



Fact Sheet

November 2018



Spectrum Strategic Income Fund – Fact Sheet – 30 November 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	\$67.0m

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
30/11/2018	\$1.0790	\$1.0774	\$1.0757

Performance as at 30/11/2018*	1 mth %	3 Mths %	6 Mths %	1 Yr %	3 Yr % p.a.	Inception % p.a.
Total Net Return ²	-0.07%	0.38%	1.79%	3.32%	4.74%	8.11%
Average RBA Cash Rate	0.125%	0.38%	0.75%	1.50%	1.59%	2.51%

*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

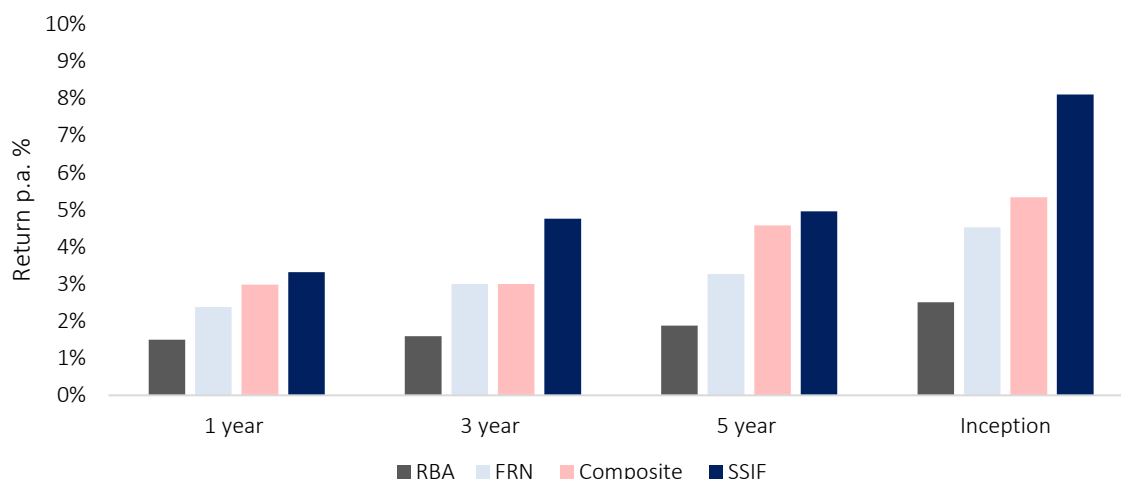
¹ Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

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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Return Comparisons



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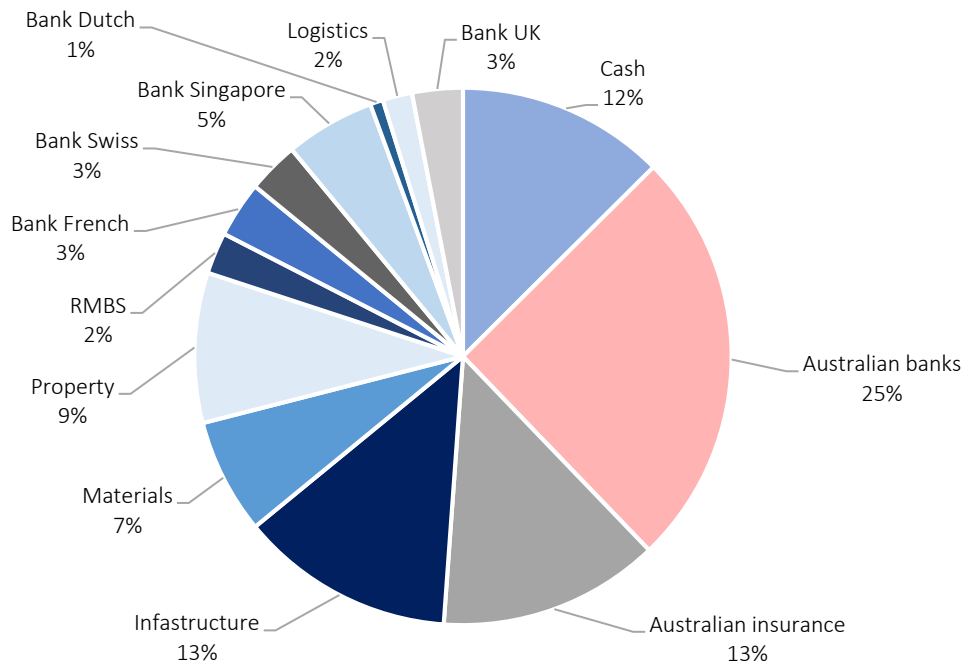
SSIF = Spectrum Strategic Income Fund

