September 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.

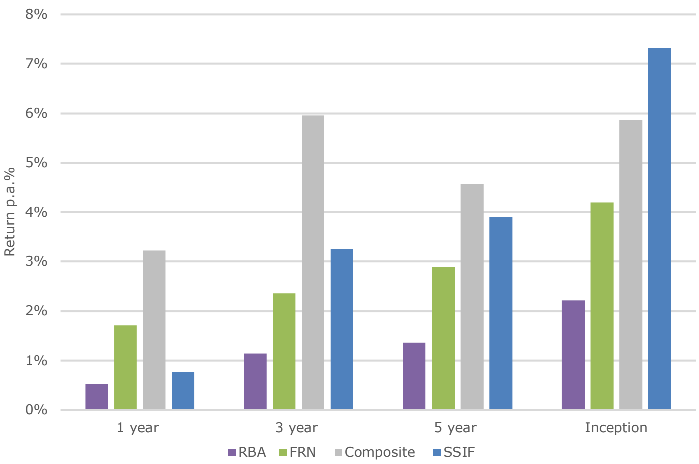
Investment Strategy
The Fund holds a diversified portfolio of debt and income securities with a view to minimising any loss of income and capital of the Fund. Issuers may be government bodies, banks, corporations and, to a limited extent, specialist financing vehicles. To maintain a diversified portfolio 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	$1.0616 / $1.0584
Fund Size	$80.15 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 (%)	0.22	1.90	0.84	3.27	4.01	7.28
RBA Cash Rate (%)	0.02	0.13	0.46	1.10	1.33	2.21
Spread to RBA (%)	0.20	1.77	0.38	2.17	2.68	5.07
Income Distribution	-	2.07	3.44	3.37	3.76	5.07

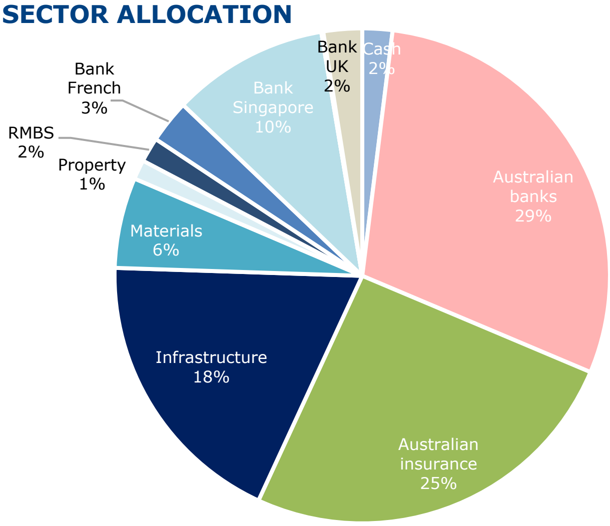
NOTE: Past performance is not a reliable indicator of future performance.

INCOME DISTRIBUTIONS

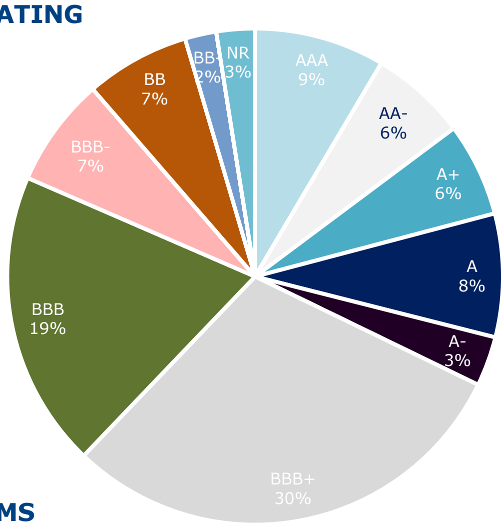
2019 / 2020	Dec	Mar	Jun	Sep
Distributions (cents per unit)*	0.66	0.71	1.63	0.45

