July 2020

SPECTRUM STRATEGIC INCOME FUND

FUND INFORMATION

Fund
Spectrum Strategic Income Fund

Responsible Entity
Equity Trustees Limited (RE)
ABN 46 004 031 298; AFSL 240 975

Manager
Spectrum Asset Management Ltd (Spectrum) ACN 096 442 198; AFSL 225 069. Spectrum is a Sydney based fund manager that focuses on income. Our strength is corporate debt. We take and manage credit risk with moderate interest rate risk.

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.

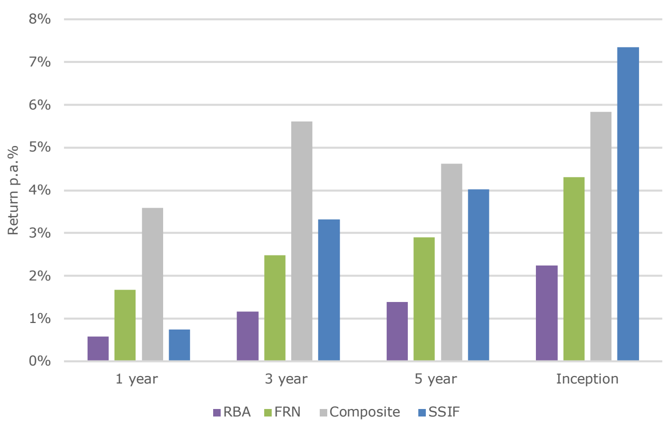
Investment Strategy
The Fund holds a diversified portfolio of debt and income securities with a view to minimising any loss of income and capital of the Fund. Issuers may be government bodies, banks, corporations and, to a limited extent, specialist financing vehicles. To maintain a diversified portfolio structure, certain limits are imposed on security type, credit risk, industry and issuers.

Target Return
RBA Cash Rate +1.50% p.a. net of fees.

Investment Highlights
- Experienced and active management team with proven track record
- Quarterly distributions
- Low duration portfolio
- Diversified portfolio of AUD denominated corporate securities
- Consistent top quartile performance

APIR	ETL0072AU
Entry / Exit Price	$1.0611 / $1.0579
Fund Size	$80.1 m
Unit Pricing	Daily
Distributions	Quarterly
Inception Date	31 May 2009

PERFORMANCE COMPARISONS



FUND PERFORMANCE

	1mth	6mth	1yr	3yr p.a.	5yr p.a.	Incep p.a.
Net Return (%)	0.43	-0.25	0.74	3.31	4.01	7.36
RBA Cash Rate (%)	0.02	0.21	0.65	1.21	1.42	2.25
Spread to RBA (%)	0.41	-0.04	0.09	2.10	2.59	5.11
Income Distribution	-	2.02	3.57	3.30	3.76	4.17

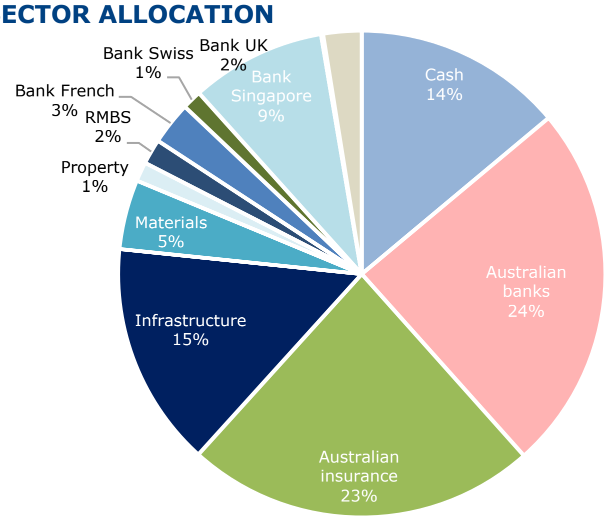
NOTE: Past performance is not a reliable indicator of future performance.

INCOME DISTRIBUTIONS

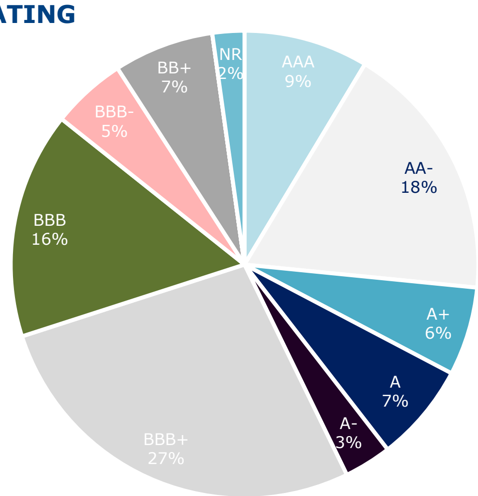
2019 / 2020	Sep	Dec	Mar	Jun
Distributions (cents per unit)*	0.57	0.66	0.71	1.63

* Net Return after fees and expenses assuming reinvestment of all distributions.

