Expectations of sustained or even looser monetary policy around the globe persist. Negative yield bonds now stand at around \$US10tn 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 actual and expected corporate default rates, supports the further lowering of credit spreads internationally and locally.



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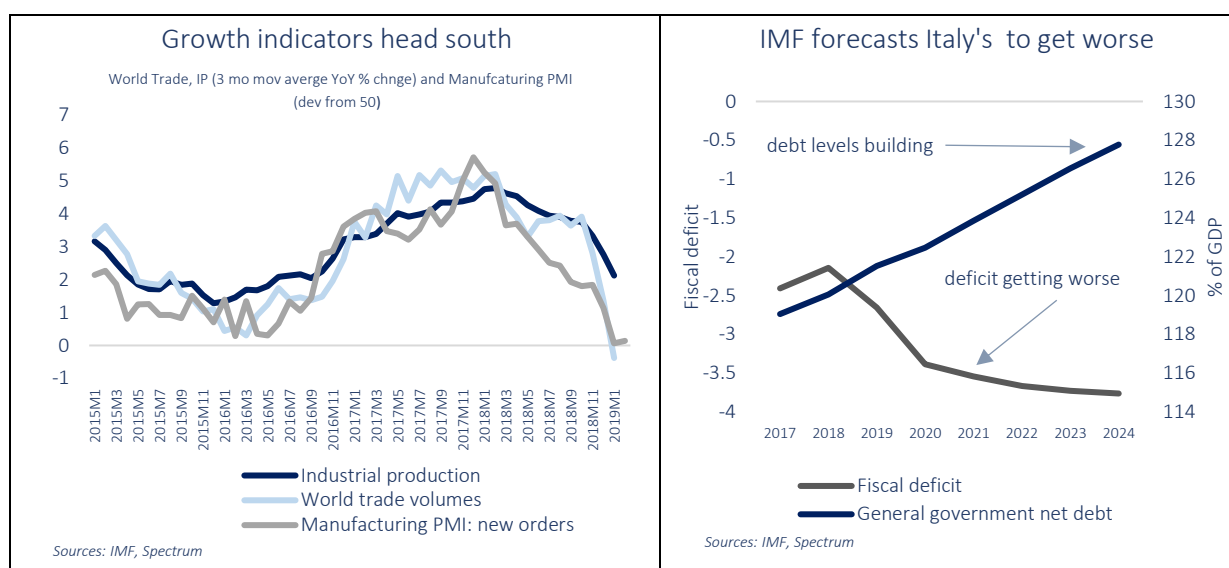


Funds that invest heavily in fixed rate bonds tended to perform well over the month - again. Government bond yields fell (and bond prices rose) in many countries including Australia. The 10-year Australian government bond at the end of the month was 1.8% - a near century low yield.

While technical factors for corporate bonds remain positive, economic fundamentals are less encouraging.

International economic growth expectations continue to be wound back. The IMF once again cut its global growth expectations in April.

In particular Europe's economic and political malaise stymies its growth prospects. Italy continues to slip on planned fiscal reform. The country's government indebtedness has now passed the worrying 120% of GDP level and looks set to climb for foreseeable future. This makes Italy and Europe increasingly vulnerable to financial shocks.



