

SPECTRUM

ASSET MANAGEMENT

Fact Sheet

January 2019



Spectrum Strategic Income Fund – Fact Sheet – 31 January 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	\$68.8m

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
31/1/2019	\$1.0800	\$1.0784	\$1.0767

Performance as at 31/1/2019*	1 mth %	3 mths %	6 mths %	1 yr %	3 yr % p.a.	Inception % p.a.
Total Net Return ²	0.27%	0.48%	1.66%	3.35%	4.63%	8.03%
Average RBA Cash Rate	0.13%	0.38%	0.75%	1.50%	1.56%	2.48%

*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

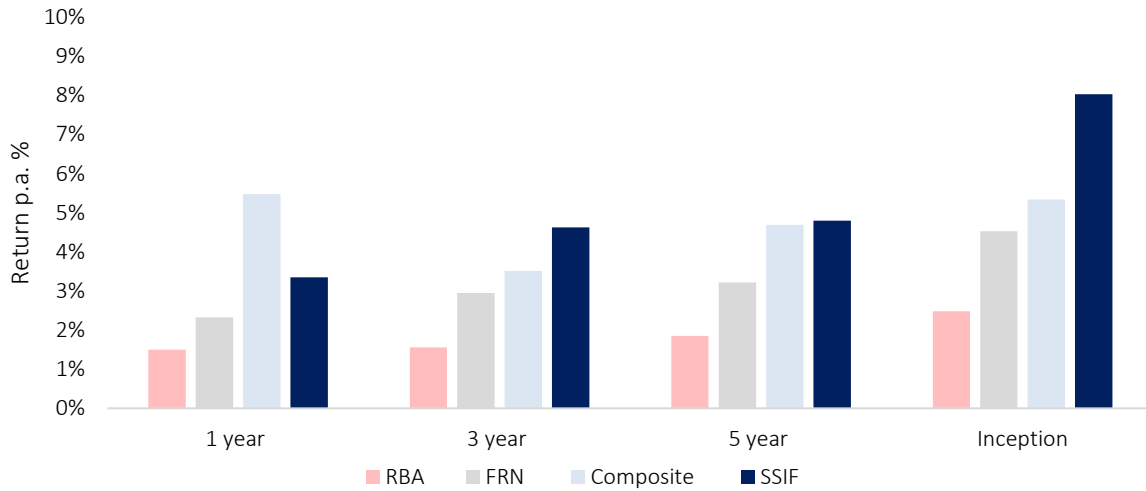
¹ Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

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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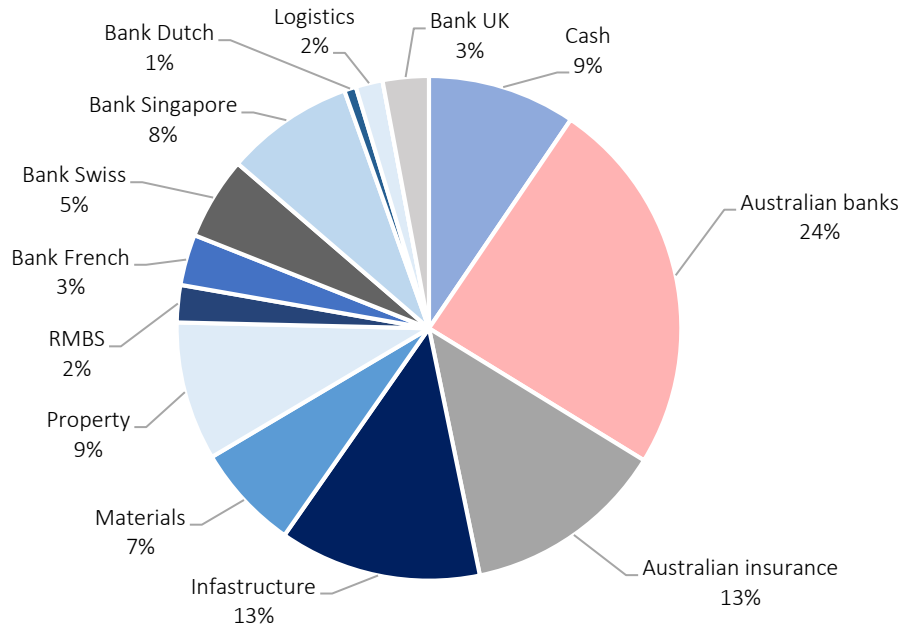
SSIF = Spectrum Strategic Income Fund

