February 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.

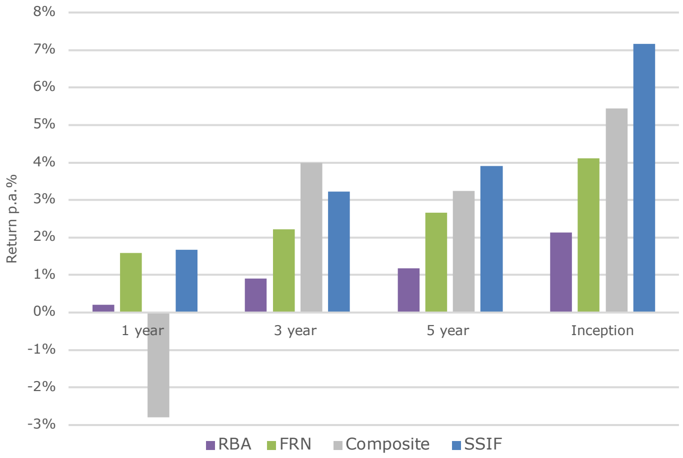
Investment Strategy
The Fund holds a diversified portfolio of debt and income securities with a view to minimising any loss of income and capital of the Fund. Issuers may be government bodies, banks, corporations and, to a limited extent, specialist financing vehicles. To maintain a diversified portfolio 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	$1.0742 / 1.0710
Fund Size	$75.2m
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	1.89	1.67	3.22	3.91	7.17
RBA Cash Rate (%)	0.01	0.08	0.20	0.91	1.18	2.13
Spread to RBA (%)	0.21	1.81	1.47	2.31	2.73	5.04
Income Distribution	0.00	0.96	3.29	3.44	3.34	3.97

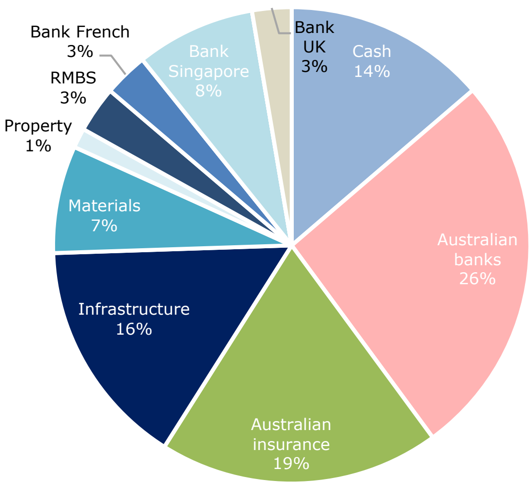
NOTE: Past performance is not a reliable indicator of future performance.

INCOME DISTRIBUTIONS

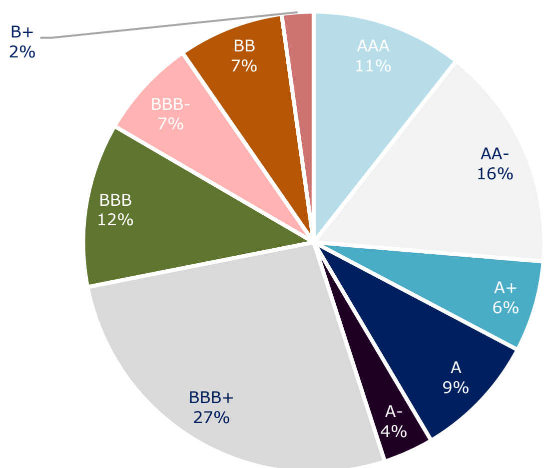
2020	Mar	Jun	Sep	Dec
Distributions (cents per unit)*	0.71	1.63	0.45	0.51

* 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

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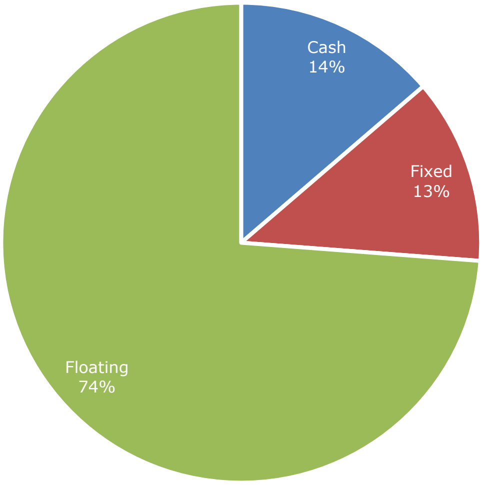
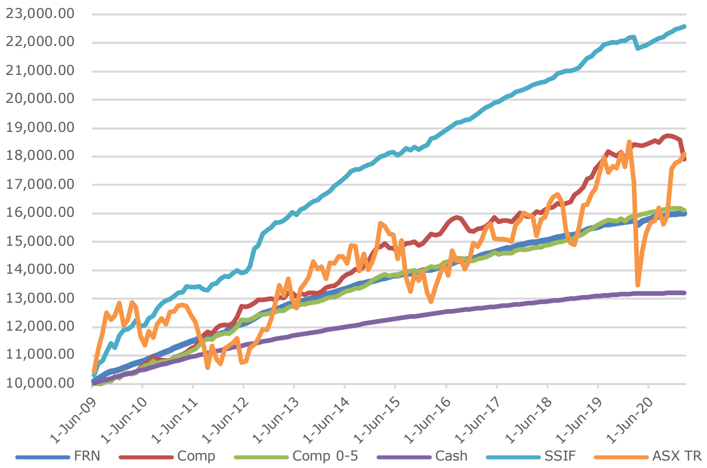
FIXED / FLOATING