Composite = Bloomberg AusBond Composite 0+ Yr Index

FRN = Bloomberg AusBond Credit FRN 0+ Yr Index

RBA = RBA Cash Rate

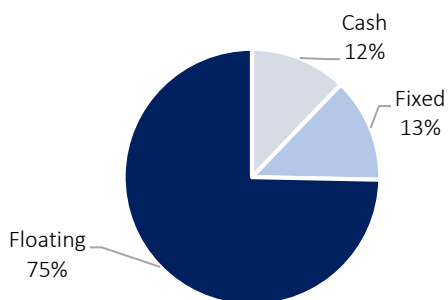
Spectrum Strategic Income Fund - Sector allocation



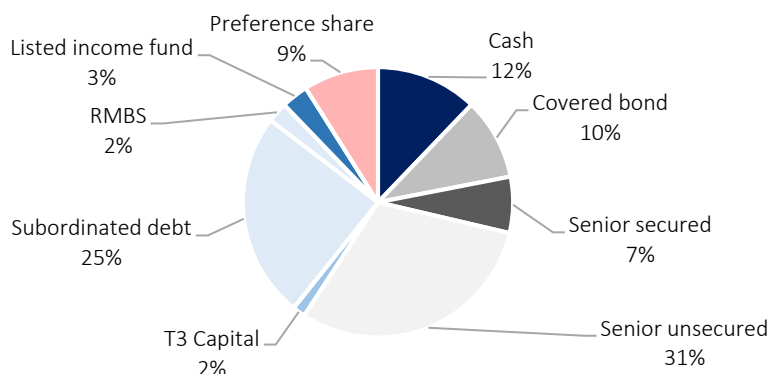
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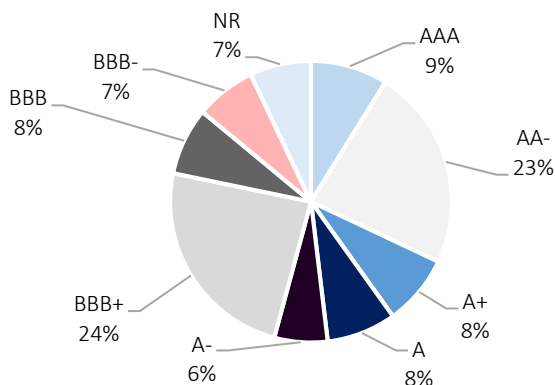
Spectrum Strategic Income Fund - Fixed / Floating