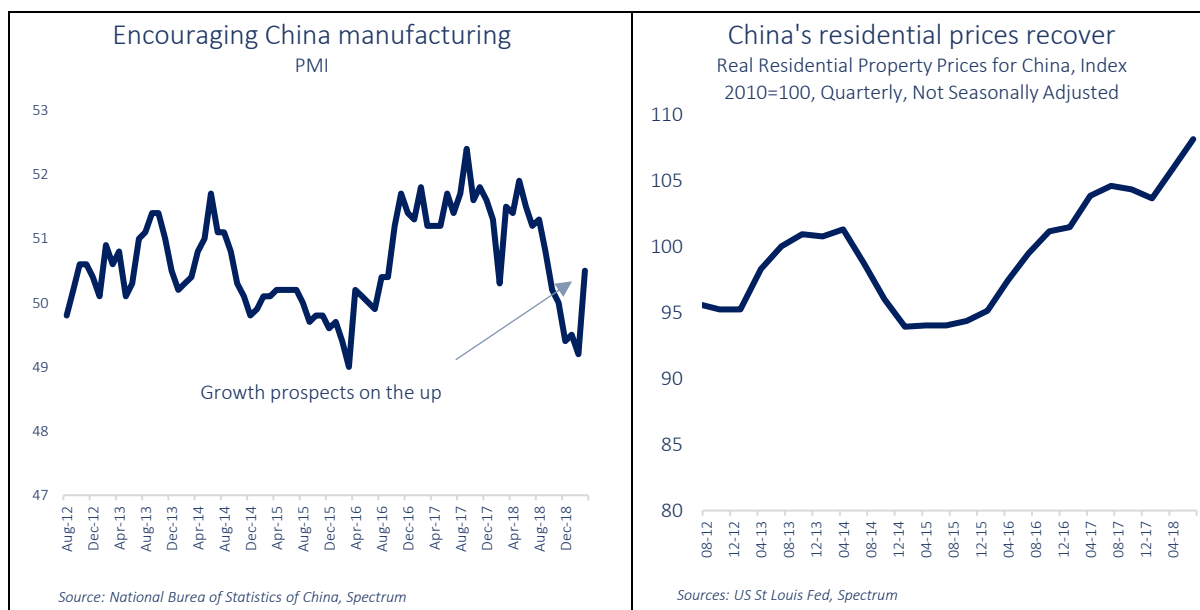
Investors' hopes for better global growth expectations appear to be largely linked to the U.S.A and China coming to a workable trade deal. That may or may not come.

Unlike much of the rest of the world, Australia's key export destination – China – has some encouraging growth trend indicators. As seen below, the Purchasers Manager Index has recently risen above the 50 level – suggesting an expanding manufacturing sector. Local residential property prices are also increasing. This often foreshadows rising construction activity.

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China's improving economic health is helping Australia's healthy external sector. Iron ore and coal export revenues continue to be elevated.

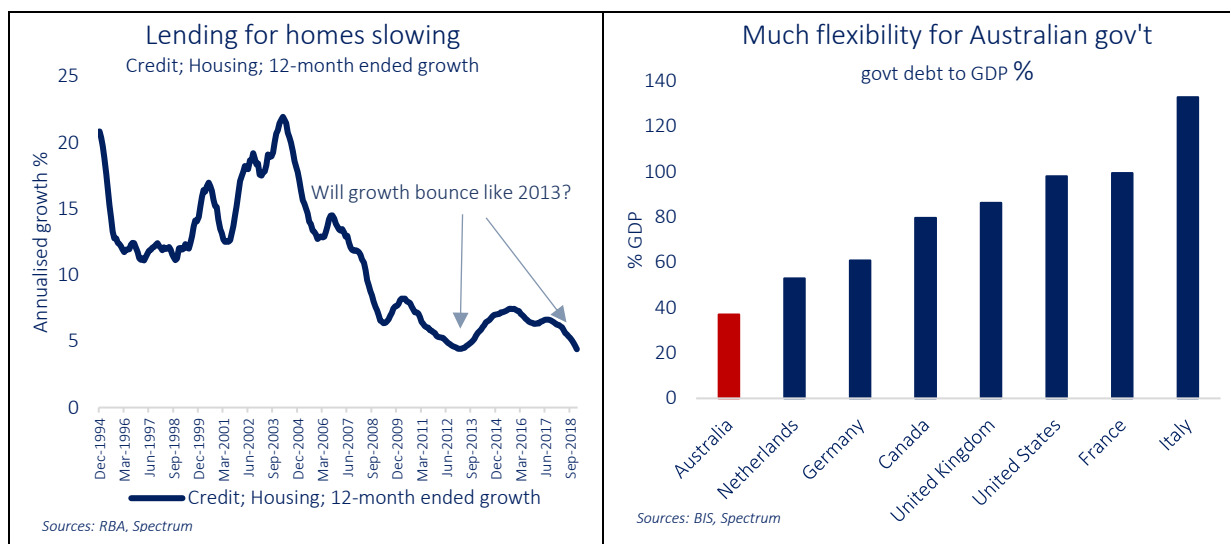
Likewise, whatever party is running the Federal Government post the May election, it has much fiscal flexibility to stimulate economic growth and perhaps help sustain the current infrastructure boom. Despite this, Australia's economy faces the headwinds from a continued soft property market. To us the pace of home loan growth will be a key determinant on how this sector plays out over the coming quarters. Should it keep decelerating the risks rise that house declines will have a material negative impact on both the financial sector and the overall economy.

