

SPECTRUM

ASSET MANAGEMENT

Fact Sheet

July 2019



Spectrum Strategic Income Fund – Fact Sheet – 31 July 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
APR	ETL0072AU
Commencement	31 May 2009
Fund Size	\$70.8m

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
31/7/2019	\$1.0889	\$1.0873	\$1.0856

Performance as at 31/7/2019*	1 mth %	3 mths %	6 mths %	1 yr %	3 yr % p.a.	Inception % p.a.
Total Net Return ²	0.71%	1.85%	3.86%	5.59%	4.73%	8.02%
Average RBA Cash Rate	0.08%	0.31%	0.69%	1.44%	1.48%	2.41%

*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

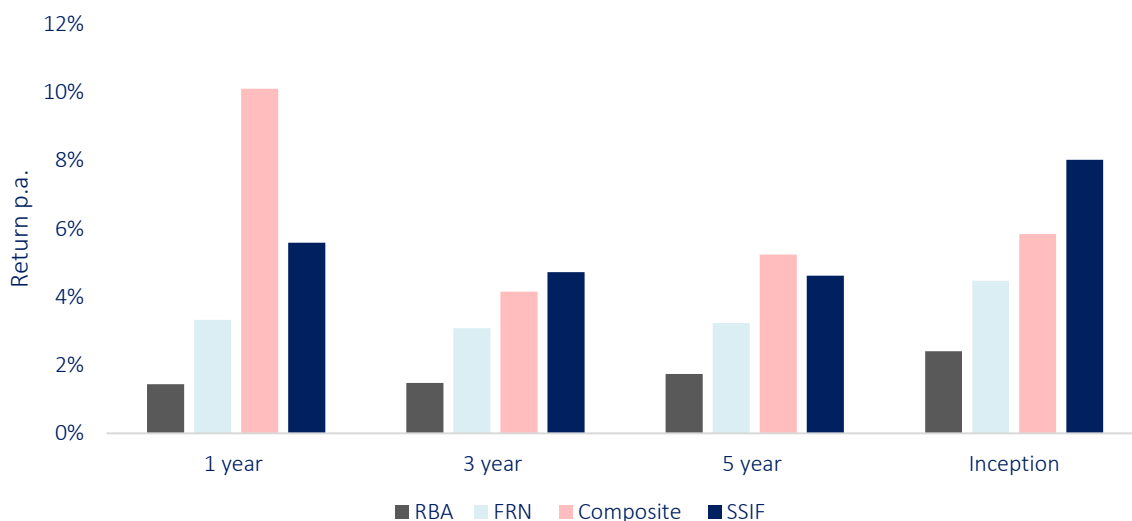
¹ Includes estimated GST payable, after taking into account Reduced Input Tax Credits (“RITC”).

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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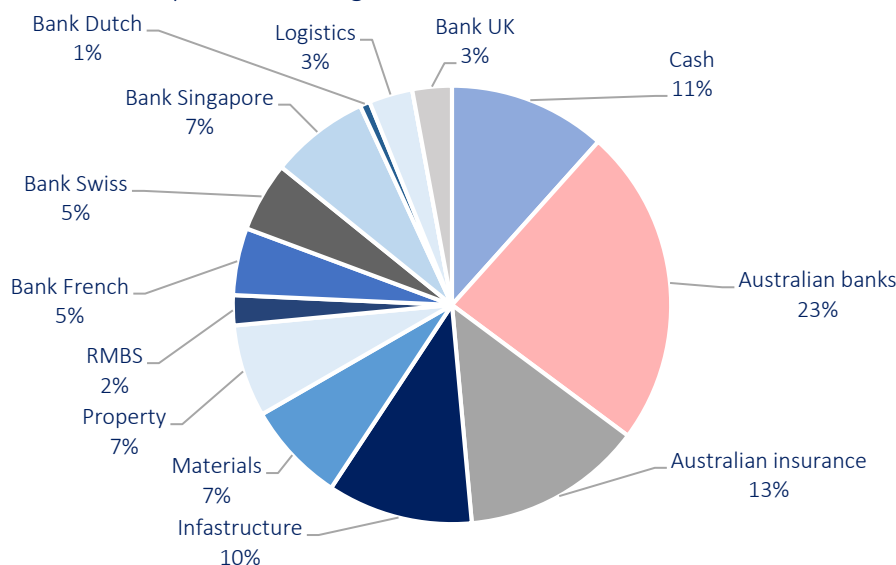
SSIF = Spectrum Strategic Income Fund

