SPECTRUM ASSET MANAGEMENT

Fact Sheet

June 2019

Spectrum Strategic Income Fund – Fact Sheet – 30 June 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	$68.27

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
30/6/2019	$1.8057	$1.8012	$1.7967

Performance as at 30/6/2019*	1 mth %	3 mths %	6 mths %	1 yr %	3 yr % p.a.	Inception % p.a.
Total Net Return[2]	0.45%	1.45%	3.42%	5.07%	4.66%	8.02%
Average RBA Cash Rate	0.10%	0.35%	0.73%	1.48%	1.50%	2.43%

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

Income distributions	30/09/2018	31/12/2018	31/03/2019	30/06/2019
Distribution rate (cents per unit)	0.4500	0.4975	0.7400	2.5016

[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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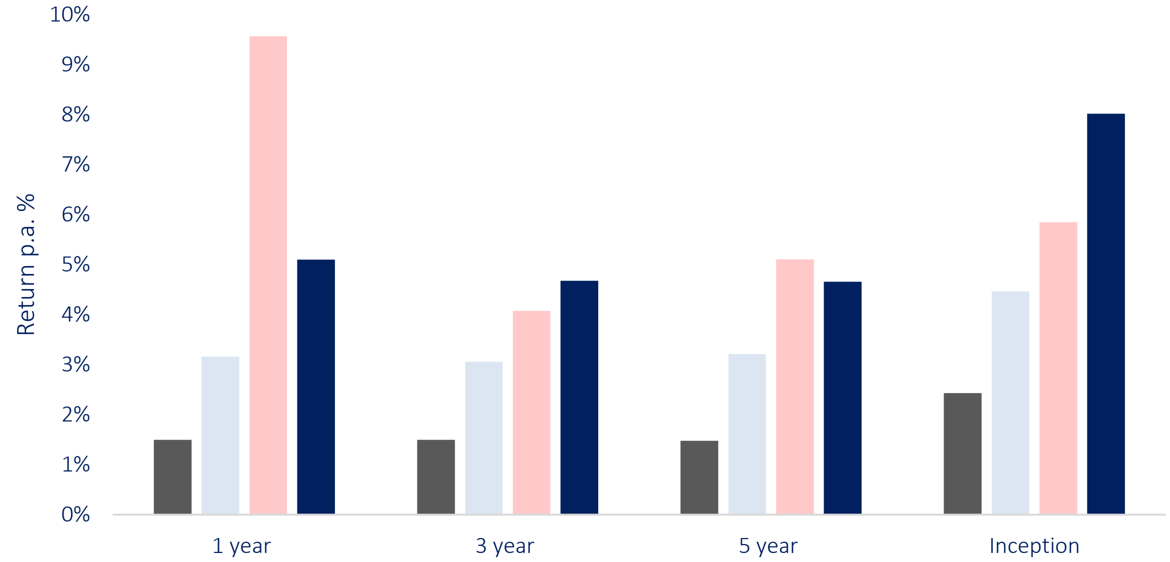
Return comparisons