Composite = Bloomberg AusBond Composite 0+ Yr Index

FRN = Bloomberg AusBond Credit FRN 0+ Yr Index

RBA = RBA Cash Rate

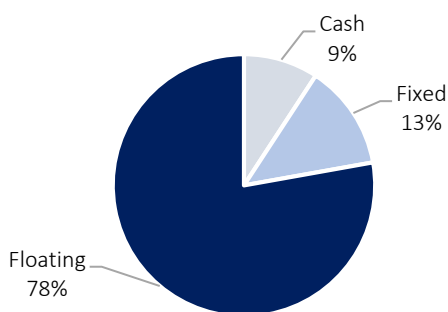
Spectrum Strategic Income Fund - Sector allocation



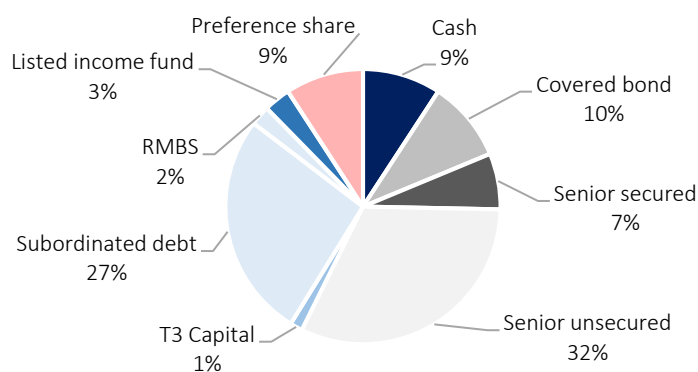
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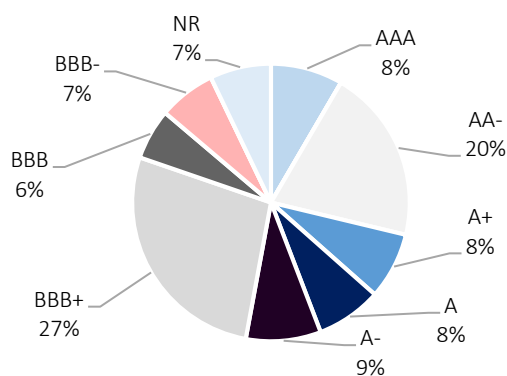
Spectrum Strategic Income Fund - Fixed / Floating