Composite = Bloomberg AusBond Composite 0+ Yr Index

FRN = Bloomberg AusBond Credit FRN 0+ Yr Index

RBA = RBA Cash Rate

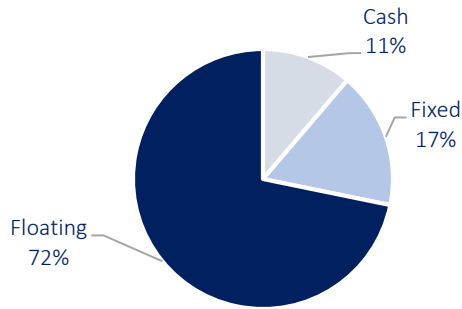
Spectrum Strategic Income Fund - Sector allocation



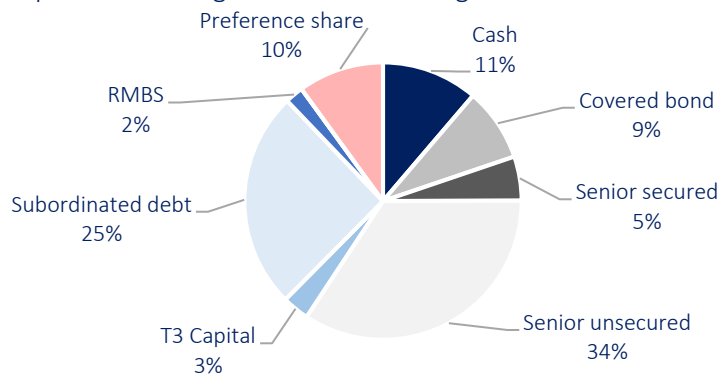
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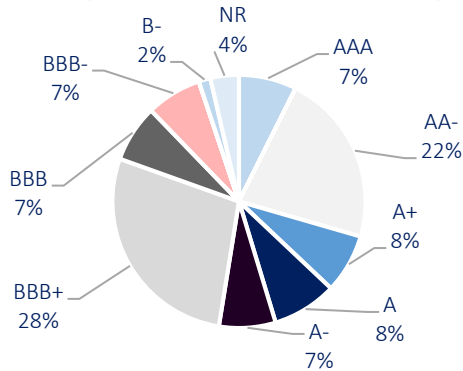
Spectrum Strategic Income Fund - Fixed / Floating



Spectrum Strategic Income Fund - Legal structure breakdown



Spectrum Strategic Income Fund - Credit rating breakdown

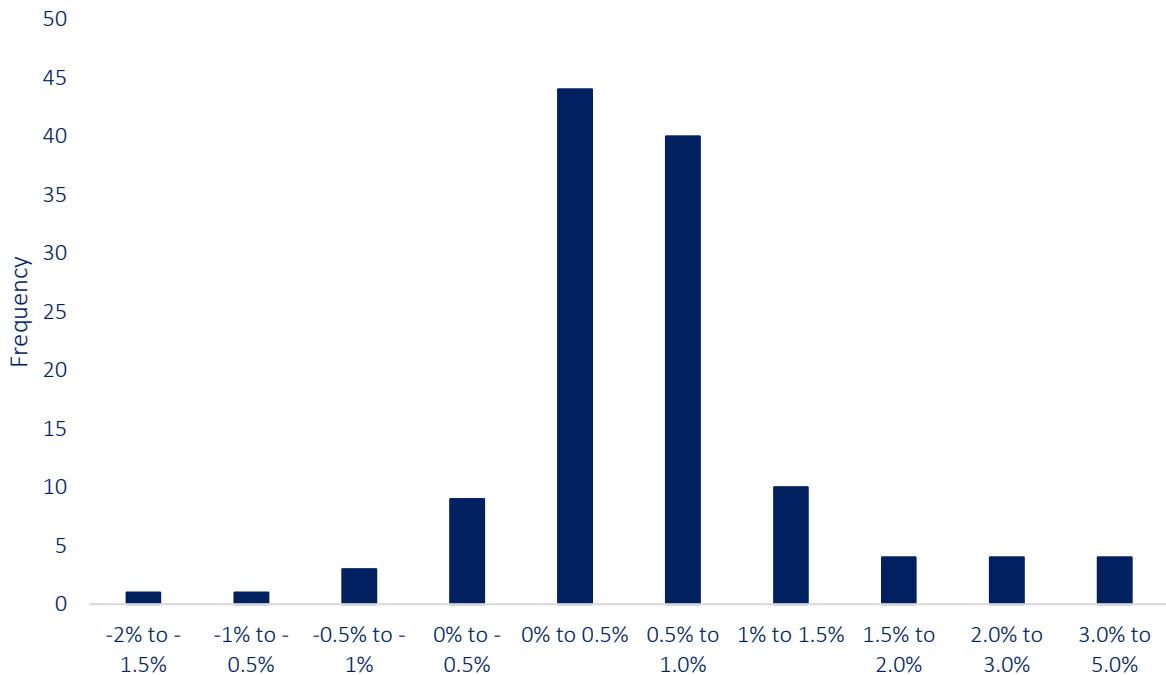


*Spectrum utilises a linear credit rating methodology which incorporates the lower of the two credit ratings from S&P and Moodys. For investments which do not carry a credit rating, the investment is deemed as not rated. As at the 31st of July 2019, 96% of the portfolio has an official credit rating 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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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*	-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	7 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	11.2%
National Australia Bank	6.4%
DBS Group Holdings	5.7%
AAI Limited	4.9%
Suncorp Metway	4.3%
Toyota Finance Australia	4.2%
Multiplex Sites Trust	3.6%
UBS AG Australia	3.6%
Shinhan Bank	3.2%
United Overseas Bank	2.8%

