January 2021

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.

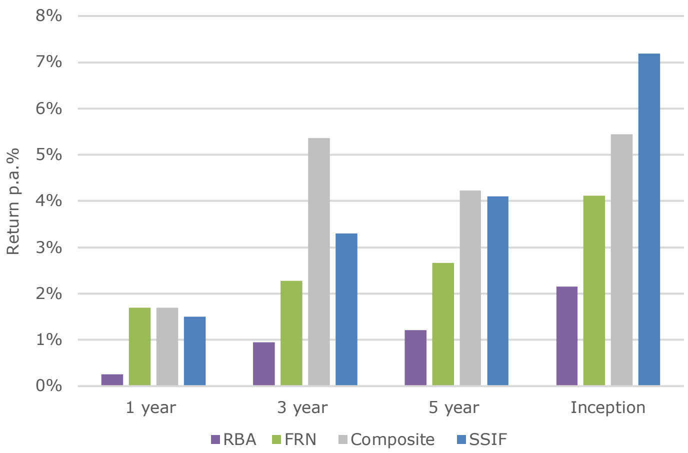
Investment Strategy
The Fund holds a diversified portfolio of debt and income securities with a view to minimising any loss of income and capital of the Fund. Issuers may be government bodies, banks, corporations and, to a limited extent, specialist financing vehicles. To maintain a diversified portfolio 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 a proven track record
- Quarterly distributions
- Low duration portfolio
- Diversified portfolio of AUD denominated corporate securities
- Consistent top quartile performance

APIR	ETL0072AU
Entry / Exit Price	$1.0719 / $1.0687
Fund Size	$76.17 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 (%)	0.25	1.94	1.50	3.30	4.10	7.19
RBA Cash Rate (%)	0.01	0.09	0.25	0.95	1.21	2.15
Spread to RBA (%)	0.24	1.85	1.25	2.35	2.89	5.04
Income Distribution	0.51	0.96	3.29	3.44	3.34	4.01

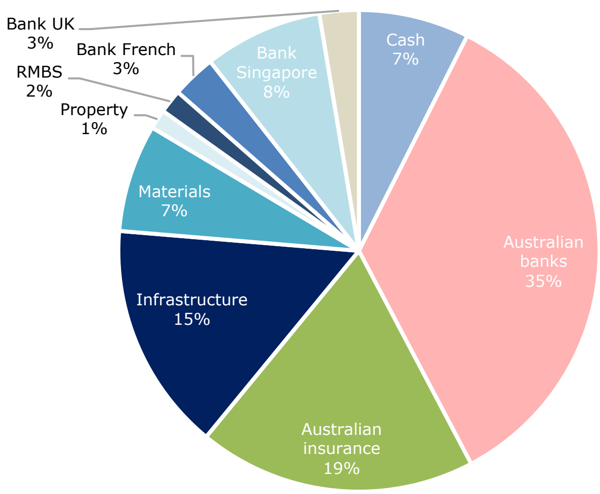
NOTE: Past performance is not a reliable indicator of future performance.

INCOME DISTRIBUTIONS

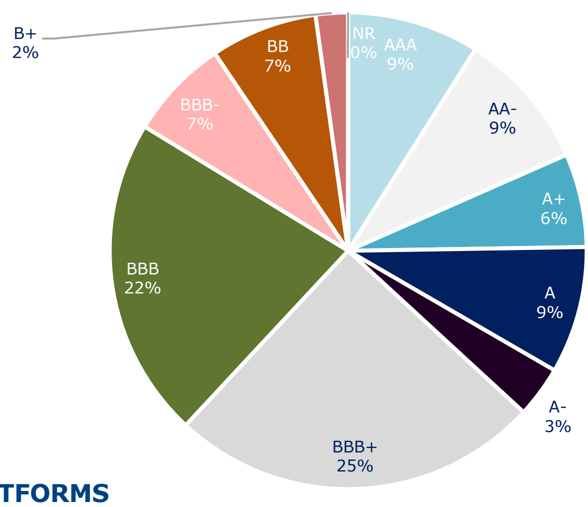
2020	Mar	Jun	Sep	Dec
Distributions (cents per unit)*	0.71	1.63	0.45	0.51