Spectrum Strategic Income Fund - Legal structure breakdown



Spectrum Strategic Income Fund - Credit rating breakdown*

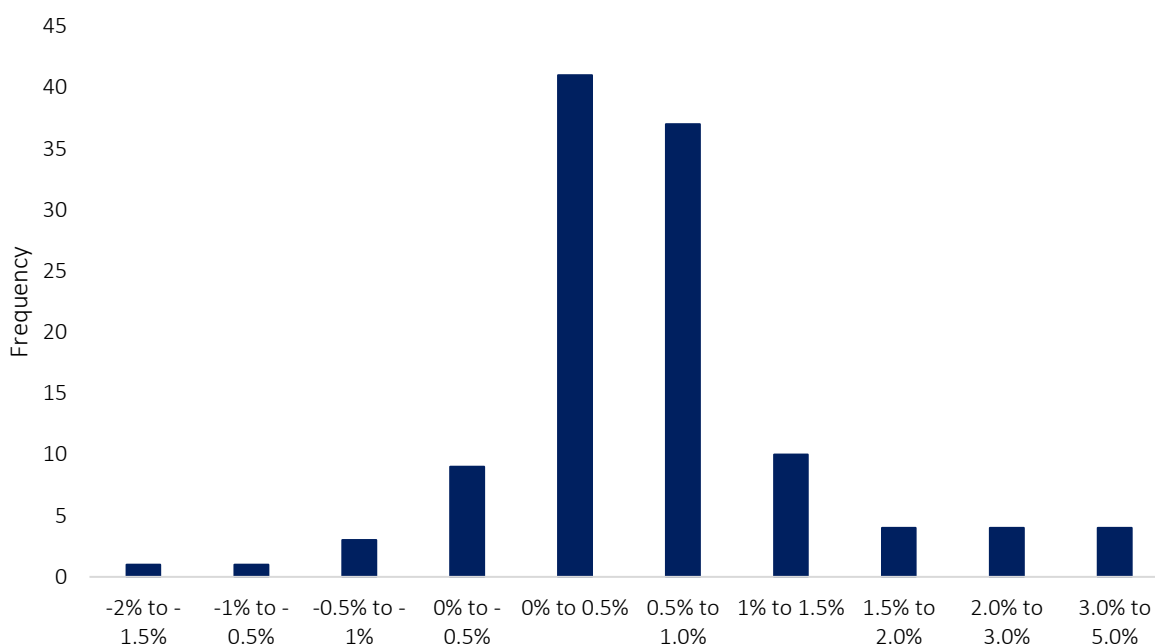


*Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 30th of November 2018, 93% of the portfolio has an official credit rating 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*	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	0 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	12.6%
NATIONAL AUSTRALIA BANK	5.7%
SUNCORP METWAY LTD	4.5%
TOYOTA FINANCE AUSTRALIA	4.5%
NETWORK FINANCE CO PTY	4.4%
AAI LTD	4.4%
MULTIPLEX SITES TRUST	3.3%
APN REGIONAL PROPERTY FUND	3.2%
SHINHAN BANK	3.0%
VERIZON COMMUNICATIONS	3.0%

Source: Spectrum

Commentary:

November was a month beset with collapsing equity prices, falling oil prices, widening credit spreads, slowing global growth and falling government bond yields. In our view this weakening is outpacing the deterioration in fundamentals. Value is beginning to emerge.

The Bloomberg Australian FRN³ index generated only 9bps for the month despite credit spread widening dragging returns down by around 20bps.

A theme that is growing in importance is the realisation that accommodative monetary policy has or is about to reverse. For many companies that gorged on cheap debt the party could be coming to an abrupt halt.