Source: Spectrum

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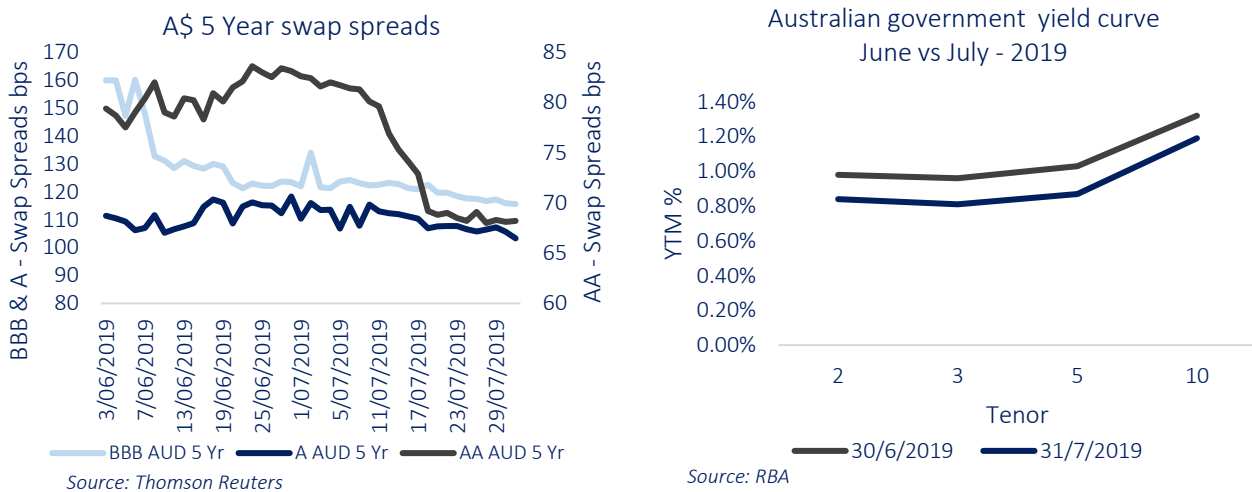
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Spectrum update: Spectrum has announced the appointment of Darren Raward as Head of Research and Portfolio Analysis. Darren brings over twenty-five years' experience covering research, portfolio and credit analysis in the Australian financial markets. Darren replaces Damien Wood who leaves Spectrum after 5 years in the role of Head of Research. Rick Steele has also stepped down as a Director, to focus on his other business interests.

Where to now?

What a month was July. Bonds consolidated earlier in the month before a significant rally later in the month. July saw the RBA ease and with the potential of at least one more easing in interest rates and bond yields continued to fall for the latter half of July.

July's rate cut by the RBA only seemed to spur the market on-towards believing that, yet another rate cut was inevitable. Bills and the OIS (overnight index swaps) continued to rally. Bond yields continued to fall with bond yields out to 7-years all less than 1%.



As central banks in the U.S., Europe and the UK continue to ease the pressure will be on the RBA to ease if the AUD strengthen too much relative to its peers. This easing cycle appears to be well entrenched and as such one could expect further easing's as the major central banks continue to ease in their home markets. The FOMC has decided that it will no longer shrink its balance sheet and that means even more liquidity is sloshing through the monetary system. The ECB is back on an explicit easing bias and the BOJ is to take additional easing measures should inflation remain subdued in Japan.

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The other big announcement (apart from the RBA cutting rates) over the month of July was the announcement by APRA that requires the major banks to increase total capital by 3% via issuing Tier-2 capital before the end of 2023. This means the banks are required to issue about AUD \$50 bio of Tier - 2 capital. This task does not appear to be too onerous in an international context as that means approximately a little over U.S.\$3bio per bank per year in an environment in which many investors are hungry for yield and where \$13tr of negative interest rate bonds exist. For international investors seeking yield the issuance of Australian bank Tier 2 could be an attractive investment proposition.

Since the APRA announcement WBC, NAB and ANZ have issued A\$ 7.1bio of Tier 2 paper. This issuance has been easily absorbed by the market. Demand for the new issuance was strong. For example, the ANZ Tier 2 at +200 bp was issued 10 bp inside the initial price guidance whilst the NAB issue saw some \$7 bio of bids for a \$1.5 bio issue and pricing was set 22bp inside the initial guidance.