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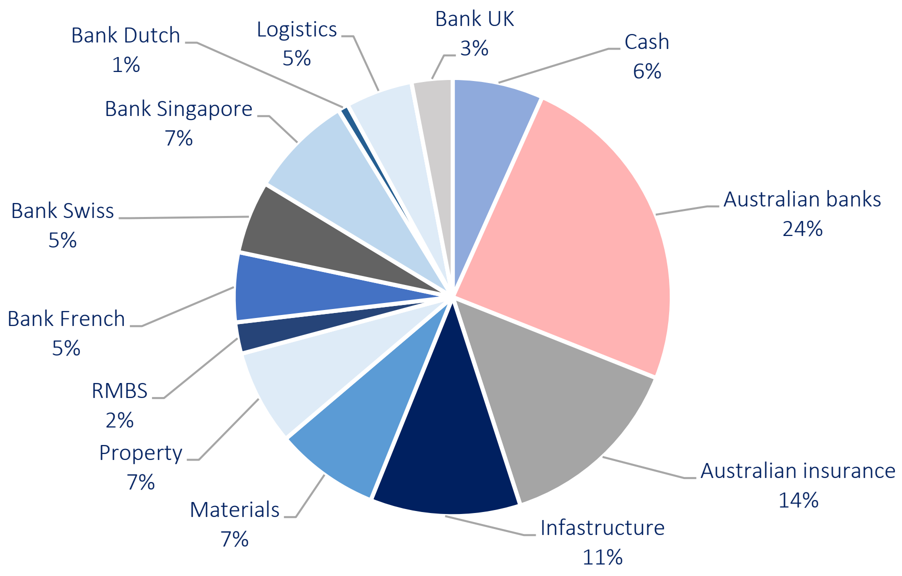
SSIF = Spectrum Strategic Income Fund
Composite = Bloomberg AusBond Composite 0+ Yr Index
FRN = Bloomberg AusBond Credit FRN 0+ Yr Index
RBA = RBA Cash Rate

Spectrum Strategic Income Fund - Sector allocation



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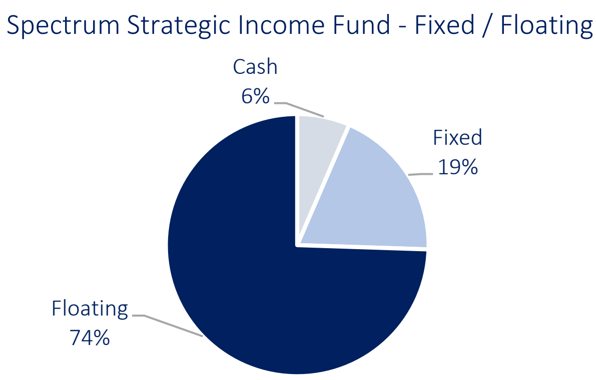