SECTOR ALLOCATION



CREDIT RATING



RATINGS

MORNINGSTAR ★★★★

★★★★★ Superior SQM RESEARCH

PLATFORMS

AMG Super	ausmaq	Australian Money Market
Bell Direct	CMC Stockbroking	Freedom of Choice
HUB24	mFund	nabtrade
netwealth	Powerwrap	uXchange

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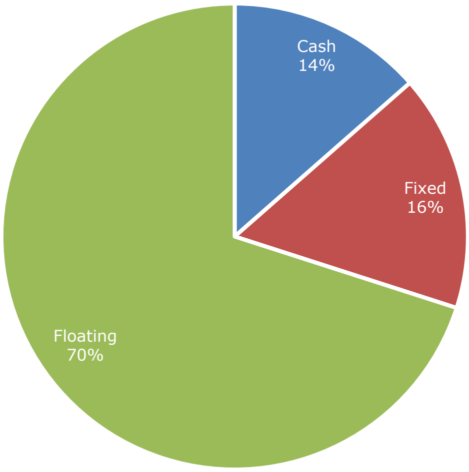
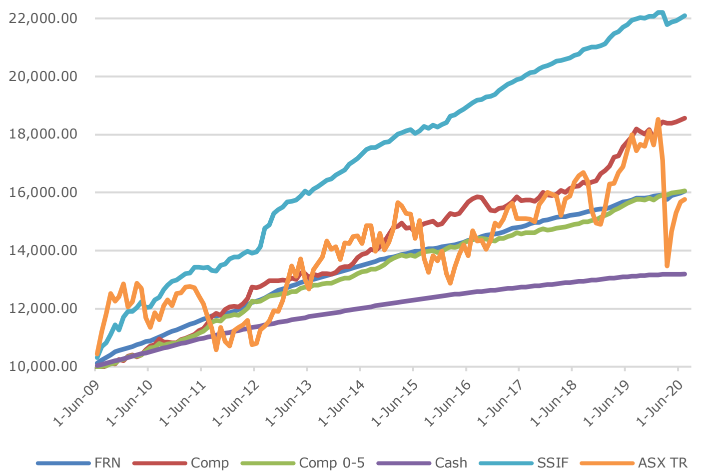
FIXED / FLOATING



GROWTH OF $10,000 SINCE INCEPTION



TOP TEN HOLDINGS

Suncorp Group Ltd	13.6%	Verizon	4.3%
Cash	13.5%	Paccar Financial	3.8%
National Australia Bank	10.7%	Brisbane Airport	3.8%
AMP Group Ltd	6.9%	Westpac Banking Corp	3.8%
DBS Group Holdings Ltd	6.2%	IAG	3.7%

MARKET COMMENTARY

The recovery in both equity and credit markets continues. Despite an uncertain outlook both have seen solid gains and valuations look stretched.

The domestic economy appears to be falling apart. Victoria has gone into lockdown. The RBA is making both dovish and supportive comments. It is expected that the RBA will continue a policy of buying bonds to hold interest rates. With excess liquidity still in the banking system, 3 month BBSW is just 0.10% despite an Official Cash Rate of 0.25%. Exchange settlement balances were volatile as investors piled into the new long dated bond issues.

These comments are allowing our domestic markets to continue to rally. There is an expectation of further rate cuts. Many interest rate strategists are suggesting rates could approach zero percent over the next few months.

APRA extended its treatment of loan deferrals by extending its temporary capital treatment to a maximum period of 10 months from the start of the deferral period. This allows banks to treat loans that were deferred or restructured to be treated as performing loans for capital and regulatory purposes.

APRA is clearly concerned about the fallout from COVID-19. Total loans that have attracted deferred payment arrangements are in the order of $274 billion or 10% of total loans. This is up 3% from May. Housing has attracted some $195 billion of deferred loans representing 11% of total outstanding housing loans.

Credit in the U.S. continues to be well supported. Triple C spreads have posted their best monthly return since 2014 despite an accelerating rate of defaults in the sector. Triple C bonds have rallied some 128 bp over July and are now around 516 bp over treasuries according to ICE BofA data.

COVID-19 continues to be the swing factor in the U.S. Whether it be the state of the U.S. economy, or be the catalyst for a potential constitutional crisis in the U.S., only time will tell. President Trump is stating that he may delay the vote if there is a possibility that if the postal votes are seen to be taking too long to count. Or if the vote is thought to have been manipulated by a foreign player. Either way, Trump may be hard to prise out of the White House. It is hard to decide how the market would react if such an event occurred. Biden is seen to be bad for the markets and also thought to project a tougher stance with China.