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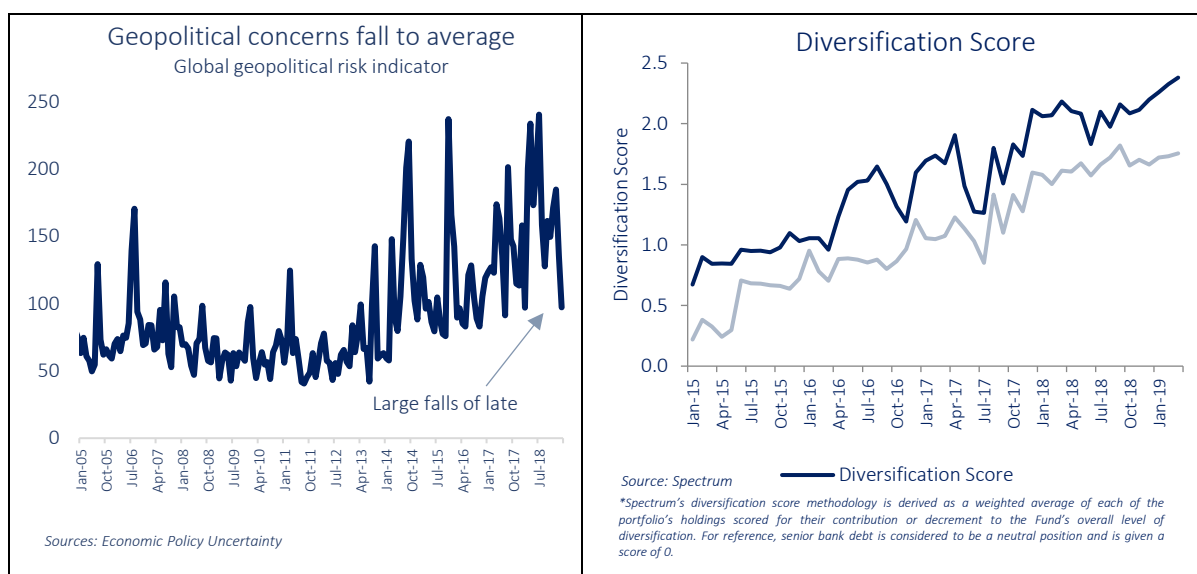
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We continue to tweak the portfolio to take advantage of expected falling of A\$ credit spreads in the coming months while maintaining an average credit rating of 'A-<sup>3</sup>'. We see a key risk is a jump in perceived global geopolitical risk. At present, we believe the market remains complacent in this matter. We also continue to shelter the portfolio from the potential fall-out from further declines in the local residential property market. We do this by diversifying away from direct and indirect exposure to that sector.



<sup>3</sup> \*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, Spectrum assigns an internal credit rating. As at the 31st of March 2019, 93% of the portfolio has an official credit rating from one (or both) of these agencies.

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

- BWP Management – 7 Year Senior unsecured Fixed - \$450m @Swaps+150bps
- Incite Pivot – 7 Year Senior unsecured Fixed - \$450m @Swaps+240bps
- Connect-East – 7 Year Senior unsecured Fixed - \$250m @Swaps+150bps.
- PEET Limited – 5 Year Senior unsecured Fixed - \$75m @Swaps+575bps.
- ICBC – 3 Year Senior unsecured FRN - \$500m @BBSW+100bps.

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PDS

ONLINE APPLICATION

APPLICATION FORM

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As at 31/3/2019 <sup>TM</sup>

SQM Rating



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