Markets continue to rally because of central bank activity and the reason for much of that easing bias is because of the threat of trade tariffs on global growth. The threat of tariffs is disturbing logistics lines and no country appears to be immune from the U.S. scowl. Even Vietnam which many thought was immune found itself in the tariff firing line. With a lack of clarity businesses in general are floundering. It is difficult to implement new supply lines and logistic lines if you don't know whether your new line will be affected by a new tariff. It is this lack of clarity and a fear of tariffs that is causing global economic growth to slow and question the outlook which at best is uncertain.

This lack of clarity is also the main reason why central banks are easing globally. Economic growth has slowed, and central banks are endeavouring to stimulate their economies through cutting rates. In an uncertain world this trend looks set to continue and especially so where central banks are cutting because others are also cutting.

This is the reason why the RBA is also cutting rates. If rates remain too high the AUD will strengthen, and the RBA wants a lid on the level of the AUD. The FOMC is doing a similar thing. For example, Trump is powerless in forcing Powell to ease more, but he can engineer a cut by threatening new tariffs.

Trade tensions are shaping the future direction of rates in the near term and we can see that visibly with the recent RBA rate cut and the commentary about the next possible cut. The FOMC has similar issues. The benchmark 10-year bonds have rallied significantly over the past two weeks and in Australia's case a record low and for the U.S. the lowest level since November 2016.

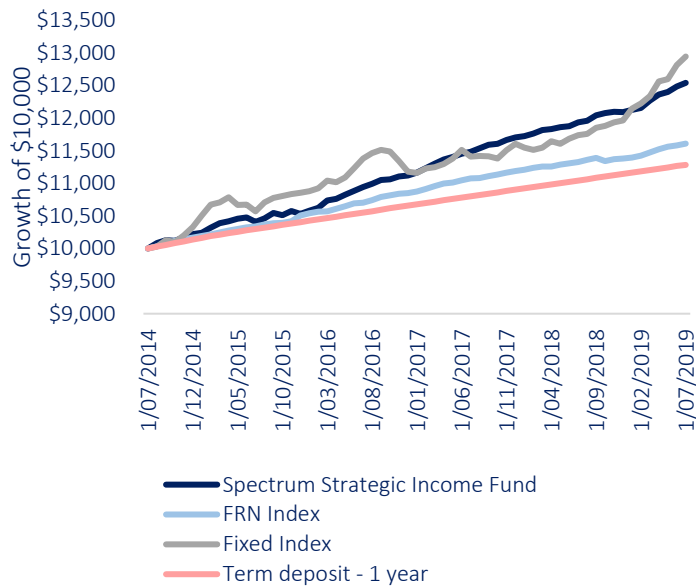
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Over the month the following institutions issued securities into the market:

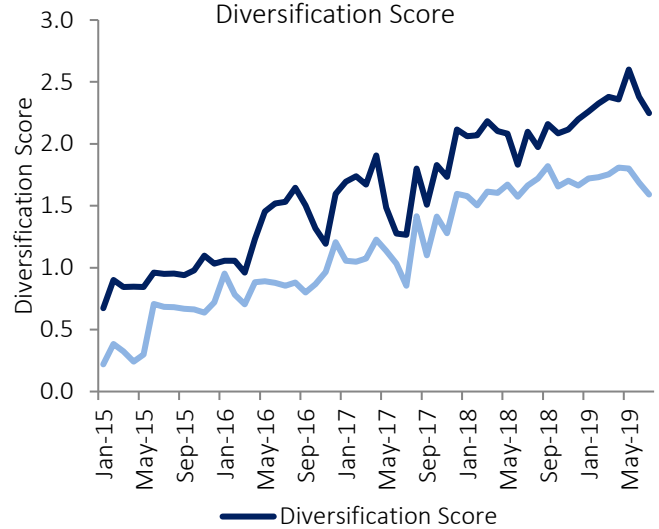
- QIC Shopping Centre Fund – 6 Year A\$ Senior Unsecured FRN - \$100m @ BBSW+127bps.
- Lloyds Bank – 3 Year A\$ Senior Unsecured FRN - \$450m @ BBSW+80bps.
- Mizuho Australia – 5 Year A\$ Senior Unsecured FXD - \$250m @ Swaps+75bps.

Spectrum v.s. peers - 5 years



Source: Spectrum, RBA, Thomson Reuters

Diversification Score



Source: Spectrum

*Spectrum's diversification score methodology is derived as a weighted average of each of the portfolio's holdings scored for their contribution or decrement to the Fund's overall level of diversification. For reference, senior bank debt is considered to be a neutral position and is given a score of 0.

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PDS

ONLINE APPLICATION

APPLICATION FORM



As at 31/7/2019 TM



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