* 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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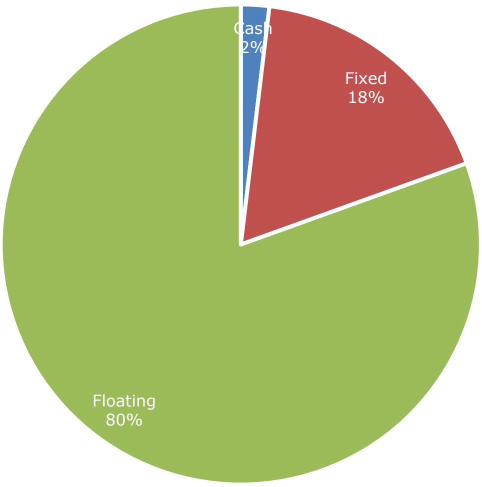
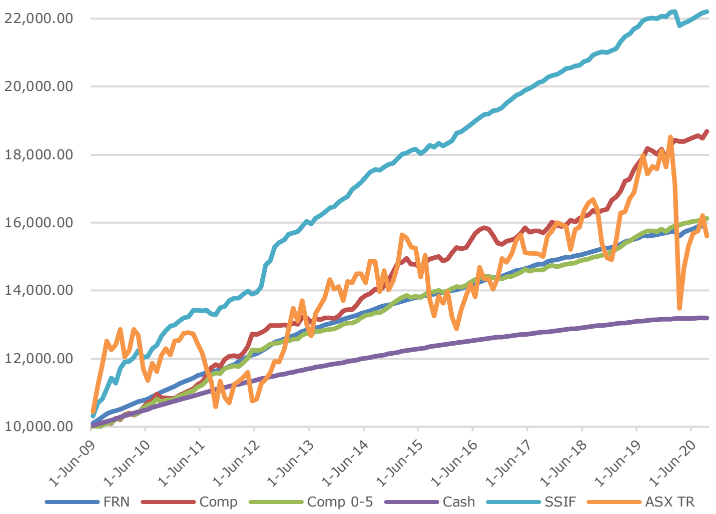
FIXED / FLOATING



GROWTH OF $10,000 SINCE INCEPTION



TOP TEN HOLDINGS

National Australia Bank	14.2%	Verizon	4.2%
Suncorp Group Ltd	14.1%	Westpac Banking Corp	3.8%
AMP Group Ltd	8.9%	Brisbane Airport	3.7%
DBS Group Holdings Ltd	7.4%	IAG	3.7%
Paccar	5.1%	Ausgrid Finance	3.7%

MARKET COMMENTARY

Volatility of markets would best describe September. During the course of the month we saw weakness in fixed rate assets, some widening of credit spreads due to weak equity markets, followed by tightening of spreads. The net result however was wider credit spreads. Fixed rates rallied after comments by the RBA Deputy Governor Guy Debelle suggested that the RBA could ease again lowering cash rates to near zero.

The Victorian shut down continues to hold the Australian economy back. Western Australia and Queensland continue to have border restrictions in place and these are also taking away from economic growth.
are very concerned over the state of the airline industry.

The outlook for the economy continues to be heavily dependent on Government welfare. JobKeeper remains an important component of the Government's response to Covid-19. JobKeeper payments were lowered this month and it will be interesting to see the impact of the lower payments. Adding fuel to an already weak economy we are starting to see an increase in layoffs as companies struggle to survive the current economic climate.

The impact of TFF continues to weigh on the Australian credit market. The banks are incentivised to draw down on the TFF. This means that the issuance of bank sub will continue whereas the issuance of senior debt by the banks will remain at a trickle. The Banks will report their results in November. Their results will be keenly watched. Of special interest will be the quantum of deferred loans and the percentage of their loan book that is on a deferred basis. It appears some banks are more affected than some of their competitors.

The Aussie ITRAXX closed at 76.5.

The U.S. market will dominate any trading strategies over the month of October. U.S. elections are due at the end of the month and the result will be keenly watched. Currently the fortune of the markets are linked to the debate between Biden and Trump. The result of who is expected to win the Presidential race and ultimately the victor will impact how the markets trade. The election will be held on the 3rd of November.

It is worth noting that on the day after the first Presidential debate a number of major corporates decided to announce layoffs. Some 100k of job losses were announced the day after the Presidential debate. Markets will have to weigh up how much stimulus is required as Mnuchin wants to add a further $1.5 trillion of aid whilst the Democrats want some $2.2 trillion to be injected into the economy. It would appear the markets fortunes are linked to how much aid and corporate assistance is provided.

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 at present are rationalising their view on interest rates. Currently there is a body of opinion that is opining about a V-shaped recovery and in the other camp the view is of a U-shaped recovery. Both require different investment horizons.