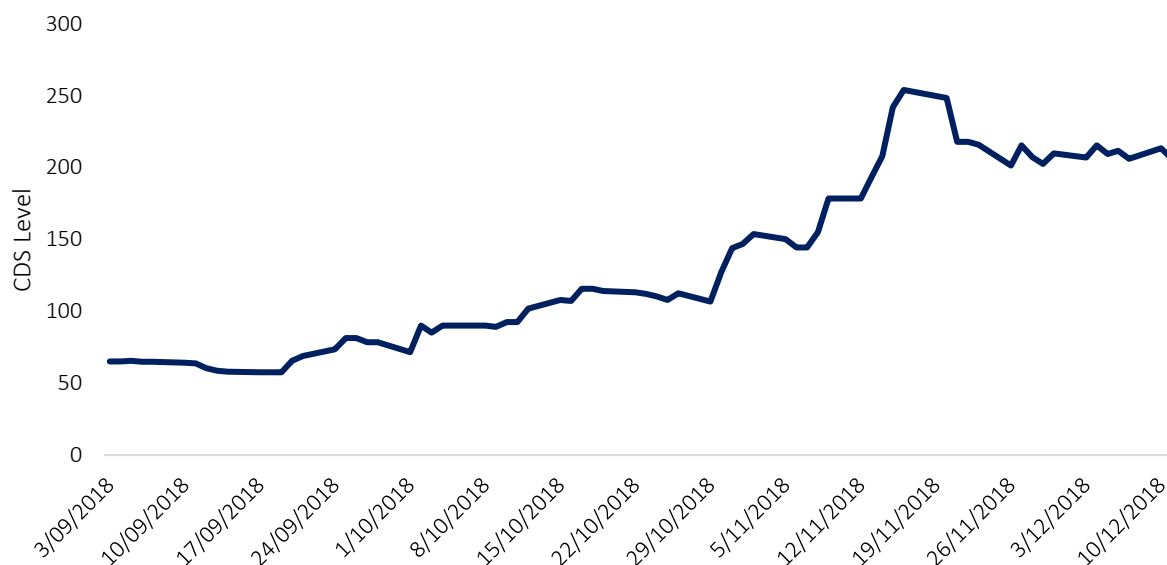
The sub theme to this is lower rated investment grade bonds run significant repricing risk should they slide into non-investment grade status. Of note the credit market is signalling the former corporate titan, GE, is a candidate for junk status.

³ Bloomberg AusBond Credit FRN 0+Yr Index

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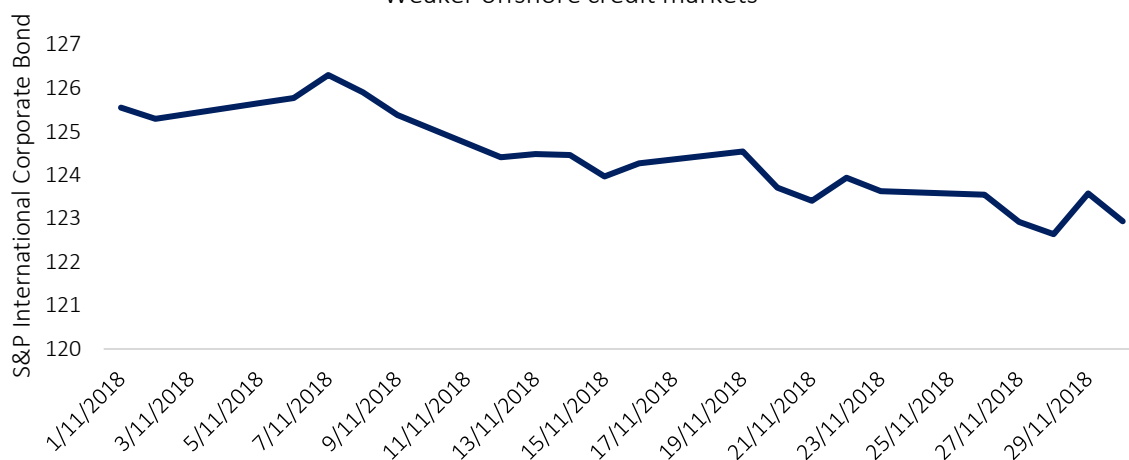
General Electric - 5 year USD CDS



Source: Spectrum, Reuters

Offshore credit markets were weak again in November, with the S&P international corporate bond index down -1.3% for the month.