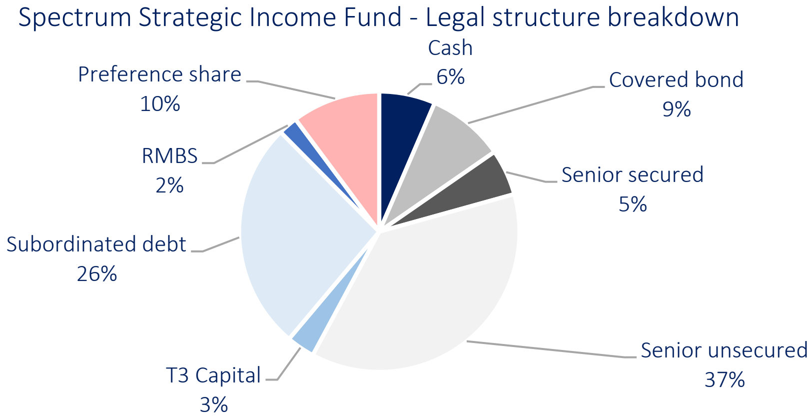

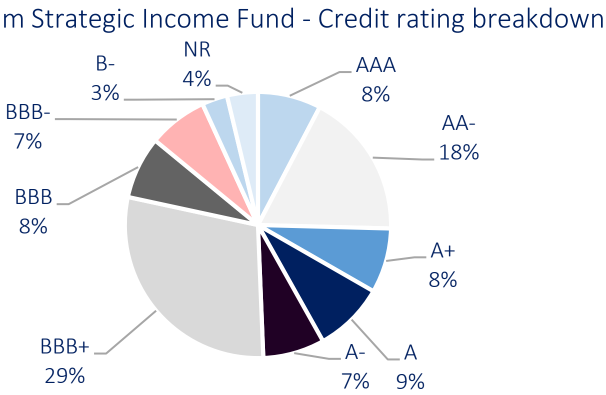

**Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 30th of June 2019, 96% of the portfolio has an official credit rating 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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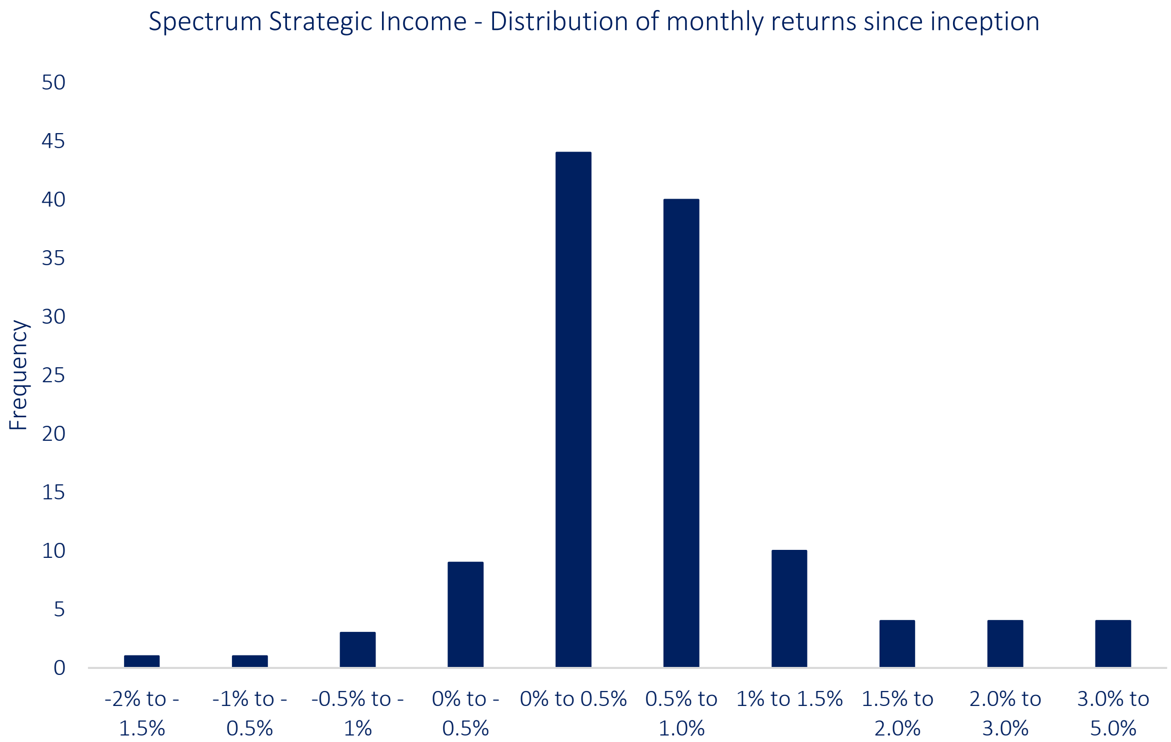
This report was prepared by Spectrum Asset Management Limited (Spectrum) (ABN 31 096 442 198, AFSL 225069) as investment manager for the Spectrum Strategic Income Fund (Fund). Equity Trustees Limited (ABN 46 004 031 298, AFSL 240975), a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT), is the Responsible Entity of the Fund. This document has been prepared for the purpose of providing general information only, and not taken into account the investment objectives, financial situation and particular needs of any particular person. Before making an investment decision an investor needs to consider, with or without the assistance of an advisor, whether the advice is appropriate in the light of particular investment needs, objectives and financial circumstances of the investor. Past performance is not a reliable indicator of future performance. Investment returns cannot be guaranteed. In deciding whether to acquire, or to continue to hold, units in the Fund please read the current Product Disclosure Statement (PDS) available from Spectrum of Equity Trustees. The information contained in this report has been obtained from sources believed to be reliable. Neither Spectrum, Equity Trustees Ltd, nor any of its related parties, its directors or employees, provide warranty of accuracy or reliability in relation to information on this publication or accepts liability to any person who relies on it. This Fact Sheet reflects the information available as at the date this Fact Sheet and is subject to change without notice to the recipient.



