

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.

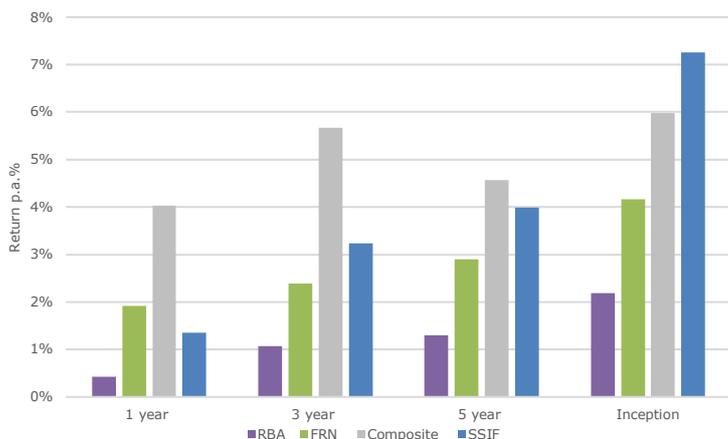
Investment Strategy
The Fund holds a diversified portfolio of debt and income securities with a view to minimising any loss of income and capital of the Fund. Issuers may be government bodies, banks, corporations and, to a limited extent, specialist financing vehicles. To maintain a diversified portfolio 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	\$1.0665 / \$1.0633
Fund Size	\$77.13 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 (%)	0.46	2.02	1.37	3.25	3.99	7.26
RBA Cash Rate (%)	0.02	0.13	0.42	1.07	1.30	2.19
Spread to RBA (%)	0.44	1.89	0.95	2.18	2.69	5.07
Income Distribution	-	2.07	3.44	3.37	3.76	5.07

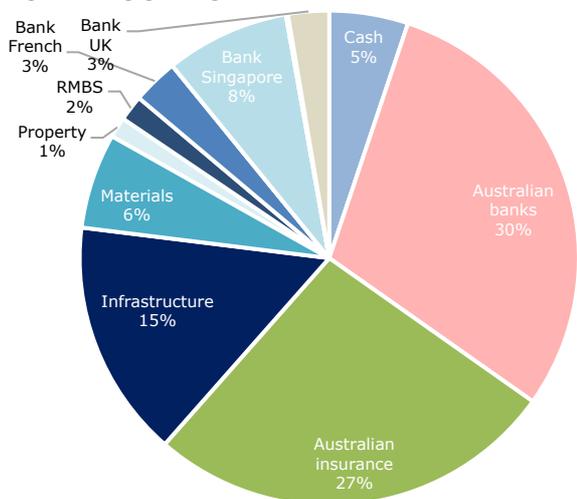
NOTE: Past performance is not a reliable indicator of future performance.

INCOME DISTRIBUTIONS

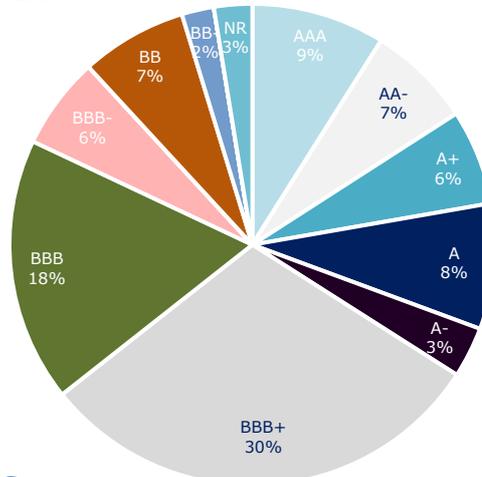
2019 / 2020	Dec	Mar	Jun	Sep
Distributions (cents per unit)*	0.66	0.71	1.63	0.45