Weaker offshore credit markets



Source: Spectrum, Reuters — S&P International Corporate Bond Index

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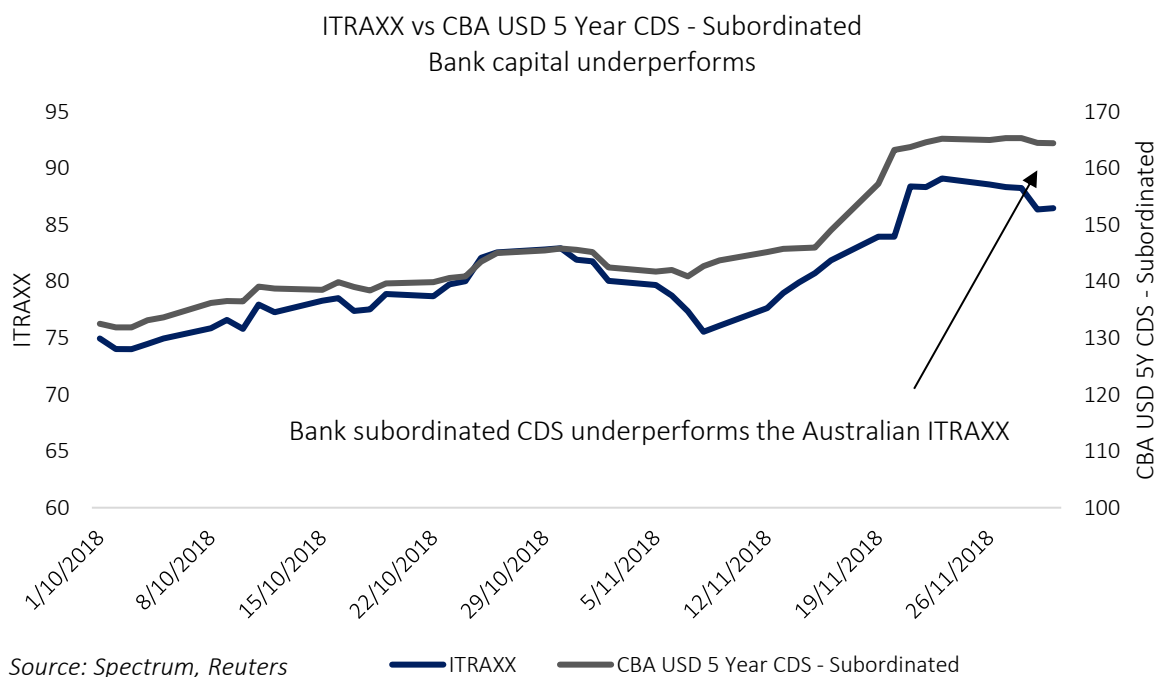
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On top of this Australia has some credit issues that are compounding the impact of the weakness from global credit markets.

Domestic economic growth is being tested by the drought, weak commodity prices and a deteriorating residential property market.

As a result, the RBA appears to be changing its stance on monetary policy and there is now a chance of a cut in official interest rates in the coming year.

Given local and international market conditions, November proved to be a difficult month for A\$ credit. This was made worse by news of a sharp increase in capital requirements for our major banks. While it makes the banks senior debt, safer, the subordinated debt sector could triple in size in the next few years, thus swamping demand at current spreads.



That said, in general, the widening of credit spreads and repricing of risks is creating more attractive investment opportunities. The fund maintains Australian bank exposures well underweight the FRN index and modest exposures to the local property market. The domestic residential property market remains vulnerable to further deterioration in our view. Hence a cautious portfolio construction in this heightened uncertain environment.

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November was a month of solid issuance with \$A transactions amounting to \$12.6bn across 22 deals and the second largest month of issuance. Year to date issuance is \$74.9bn.

Some of the more notable November issues are below: -

- Members Equity Bank Capital Notes
- Pepper RMBS
- ANZ 5-year and 3-year MTN
- Bendigo and Adelaide Bank Limited \$A 10-year non-call 5year
- University of Sydney 25-year MTN
- Westpac Capital Notes
- Toyota Finance 3 year and 5-year MTN
- JP Morgan A\$ 6NC5 & 10.5NC9.5
- Westpac 3 year and 5-year MTN
- AMP Limited \$A 10YNC5 subordinated

PDS

ONLINE APPLICATION

APPLICATION FORM



SQM Rating



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