Spectrum Strategic Income Fund - Legal structure breakdown



Spectrum Strategic Income Fund - Credit rating breakdown*

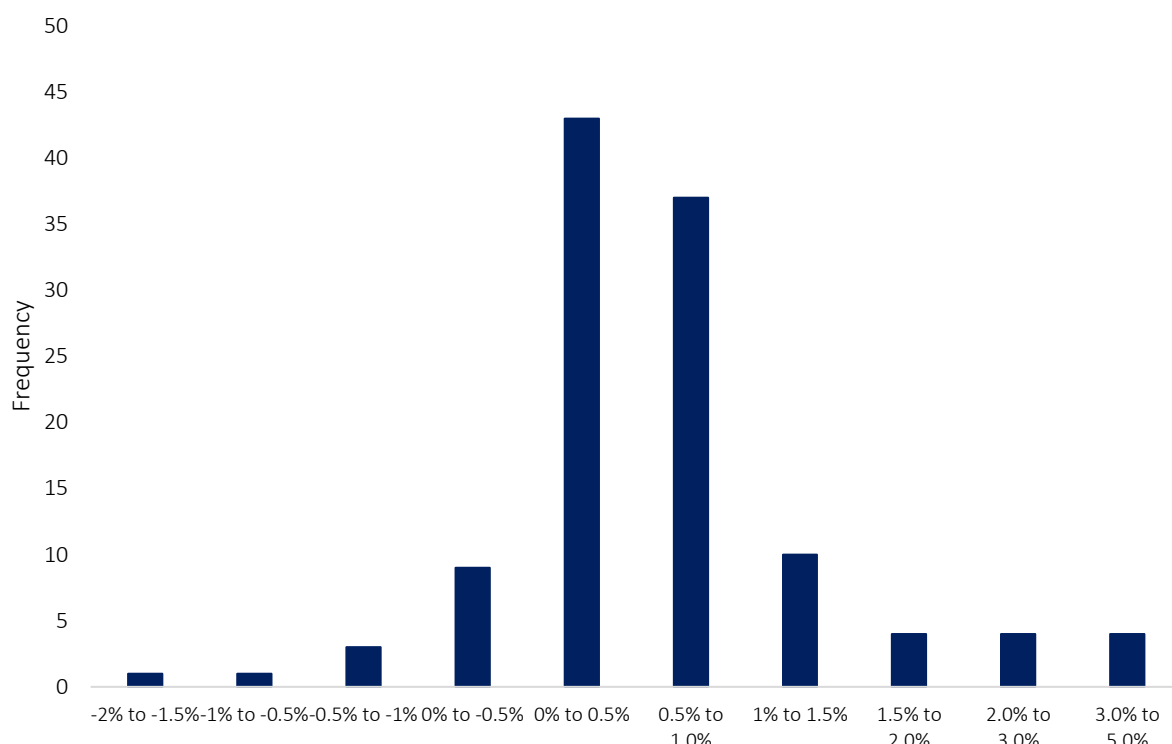


*Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 31st of January 2019, 93% of the portfolio has an official credit rating 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	2 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	9.2%
National Australia Bank	5.9%
DBS Group Holdings	5.8%
Suncorp Metway	4.4%
Toyota Finance Australia	4.4%
Network Finance	4.3%
AAI Limited	4.3%
UBS AG Australia	3.7%
Multiplex Sites Trust	3.3%
APN Regional Property Fund	3.1%

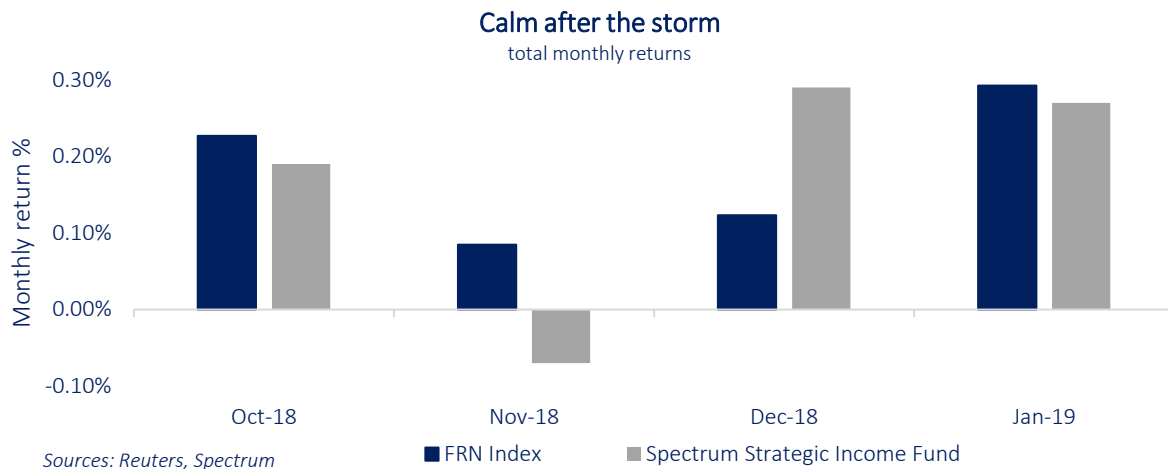
Source: Spectrum

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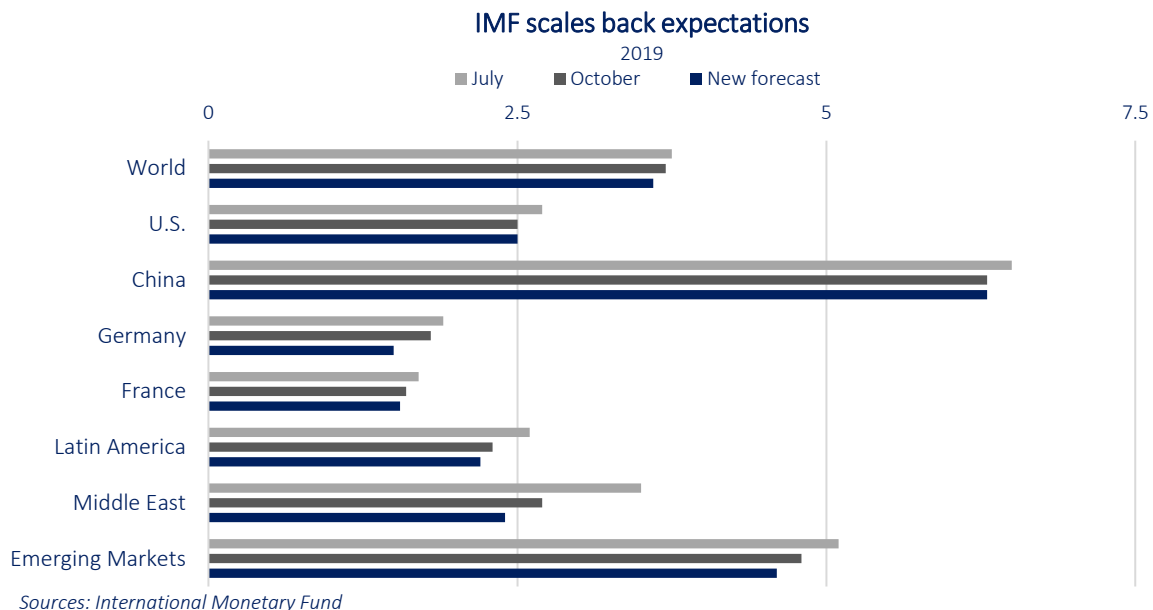
Commentary - Calm after the storm

