November 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.

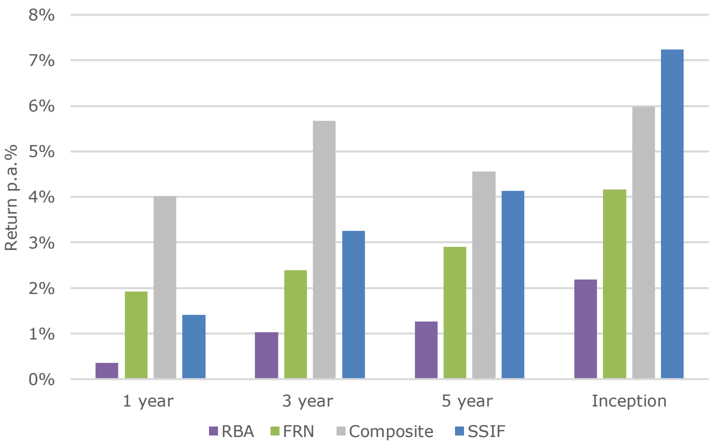
Investment Strategy
The Fund holds a diversified portfolio of debt and income securities with a view to minimising any loss of income and capital of the Fund. Issuers may be government bodies, banks, corporations and, to a limited extent, specialist financing vehicles. To maintain a diversified portfolio 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	$1.0699 / $1.0667
Fund Size	$75.57 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 (%)	0.32	2.13	1.41	3.25	4.14	7.24
RBA Cash Rate (%)	0.01	0.11	0.36	1.03	1.27	2.18
Spread to RBA (%)	0.31	2.02	1.05	2.22	2.87	5.06
Income Distribution	-	2.07	3.44	3.37	3.76	5.07

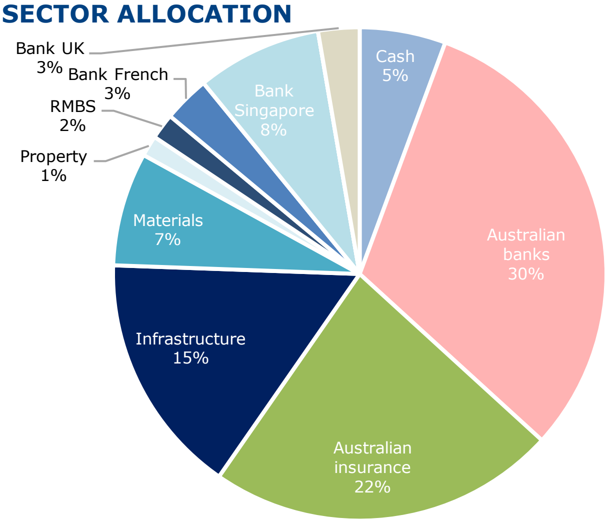
NOTE: Past performance is not a reliable indicator of future performance.

INCOME DISTRIBUTIONS

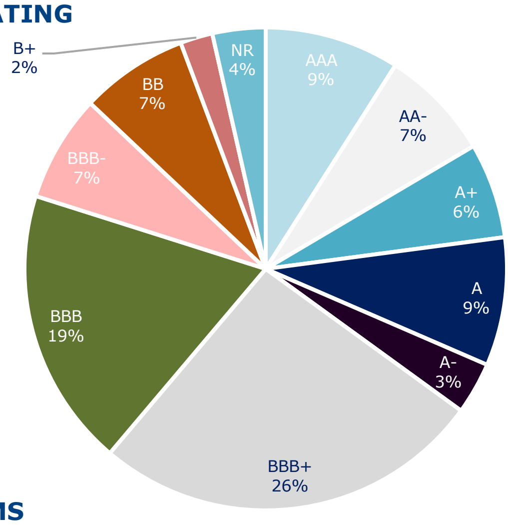
2019 / 2020	Dec	Mar	Jun	Sep
Distributions (cents per unit)*	0.66	0.71	1.63	0.45