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

SECTOR ALLOCATION



CREDIT RATING



RATINGS

MORNINGSTAR ★★★★

★★★★★ Superior SQM RESEARCH

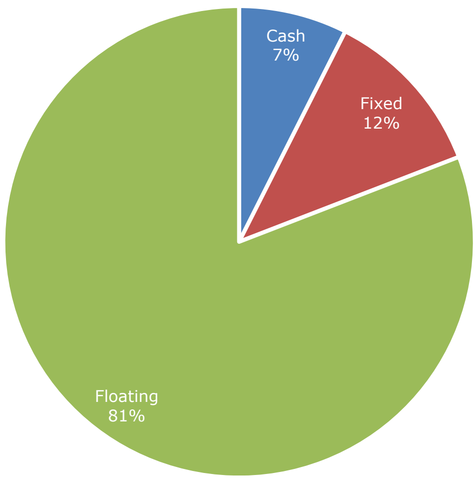
PLATFORMS

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

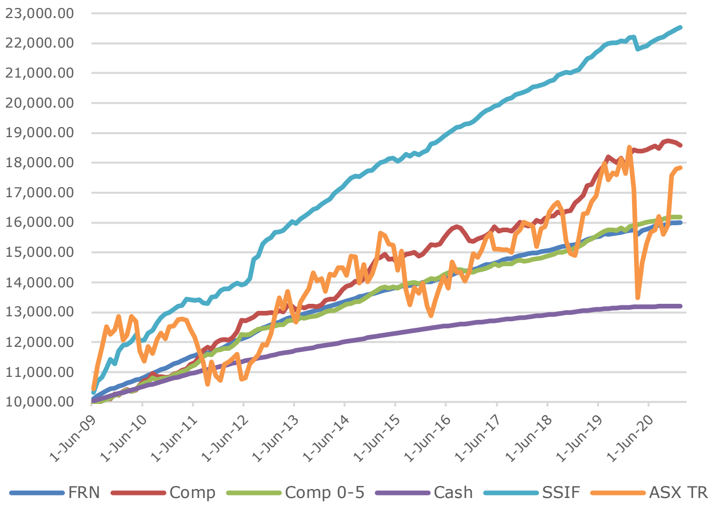
January 2021

SPECTRUM STRATEGIC INCOME FUND

FIXED / FLOATING



GROWTH OF $10,000 SINCE INCEPTION



TOP TEN HOLDINGS

National Australia Bank	20.1%	Paccar	5.4%
Suncorp Group Ltd	9.9%	Westpac Banking Corp	5.3%
AMP Group Ltd	9.4%	Verizon	4.5%
DBS Group Holdings Ltd	8.0%	IAG Ltd	4.0%
Cash	7.4%	Ausgrid Finance	4.0%

MARKET COMMENTARY

Economic conditions once again remain challenged. January saw an outbreak of COVID-19 that led to many countries shuttering their borders or reimposing restrictions. These actions have led to an erosion of confidence and for some trading blocs a slowdown of growth.

Equity valuations remain stretched and more so for certain securities that have been targeted by the Reddit crowd. The exuberance in the purchases of certain securities worth significantly more than their worth may well end in tears, and especially so when those with the most to gain cash out. Certain comments could well be construed as market manipulation and all one has to do is look to the Bunker Hunt Brothers to see a parallel in their efforts to manipulate the silver market. How long the party can linger is an unknown but having looked at the price action it's hard to see how a share that is worth at best $10 can survive at levels well above $300 for long and especially so for any period of time.

What all this price action does though is confuse markets. Many markets are under pressure, interest rates are extremely low, and any loss of confidence in equity markets could lead to a selloff which would be ill-timed given how tenuous global growth is at present.