The fund generated another steady return in January 2019. Total returns after fees were 0.27% and 3.4% for the last 12 months. The local credit market stabilised after a challenging end to 2018 – the worst calendar year for the FRN index since 2008.



So bad its good?

Globally, many asset classes performed well in the first month of the year. This is despite global economic indicators suggesting weaker growth on the horizon – see IMF growth expectations below. Perhaps it was because of the flow of news was so bad that markets rebounded. This is the strange reality of a financial world distorted by quantitative easing!



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In late January, U.S Federal Reserve Chair Powell relaxed his previous hawkish stance. He suggested future Fed hikes were going to be more data dependent. Perhaps even more surprising was that the “auto pilot” plan of unwinding quantitative easing perhaps should be more flexible.

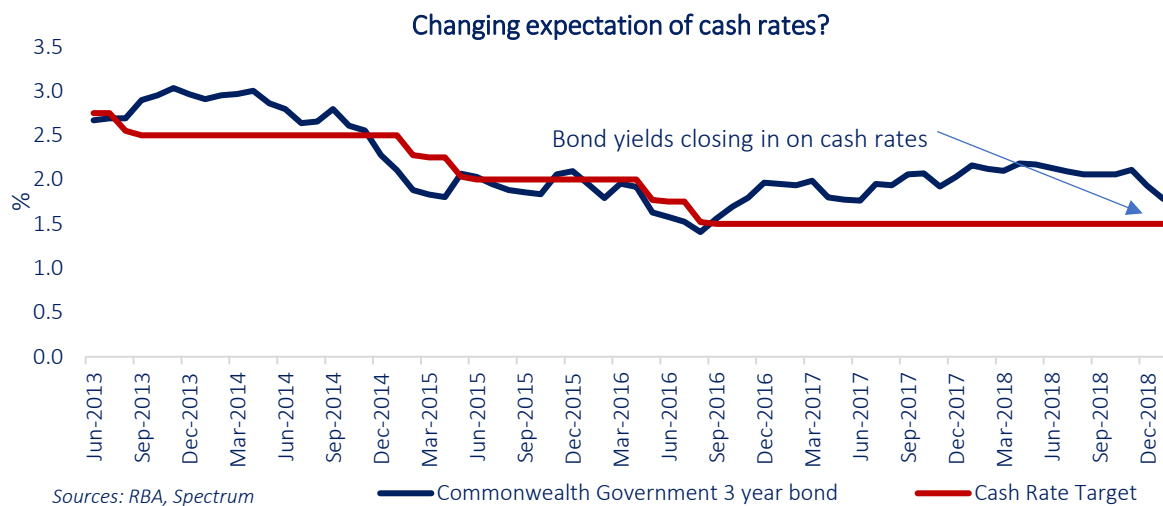
Elsewhere China’s economic growth is also slowing. The authorities continue to enact stimulus policies, but the benefits have yet to emerge. On top of this, if the Trump’s tariffs are implemented from March 1, it could inflict damage not only on both countries’ economies and but also global trade.

Concerns over weak economic growth in Europe linger. The possibility of a “hard” Brexit threatens a sharp economic contraction for the U.K. Italy has just gone into recession. And France faces continued civil unrest. Eurozone growth was at just 0.2% for the last half of 2018.

In recent months, as economic indicators weakened, investors began to anticipate global monetary policy would not only stop tightening, but perhaps even loosen again – and hence support asset prices!

Local challenges

Domestically, the falling property market and its impact on the broader economy is dominating our local macro view. The RBA has gone from expecting rate hikes, to neutral and we believe is set to go dovish.

