

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.

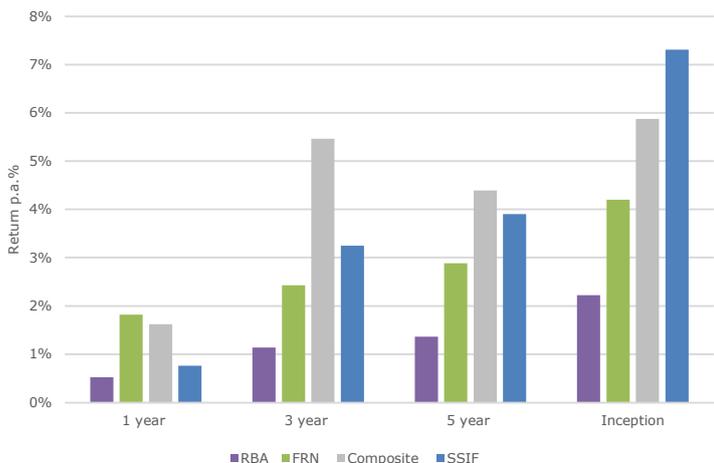
Investment Strategy
The Fund holds a diversified portfolio of debt and income securities with a view to minimising any loss of income and capital of the Fund. Issuers may be government bodies, banks, corporations and, to a limited extent, specialist financing vehicles. To maintain a diversified portfolio 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	\$1.0638 / \$1.0606
Fund Size	\$80.0 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 (%)	0.26	-0.22	0.76	3.25	3.90	7.31
RBA Cash Rate (%)	0.02	0.13	0.52	1.14	1.36	2.22
Spread to RBA (%)	0.24	-0.35	0.24	2.11	2.54	5.09
Income Distribution	-	2.02	3.57	3.30	3.76	4.17

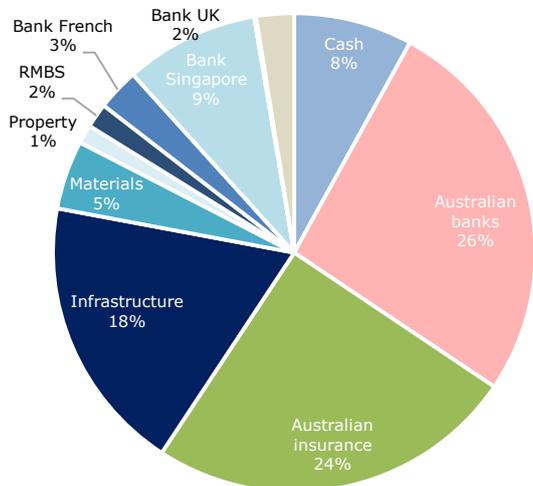
NOTE: Past performance is not a reliable indicator of future performance.

INCOME DISTRIBUTIONS

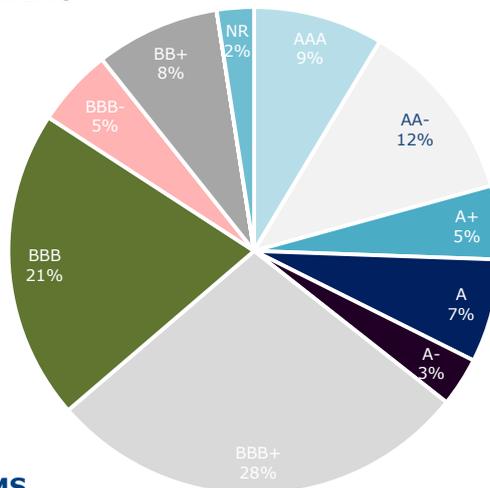
2019 / 2020	Sep	Dec	Mar	Jun
Distributions (cents per unit)*	0.57	0.66	0.71	1.63