For the moment there is an air of optimism for an effective COVID-19 vaccine. Perhaps too much optimism. There appear to be issues of safety and effectiveness with the vaccine and its efficacy in providing an effective vaccine against the new more virulent strains. Europe is back down in shut down, with Germany closed for some 60 days whilst France has imposed stricter regulations. Cases appear to have stabilized in the U.S. although it is hard to determine, given how each state classifies people suffering or dying from COVID-19.

However, it is not all doom and gloom. The weight of cash is helping drive equity prices higher, credit continues to slightly outperform equity and interest rates are likely to remain at record lows for a while yet. Demand for Bank T2 paper is increasing and so too non-financial credit. Both have performed over the month. As long as the momentum in equity markets continue then investment-grade credit is likely to perform and especially so floating rate securities.

The reader should note that the returns for fixed securities have collapsed and have produced three consecutive negative returns. Unless we see negative rates then we may well find rate securities in the doldrums with nowhere to go. For investors, this will be hard. For investors in floating rate securities, any coupon reset at the moment is producing slightly higher coupons and this will accelerate if interest rates start to move higher.

Hybrids over the month remained attractive. The big mover was the NABHA which redeemed. Otherwise, the hybrid market succumbed to some extent to liquidity issues which affected daily revaluations and closing prices. The thin market provided higher volatility.

PORTFOLIO MANAGEMENT

Investment Strategy

Over the coming months, we expect several themes to unfold and some of these themes have started to work in favour of the Fund. Bank T2 and Insurance T2 sub has started to track tighter. As suggested earlier these securities were at times trading 6x senior credit spreads. These spreads look likely to track tighter because of increasing demand, a relatively higher rate of return that is leading to heightened investor demand. This demand comes because investors are sourcing income in a low-interest rate environment. When compared to senior spreads the sub-debt securities offer a good reward for the risk taken.

Bank hybrid securities should also attract attention over the coming months. Some of the securities are currently trading at much wider spreads when compared to their unlisted cousins trading in the interbank market. There are some arbitrage opportunities, but one must be mindful of liquidity and volatility. Hybrids lack the liquidity of their unlisted counterparts, consequently one should consider the liquidity conundrum.

Duration at this point in the investment cycle remains a risk, despite the RBA's best intentions. At some point, fixed-rate bonds will come under pressure. That catalyst could be a dramatic improvement in growth as a result of vaccinations, improving employment or concerns over inflation. A rising equity market could also lead to bonds selling off as typically this means an improving growth outlook suggesting waning central bank support leading to increases in interest rates.

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.

Over the month, the NAB issued a redemption notice for the NABHA. The strategy in investing in this security has finally borne fruit and this should realise a nice capital gain. The security is to be redeemed on the 15th February and will pay the face value of $100 plus a final coupon of $0.32.

We are watching the developments in AMP with interest. According to newspaper reports, ARES Capital appears to have entered into some form of arrangement either formally or informally with Macquarie Bank and for Macquarie Bank to purchase AMP Bank and for some form of asset split in other assets including the North platform with approximately $46b in assets under management.

The outlook for continued increasing equity returns bodes well for credit

SPECTRUM STRATEGIC INCOME FUND

securities. If the current mantra of central banks is to maintain liquidity, then equity will perform and so too credit. We expect to see continued demand for corporate credit.

The Fund's strategy is to invest as 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. 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 in our view some chance of capital gain due to mispricing.

The Portfolio has now returned 10 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. As interest rates stall at current levels, the Composite Index will cease to provide significant performance due to duration. The Composite Index has now recorded 3 consecutive negative months and this underperformance is expected to continue.

SSIF vs Correlation to	1yr	3yr	5yr	10yr	Incep.
FRN Index	85.04%	79.74%	71.09%	54.1%	60.24%
Composite Index	16.47%	39.61%	38.90%	9.2%	-8.48%
ASX 200 Total Return	85.46%	75.80%	60.78%	40.45%	39.32%

Fund Metrics	
Tracking error to FRN Index 5 years	0.58
Tracking error to FRN Index since inception	2.95
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	123
Best monthly return	4.49%
Consecutive Positive Returns	10

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