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	6 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	6.5%
National Australia Bank	6.4%
DBS Group Holdings	5.9%
AAI Limited	5.1%
Suncorp Metway Limited	4.5%
Toyota Finance Australia	4.4%
Multiplex Sites Trust	3.7%
UBS AG Australia	3.7%
Shinhan Bank	3.3%
Virgin Australia	3.1%

Source: Spectrum

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Where to now?

Over June markets recoiled from the prospect of increasing trade tensions. As the global economy slowed, Central Banks have reacted to weaker growth and increasing tensions by either cutting interest rates, as in the case of the RBA, or, in the case of the European Central Bank & Fed, looking at ways to ease rates.

Equity markets and bond markets alike have reacted by rallying. Major bond markets such as the U.S. treasury market and German bunds rallied significantly. Australian bonds rallied over the month with the 10-year bonds rallying about 14 basis points, and the 90-day bank bills rallied 22 basis points. The RBA cut rates to 1.25% from 1.50%. The composite index returned 1.07% for the month, due to the rally in bonds and credit spreads (Itraxx Australia) tightened some 14 basis points during the month.

Following the G20 meeting, a paradox has arisen. Investors (certainly in the U.S) are expecting a rate cut because economic growth has slowed as a result of the trade war initiated by the U.S. A truce in the trade war could mean a pick-up in world growth and make a rate cut unnecessary. However, if the Fed does not cut, markets must decide if this is a sell signal. Only time will tell. The initial reaction from the bond market is a wait and see attitude and that explains why bonds are trading in a tight range both domestically and internationally. And whilst discussing trade, Chinese imports from the U.S. have not caused any issues within the U.S. economy bar the recent sanctioning of Huawei. China however is vital to the global trading system and any issues within the Chinese economy is a problem globally. It is interesting to note that Chinese tourism in the U.S. has fallen since Trump initiated his trade war with China and the fall in Chinese tourism has hurt U.S. luxury retailers.

For the moment however, markets are in a conundrum. A victory of sorts for the U.S. would mean few rate cuts and a stronger dollar. This result is the same as the problems caused by trade barriers. An unsuccessful conclusion means that markets are nervous and easily roiled. For both bonds and equities, the path is not an easy one to follow.

However, markets are reacting to dovish central banks, persistently low inflation, negative interest rates in Europe and the legacy of QE. In this environment anything that provides a yield looks attractive and it's these factors that are driving both equity and bond market rallies.

The outlook and demand for credit remains resilient and especially so if equity markets continue to rally., its hard to say what could change this view, but a geopolitical event such as a conflict between the U.S. and Iran could lead to a surge of bond buying. Strong growth would unhinge interest rates at current levels. Are these events likely? Probably not. Meanwhile the Australian expansion is now in its 335th month, the UK has expanded for the past 204 months, and the U.S. has expanded for 212 months. Our Goldilocks economic expansion remains intact.

For the Australian bond market, a number of a number of milestones were broken in the month of June. The bond curve out to five years is below 1% and the 30-year bond is now sub 2%. The main driver for the composite index has been the rally in the governments, whereas credit has lagged.

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

- Bank of Montreal – 5 Year A$ Senior unsecured FRN - $300m @ BBSW+100bps.
- BNP Paribas – 5.25 Year A$ Perpetual FXD - $300m @ BBSW+450bps.
- Macquarie Bank – 3 Year A$ Senior unsecured FXD - $350m @ Swaps+75bps.
- NAB – 5 Year A$ Senior unsecured FXD - $250m @ Swaps+92bps.

PDS | ONLINE APPLICATION | APPLICATION FORM

As at 30/6/2019

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