We remain in the U-shaped recovery camp. It is our belief that the economy and the global economy will continue to require central bank assistance and indeed the recent performance of Australian Government Bonds suggests that is the case. The Australian economic numbers are weak and with JobSeeker payments lowered this month accompanied by the large number of deferred loan payments the economic outlook is extremely vulnerable. Central Bank activity and in fact the RBA's low cash rates are providing some life support for corporates. Where the problem lies is with the SME's and their ability to borrow could be difficult and possibly limited. In response to a weaker economic outlook and comments by the RBA's Deputy Governor the yield curve initially shifted lower on the expectation of further possible rate cuts.

We are indeed cautious on this point. Recent market activity would suggest that many money managers are not supportive of further falls in bond yields and interest rates. Recent new issuance of fixed rate securities at current levels have floundered as investors have shown little interest in new fixed rate issues at current levels.

Markets remain wary that the chance of a Trump victory would see increased global tensions and a possible increase in inflation as logistic chains unravel. We believe that markets are yet to fully price in a Biden victory or the possibility that Trump won't leave the Presidency if he loses. Market volatility may well be tested over the next few weeks. A rapid rise in inflation due to a breakdown in logistic chains. Such a move could see Central Banks retreat from their easy money stance and look to hike rates. For example, China is one of only a very few countries where interest rates have increased in a response to better economic conditions. If interest rates were to rise, then that movement could be quite a sharp retracement. Should such a movement occur it could possibly imperil an already fragile global economy. This means as a Manager we have to be opportunistic.

To take advantage of the current outlook the portfolio has to be managed strategically and tactically. The Fund's strategic strategy is to invest opportunistically as our maturity profile allows. This means that we have the option of maintaining a large cash base to invest if there is a market dislocation or reinvesting the proceeds. This also means that investments are being made opportunistically. On any spread widening the Manager is looking to improve the credit worthiness of the Fund over time and

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improve the diversification and credit quality whilst investing in securities that are expected to have a lower volatility during a period of dislocation or rising interest rates. This means we will be when possible investing in corporates with solid cash flows or opportunistically in hybrids that have been called or where the Company has allocated capital across to meet an expected call date or maturity.

An example of this in action is where the Fund has been able to target hybrids with an IRR in excess of 4%. Such a security could be NABPE or in the case of ring-fenced capital this could be the Australian Unity listed bond, AYUHB. This strategy will increase our income and over time boost our returns. The credit quality of time will improve and so too diversification. We continue to keep duration short.

The Fund has taken a tactical position in AMP. Our view is that with the sale of the life business, AMP has significant amounts of excess capital. Some capital may be reallocated to the Bank business and indeed some of the AMP sub is allocated between the parent and the Bank. In our opinion, AMP has excess capital of some $1.2 billion. AMP could apply to APRA for regulatory relief and repurchase some outstanding securities. If this were to happen AMP would lower its gearing and lower its interest burden. Currently AMP is not receiving any tax benefit on much of its excess capital nor any regulatory benefit. AMP currently has a very lazy balance sheet. AMP could increase its credit and equity position significantly by seeking regulatory relief as much of this excess capital is no longer required. The debt position would be dramatically improved by calling or redeeming some of its outstanding subdebt and lower its interest payments and improve its gearing ratios. AMP is also undertaking a strategic review of its business units and will in time be a very different entity. There is a possibility of a takeover and if this were to happen then that event could trigger the redemption of outstanding debt or a restructure to improve both its credit rating and capital position.

The portfolio has now returned six positive months at a time since the drawdown suffered in March. The rolling effect of the year's past performance will roll off and if the Fund holds current performance or improve on current monthly returns levels the performance of the Fund will increase significantly. Please note that as interest rates stall at current levels, the Composite Index will cease to provide significant performance due to duration. The Composite Index may well be challenged to maintain a positive return over the coming months.

Since inception, the Fund is negatively correlated to the Bloomberg All Maturities index. It is interesting to note that the 5 year return for the ASX 200 is 3.5% and the Fund's return over the same period is 4.02% with significantly lower volatility.

SSIF vs Correlation to	1yr	3yr	5yr	10yr	Incep.
FRN Index	86.4%	81.4%	70.3%	55.1%	60.5%
Composite Index	34.0%	41.9%	38.6%	7.7%	-96.5%
ASX 200 Total Return	89.4%	79.6%	63.3%	42.0%	41.5%

Fund Metrics	
Tracking error to FRN Index 5 years	0.49
Tracking error to FRN Index since inception	2.93
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	119
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