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

SECTOR ALLOCATION



CREDIT RATING



RATINGS

MORNINGSTAR ★★★★

Superior SQM RESEARCH

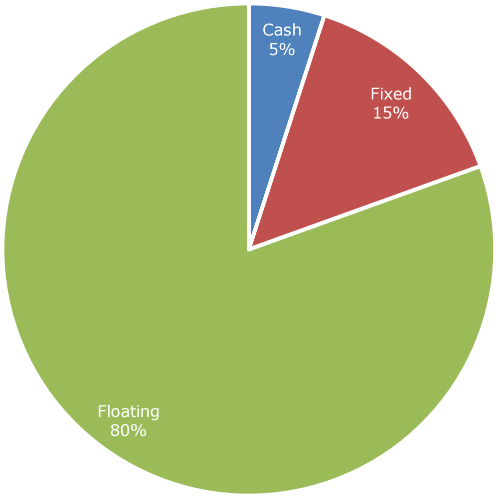
PLATFORMS

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

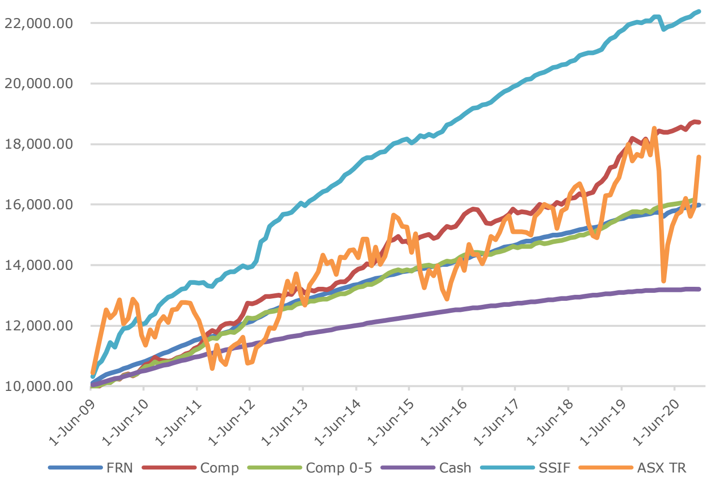
November 2020

SPECTRUM STRATEGIC INCOME FUND

FIXED / FLOATING



GROWTH OF $10,000 SINCE INCEPTION



TOP TEN HOLDINGS

National Australia Bank	17.0%	Paccar	5.5%
Suncorp Group Ltd	9.9%	Verizon	4.5%
AMP Group Ltd	9.4%	Ausgrid Finance	4.0%
DBS Group Holdings Ltd	8.0%	Westpac Banking Corp	4.0%
Cash	5.5%	IAG	4.0%

MARKET COMMENTARY

The markets used November as an opportunity to pause and review the U.S. election and positive news regarding a vaccine for COVID-19. Equity markets rallied significantly over the month leading to a strong rally in investment-grade credit spreads.

During the month, corporates exhibited a strong rally due to strong demand for paper in the absence of financial issuance. We expect that issuance by the major banks will remain thin as the banks continue to access the RBA's Term Funding Facility. At some point, the banks will look to issue however any issuance will be moderate.

Loan deferrals and Government stimulus is expected to play their part in moderating the deterioration in bank asset quality. The Banks have seen a deterioration in asset quality however they continue to use the guidance from APRA and not report this deterioration as non-performing. Lower cash rates and interest rates, in general, have impacted on bank profitability as interest margins as net interest margins have fallen.

Bank spreads continued to perform over the month and tightened some 6bp. Bank T2 sub bonds failed to tighten as quickly and now trading around 6.5x bank senior paper spreads. We continue to believe that the bank sub is the sweet spot in credit markets as many lesser rated corporates are trading through the bank sub spreads.

The report card for Australia's growth took a turn for the better. The 3rd quarter GDP was stronger than expected and GDP growth at 3.3% exceeded many economists' expectations. The December quarter also looks to be strong as pent up demand and savings point to greater demand.

With the RBA looking for the strength in the economy to continue there may be a chance of rates moving higher. In offshore markets, in particular, the U.S. market, traders are looking towards interest rates moving higher over 2021. Should rates move higher elsewhere then bond yields will inevitably rise in Australia.

Such a move would not be bad for the portfolio as the Fund maintains a short duration and any increase in rates will flow back in as coupon interest will reset at higher levels. Any moderate credit spread widening will be offset to some degree by the higher coupons received.

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 head through the Festive season. We expect that demand for Bank T2 sub-debt to increase as the securities with their spreads are trading at an excess of 6x senior bank paper. Corporate spreads have tightened significantly over November and many lesser rated corporates spreads are trading through bank sub spreads.

Much of the fixed-rate paper that the Fund owns are now trading at very tight spreads. The strategy moving forward will be to reduce our exposure to fixed-rate securities and look to gross up the portfolio by investing in other securities.

By reducing the duration of the portfolio, the portfolio risk will reduce. The portfolio will also benefit materially if interest rates were to move higher. Because of the absolute focus for the Fund through investing predominantly in floating rate securities, the fund benefits as rates move higher. Floating rate note coupons are reset every three months and an increase in rates will see higher coupons being paid. The portfolio is not immunized to any credit spread widening, however that widening could be offset to some degree by the higher coupon rates. In a rising interest rate environment, floating-rate notes are often keenly sought by investors and funds alike as they provide some protection and positive returns.

We continue to focus 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 is more than where AMP is currently being valued.

The outlook for continued increasing equity returns bodes well for credit securities. The current economic environment is positive. We expect to see continued demand for corporate credit

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 creditworthiness of the Fund over time and improve the diversification and credit quality whilst investing in securities that are expected to have 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

The portfolio has now returned eight 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 4.68% and the Fund's return over the same period is 4.14% with significantly lower volatility.

SSIF vs Correlation to	1yr	3yr	5yr	10yr	Incep.
FRN Index	86.7%	81.4%	72.0%	54.1%	60.5%
Composite Index	30.6%	40.4%	39.3%	9.3%	-6.3%
ASX 200 Total Return	85.4%	75.5%	60.9%	40.2%	39.4%

Fund Metrics	
Tracking error to FRN Index 5 years	0.58
Tracking error to FRN Index since inception	2.92
Largest drawdown since inception	1.86%
Total drawdowns since inception	8.7%
Average drawdown	-0.51%
Number of negative months since inception	17
Number of positive months since inception	121
Best monthly return	4.49%
Consecutive Positive Returns	8

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