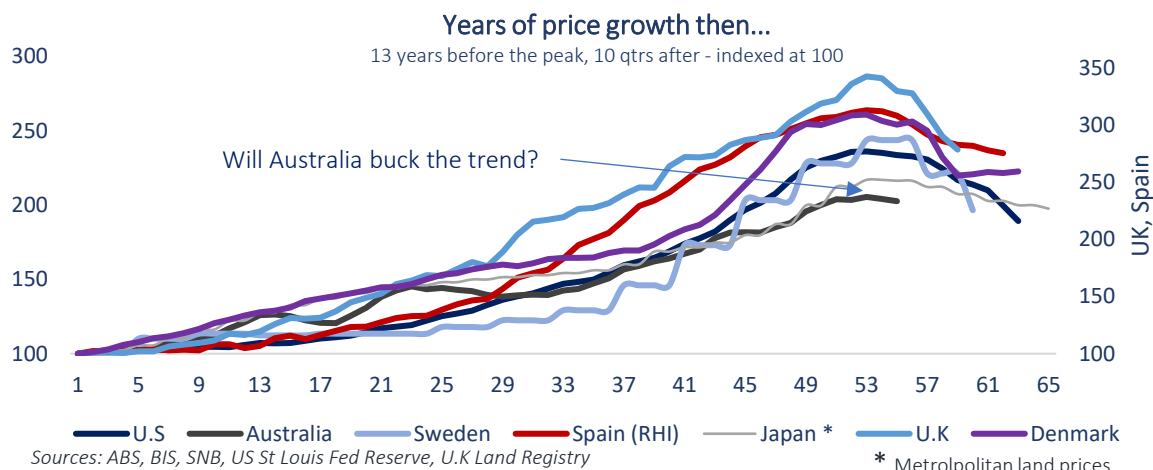


We fear that unless home loan growth re-accelerates, that prices will fall far more than the 6% nationally experienced since late 2017.

The parallels with other property corrections driven by slowing credit growth are a concern.

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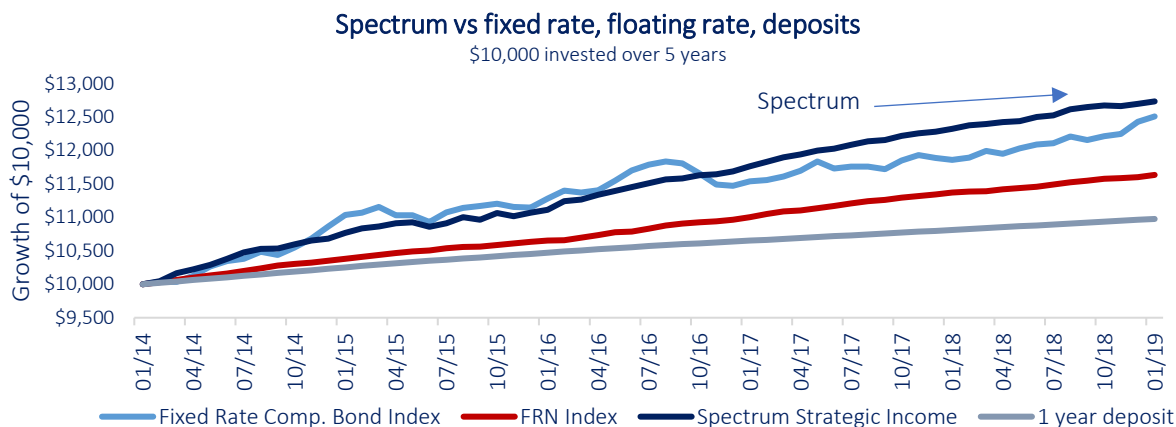
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Residential property prices may stabilise, or the resulting fall out may be minimal. But as credit investors our approach is to prepare for the plausible worst. We maintain minimal direct exposure to domestic residential property and maintain an underweight position in the lenders to the sector.

The quest for yield remains

On a more positive note falling local government bond yields and low corporate default rates could spur a chase for returns. This may remain supportive of lower credit spreads (capital gains) as Japan experienced when government bond yields collapsed. 2019 looks set to be an interesting year for A\$ corporate bond investors.



Over the month the following entities issued into the market;

- ANZ Senior unsecured – 3/5 year – \$4.6bn
- WBC Senior unsecured – 5.25 year - \$2.2bn
- Columbus Triton RMBS – Series 1 2019
- CBA Senior unsecured – 5 year – \$2.2bn

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PDS

ONLINE APPLICATION

APPLICATION FORM



SQM Rating 

As at 31/1/2019 TM



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