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

SECTOR ALLOCATION



CREDIT RATING



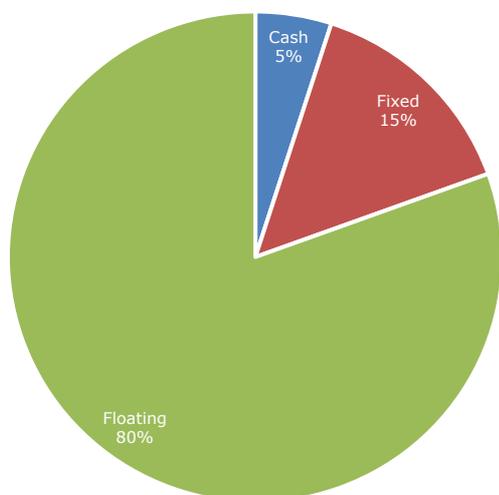
RATINGS



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

National Australia Bank	15.1%	Cash	5.0%
Suncorp Group Ltd	14.7%	Verizon	4.4%
AMP Group Ltd	9.2%	Westpac Banking Corp	3.9%
DBS Group Holdings Ltd	7.8%	Ausgrid Finance	3.9%
Paccar	5.3%	IAG	3.9%

MARKET COMMENTARY

Volatility during the month of October continued. The markets have focused on the looming U.S. election and the sentiment has been erratic at best. Adding further confusion to an already clouded investment environment has been the re-emergence of Covid-19 in Europe, and a continuing worsening position in the USA.

Credit traded in a tight range despite the volatility in equity markets and bond markets. High yield weakened some 50bp over the month from its tightest levels. The weakness in spread has not been fully factored into some of the listed HY Funds.

Late in the month Victoria began opening its economy again, and this should spur some growth in the Australian economy. Other States including Queensland and Western Australia are expected to open their States to movement of people shortly.

The shutdown in the economy has led to the banks reporting higher credit impairments as their lending portfolios have deteriorated. Net interest margins have also fallen as a result of a significant amount of liquidity in the system.

The impact of TFF continues to weigh on the Australian credit market.

Senior bank issuance is likely to remain very subdued as domestic banks can access the TFF. Offshore banks have issued recently and generally these issues have seen solid demand. The outlook for bank issuance is likely to be in T1 capital notes (listed) and Bank sub debt T2. Bank capital ratios remain solid.

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. This strategy may change with time as with cash rates now at 0.1% and 90-day BBSW at 0.03% much of the gains that can be made via duration has been made. We will over time look to those securities that have some credit spread.

We expect several themes to unfold as we run into December. We expect that demand for Bank T2 sub-debt to increase as the securities with their spreads are trading at an excess of 4x senior bank paper.

Bank senior paper is being driven by TFF and with bank exchange settlement accounts receiving barely 2bp interest we expect the banks to look to purchase securities that offer some margin. Bank sub-debt offers that opportunity although caveats apply as we expect as a result of TFF there will be more issuance of bank sub debt.

We will be focusing on NABHA as we expect the security could be called early 2021. The NAB AGM is on 18 December where it is expected to receive shareholder approval to redeem the security.

We are watching the developments in AMP with interest. We expect that with the bid by ARES Capital to buy AMP that another bidder could enter the fray. We don't believe that ARES would want the bank. If the bank is sold to another bank, we expect that the sub-debt will tighten significantly. Currently the Bank has excess capital and any suitor probably would not want excess capital unless that capital can be deployed elsewhere. The AMP preference shares do have change of control clauses and as such we expect that in the event of a takeover the preference shares would be redeemed. Currently the sum of the parts in AMP are more than where AMP is currently being valued.

The economic climate remains clouded. The economy remains dependent upon government welfare. Actions by the RBA in keeping interest rates extremely low will be critical for the health of the economy. On Tuesday 3rd November the RBA announced a rate cut to 0.1% the lowest on record in response towards kick starting the economy.

In line with recent easing by the RBA, 3-month BBSW is now around 0.03% and 6-month BBSW is around 0.07%. Getting the credit equation correct will be critical for future performance.

Under the current scenario we expect equity markets to remain positive and this bodes well for credit. We expect to demand in corporate credit and some of the higher yielding securities such as bank sub-debt in which the portfolio is reasonably well placed.

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 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 sub debt 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 seven 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	86.6%	81.4%	69.9%	54.3%	60.5%
Composite Index	33.0%	40.9%	38.9%	8.5%	-9.18%
ASX 200 Total Return	89.4%	79.3%	62.3%	41.3%	41.8%

Fund Metrics	
Tracking error to FRN Index 5 years	0.55
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	120
Best monthly return	4.49%
Consecutive Positive Returns	7

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.