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

SECTOR ALLOCATION



CREDIT RATING



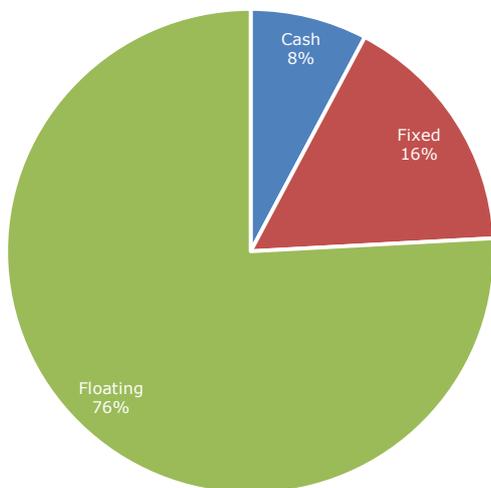
RATINGS



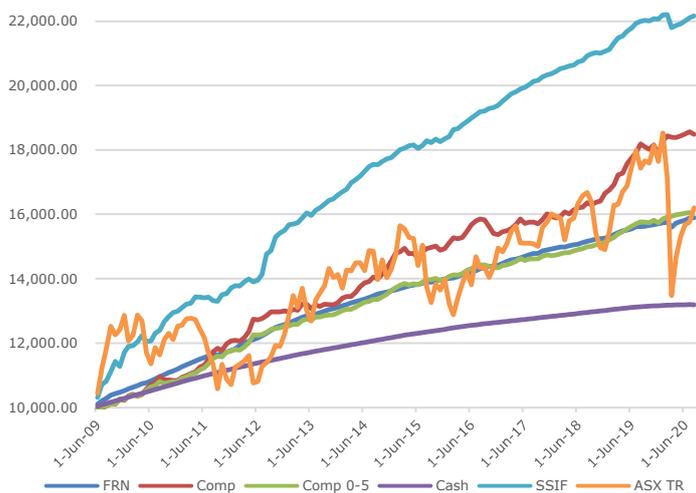
PLATFORMS

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

FIXED / FLOATING



GROWTH OF \$10,000 SINCE INCEPTION



TOP TEN HOLDINGS

Suncorp Group Ltd	14.1%	Verizon	4.3%
National Australia Bank	8.9%	Paccar Financial	3.8%
AMP Group Ltd	8.2%	Brisbane Airport	3.8%
Cash	7.7%	IAG	3.7%
DBS Group Holdings Ltd	6.2%	Ausgrid Finance	3.7%

MARKET COMMENTARY

During the month of August, the markets were buoyant in equity markets. This buoyancy drove credit tighter and over the month we saw credit spreads for sub debt tighten whilst senior bank unsecured paper was slightly weaker.

The domestic economy continues to be weak. Inflation has fallen significantly and the impact of the lockdown in Victoria has seen the economy weaken as a result. The 2nd Quarter GDP figure was expected to be about -6% and in fact was -7%, the worst quarterly decline since records commenced in 1959.

The outlook for the economy is heavily dependent on Government welfare to keep businesses operating. JobKeeper remains an important component of the Governments response to Covid-19.

During the month we saw Qantas repurchase an existing issue and then issue a 10-year security. The receivers for Virgin announced a plan which is to be ratified mid-September for debt investors to be repaid a recovery rate of between 9c and 13c. The Fund is not invested in either issuer. We

are very concerned over the state of the airline industry.

August is usually the month of company earnings reports. Many companies have, however, chosen to provide no forward guidance for 2021 due to uncertainties surrounding Covid-19.

The Banks have noted a deteriorating loan portfolio although APRA is allowing some relief by not requiring the Banks to make provisions for questionable loans. The Banks have either slashed their dividends or have chosen not to pay a dividend.

The impact of TFF is being felt in bank issuance. Banks can draw down on the facility which has now been increased to \$200 billion. This means very little senior unsecured issuance. The Banks will still be issuing sub LT2 paper and at times AT1 paper. As an example, the NAB has done both in recent months. Term deposits may well become a casualty as a result of TFF. The banks will have little incentive to pay interest on a term deposit above where they can borrow from the RBA.

Credit spreads continued their tightening trend over the month. The Aussie ITRAXX was in some 6 points from last month. This raises an interesting anomaly with the Australian CDS at 74.5. It would appear that the market has some concerns over the Government's ability to hold its Triple A rating.

The US market continues to be a concern. The equity market has been strong because of Government intervention assisting troubled companies. The overall concern remains in that many companies have failed to increase revenue, margins or profits over the last few years; however, the market continues to rally. Investment grade balance sheets are in pretty poor shape at this stage. Without loose central bank money and government assistance, one wonders how long this rally could last.