The U.S. economy is very weak as a result of lockdowns. Analysts however are still projecting strong earnings growth later in the year. To achieve those growth rates, productivity would need to increase significantly. Such a significant boost in productivity is something that may prove elusive as we get closer to year end.

The receivers for Virgin Australia announced that Bain Capital were likely to cut 3,000 jobs in the company restructure.

The strategy moving forward should be to look for pockets of value.

We like some hybrids and especially those where the IRR is providing a return greater than 3% ex-franking. We continue to hold our NABHA as the security will lose further capital treatment come 2021 and potentially a redemption/restructuring may occur. Securities where an entity has ringfenced capital to call or redeem at a future date also provide an avenue to invest the cash balances held within the fund.

We are still uncomfortable with the strength of the rally and especially so with the waves of optimism in stock valuations. Flattening yield curves will generate some performance for fixed rate securities. The rub though is as these curves flatten any return is likely to be squeezed, and squeezed hard. Central bank cash will continue to slosh around the markets. Interest rates are trading without fear of inflation and this means interest rates will fall further.

The main fear is one of stagflation or disinflation. This probably means a demand for real assets. We can mitigate this risk somewhat by investing in assets that provide good levels of income. It appears that it will take some time for corporate balance sheets to recover and as such we are being highly selective with our investments.

PORTFOLIO MANAGEMENT

The markets remain confused. Central bank activity and fiscal stimulus is keeping the economy ticking and also leading to some optimism within equity markets. This optimism is leading to stretched valuations as company balance sheets continue to weaken.

Credit spreads have tightened considerably over the month. The outlier remains the bank and insurance sub-debt which is still trading around 4 times the credit spread of senior bank paper. We believe over time this spread will compress and this compression of spread should provide solid gains for the portfolio.

The Manager over the past three months continues to replace maturing securities in both the over the counter and listed markets with securities that we believe either offer diversification or reasonable credit spread for the risk.

The Manager continues to search for opportunities. The Fund did participate recently in the Ausgrid 3.5 year FRN. This purchase replaced an existing maturity, offers diversification and provides a steady income stream. The Manager is also concentrating on those securities that offer

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reasonable income streams without exposing the Fund to risk. Infrastructure is one sector that the Fund will continue to participate if the return is commensurate with the Fund's hurdle rate.

We continue to invest in the NABHA (Income Securities) as we believe that the security will become expensive for the NAB to maintain as by the end of CY2021 its equity credit on the security will be lost. If the security is converted to a preference share, then the mechanism in the conversion itself could be expensive as there would be a requirement for the security to be franked.

The recent NAB AT1 security that the Fund participated in has rewarded the Fund. The spread has tightened by some 20 bp since launch. The Fund will continue to seek opportunities in this sector. We expect that other major banks may choose to issue similar securities.

A significant goal for the portfolio has been maintaining a distribution that beats the RBA cash rate by approximately 1.50%. To provide such a distribution, the Manager has been looking to source securities that are trading at a slight premium/discount but are paying a relatively high coupon by current standards. By doing so, the Fund has been able to pay a distribution of 3.57% for the fiscal year.

The portfolio has now returned four positive months at a time since the drawdown suffered in March. The portfolio has provided a safe haven when compared to equities where the total return is down approximately 8.76% year to date.

The demand for income over the next few months will be paramount. Equities will be paying smaller dividends if they even pay a dividend. Cash rates have compressed to the extent where 90 day bank bills are trading at 0.10%, cash is 0.25% and even 180 day bank bills are at 0.18%. The Composite Index demonstrates that the fixed rate securities are running out of steam, in a return sense the composite now is returning around 2.40% at the time of writing this report.

Since inception, the Fund is negatively correlated to the Bloomberg All Maturities Composite Index and is partly correlated to the Composite FRN Index. See the table below.

SSIF vs Correlation to	1yr	3yr	5yr	10yr	Incep.
FRN Index	8.8%	76.8%	50.5%	55.5%	56.6%
Composite Index	35.4%	40.8%	37.5%	3.8%	-9.4%
ASX 200 Total Return	88.9%	79.9%	56.9%	42.0%	42.0%

Fund Metrics	
Tracking error to FRN Index 5 years	0.48
Tracking error to FRN Index since inception	2.9
Largest drawdown since inception	1.86%
Total drawdowns since inception	8.7%
Average drawdown	-0.5%
Number of negative months since inception	17
Number of positive months since inception	116
Best monthly return	4.49%

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