To see how the equity market has performed under the weight of central bank money, one only has to compare the growth in the Fed's balance sheet with the rise in the equity market by way of forward P/E's. The relationship is uncanny.



Source: Credit Suisse and Wolfstreet.com

Equities could strengthen further as it appears as though the Democrats are unlikely to win the Presidential election to be held Tuesday 3rd November. It is expected that equity markets will rally on a Trump victory. The betting has tightened significantly, and Trump is a clear leader as he will harvest the collegiate vote. This is something that the Democrats fail to win currently. A Democrat win would cause a selloff in the equity markets.

PORTFOLIO MANAGEMENT

Investment Strategy

We are concentrating on generating income and providing capital stability. We will continue to purchase fixed rate securities that are at a small premium and where the coupon is relatively high. These securities are short dated and therefore have only a limited impact on duration. In general, these stocks are usually less than six months.

Markets remain heavily dependent on Government support towards business and central bank money. When this support ceases one should reasonably expect a sell off. We remain concerned as any sell off in equity could lead to a widening of credit spreads. We are looking to Bank LT2 sub debt as part of the strategy by purchasing these securities at launch or in

any widening. We also are looking towards improving the credit worthiness of the portfolio over time.

Given our concerns about growth we are investing in infrastructure assets with a bias for regulated income whilst avoiding transport. We are avoiding airlines and car manufacturers but continue to invest in bank sub, bank hybrids when they are mispriced and insurance sub debt.

With the movement in the Composite Index it appears as though the fixed rate securities have hit a ceiling and probably cannot rally in yield much further. This makes fixed rate securities vulnerable to any increase in interest rates.

As a result, we are keeping duration short and are concentrating on floating rate securities with the view that the portfolio will harvest the available credit spreads without the risk of duration.

We are mindful that the RBA could take interest rates negative. At this stage we believe the risk is low. Should interest rates become negative, the ability to harvest the credit spread on securities held should provide the Fund with a positive return. Currently the Fund has an average credit spread of 198bps.

The recent NAB AT1 security that the Fund participated continues to reward the Fund.

The portfolio has now returned five positive months at a time since the drawdown suffered in March.

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 0.15%. Recent actions by the RBA regarding TFF may mean that banks will have a lesser reliance on term deposits. The rates paid on term deposits may well collapse over the coming months.

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	87.4%	81.5%	70.3%	55.7%	60.5%
Composite Index	32.3%	42.6%	38.9%	4.0%	-9.0%
ASX 200 Total Return	90.3%	79.9%	64.1%	42.0%	40.8%

Fund Metrics	
Tracking error to FRN Index 5 years	0.49
Tracking error to FRN Index since inception	2.92
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	118
Best monthly return	4.49%

Enquiries P 02 9299 2288 **E** info@spectruminvest.com.au **W** www.spectruminvest.com.au **Unit Registry** P 1300 133 451 **E** info@mainstreamgroup.com

DISCLAIMER This report was prepared by Spectrum Asset Management Limited (Spectrum) (ABN 31 096 442 198, AFSL 225 069) 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 has not taken into account the investment objectives, financial situation and particular needs of any particular person. Before making and 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 or 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, provides warranty of accuracy or reliability in relations 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.

Morningstar Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or 'class service' have been prepared by Morningstar Australasia Pty Ltd (ABN 95 090 665 544, AFSL 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. Refer to our Financial Services Guide (FSG) for more information at www.morningstar.com.au/fsg You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Past performance does not necessarily indicate a financial product's future performance. To obtain advice tailored to your situation, contact a professional financial adviser. The Morningstar Rating is an assessment of a fund's past performance – based on both return and risk – which shows how similar investments compare with their competitors. A high rating alone is an insufficient basis for an investment decision.

SQM The rating contained in this document is issued by SQM Research Pty Ltd ABN 93 122 592 036. SQM Research is an investment research firm that undertakes research on investment products exclusively for its wholesale clients, utilising a proprietary review and star rating system. The SQM Research star rating system is of a general nature and does not take into account the particular circumstances or needs of any specific person. The rating may be subject to change at any time. Only licensed financial advisers may use the SQM Research star rating system in determining whether an investment is appropriate to a person's particular circumstances or needs. You should read the product disclosure statement and consult a licensed financial adviser before making an investment decision in relation to this investment product. SQM Research received a fee from the Fund Manager for the research and rating of the managed investment