GROWTH OF $10,000 SINCE INCEPTION



TOP TEN HOLDINGS as Securities

Cash	13.7%	Ausgrid Snr	4.0%
DBS sub T2	6.7%	Suncorp Covered	4.0%
NAB sub T2	5.8%	AMP sub T2	3.9%
AAI sub T2	4.6%	AMP sub T2	3.5%
Verizon Snr	4.6%	NAB hybrid AT1	3.5%

MARKET COMMENTARY

The market volatility continued over the month of February as bonds, credit and then equity saw increased volatility and selloffs in the respective asset classes.

Fears of inflation and funding costs led to a selloff in Government Bonds. This is in turn caused a flow on into other markets. Equities sold off and this led to a weaker credit market and Government bond prices weakened with 10-year bond yields rising some fifty basis points. High yield indices widened by some 20bp, and investment-grade credit was generally weaker by several basis points.

These movements were highlighted in the respective movements in the various bond and credit indices. The Bloomberg FRN Index was negative, and this was the second time in a year and the third time since August 2019, and the only times since March 2009 that a negative result was recorded. Incredibly the Bloomberg Composite All Maturities Index was down 3.58% but also down 2.32% for the rolling year. Since 2009 the Index has returned a positive rolling annual return. The negative return was unusual. We have looked through the data since January 2003 and cannot find a period where the annual return was negative. Highly unusual but then again February was an unusual month.

During the month bank sub-debt T2 capital and insurance company T2 capital tightened with major bank Tier 2 in by approximately 12 bp. The sub-debt space saw issuance from both Macquarie and CBA but in USD. Also, both these entities launched new additional Tier 1 or hybrid capital issues as well.

Drivers of performance for the month were concerns over the stability of equity markets resulting in a selloff in equity markets over the last week of the month. COVID-19 played its part as vaccines are rolled out and new variants emerged with some discussion around the efficacy of the various vaccines.

Global inflation and the willingness of central banks to purchase bonds will be closely monitored by investors. For bond traders, the risk of inflation is rising, and this is leading to a sell-off, meanwhile, investors have been moving to equity markets and selling bonds and hence amplifying movements. Over time this becomes an issue as equity markets then fret about rising bond yields. Currently, bonds are retracing, and this has unsettled equities.

Bond investors will be closely watching the Fed's actions as its actions will determine what other Central Banks do. Lael Brainard's recent comments suggest that the Fed may look to support the bond market out to 2-years, however, there does appear to be a gap in the longer-dated securities. If the bond vigilantes start to fret about inflation, then the long end of the bond market could see a significant sell-off. This is something the Fed does not appear at this stage to contemplate or have a plan for should a sell-off occur. This is a potential problem. A significant sell-off in the long bonds in the U.S. would also see a significant sell-off in the Australian market and elsewhere.

As equity markets stabilize, we will see investment-grade credit perform. This also means that we will need to see a slowdown in the pace of selling of government bonds. Over the month we have seen the intervention of the RBA and will probably require some assistance over the coming months. The U.S. Federal Reserve has also intervened to assist the bond market which in turn led to equity markets trading calmly.

The reader should note that the returns for fixed securities have collapsed and the fixed-rate Composite Index has now had four consecutive monthly negative returns. Unless we see negative rates then we may well find fixed-rate securities in the doldrums with nowhere to go. For investors, this will be hard. For investors in floating-rate securities, any reset is still producing a higher coupon, and this will accelerate if interest rates start to move higher.

PORTFOLIO MANAGEMENT

Investment Strategy

It is our belief that rates have probably fallen as far as they can for the moment and that bond yields will gradually drift higher. This is bad for holders of fixed-rate bonds as those holders can expect capital losses as interest rates and bond yields rise. Fixed-rate bonds will suffer for several reasons. One, the duration effect as rates rise, two, a rise due to an increase in credit spreads and three, switching activity as bonds are sold to allow investments in equities.

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 normally 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 increasing income as rates rise. The Portfolio is well-positioned to take advantage of any hike in rates, a sell-off or widening of credit spreads. Our maturity profile and cash position will allow the Fund to benefit by being able to invest opportunistically.

Any significant sell-off in equities will lead to some widening of credit spreads. Unless there is a significant equity sell-off we don't anticipate investment-grade credit spreads widening significantly from current levels.

Where stress could occur is in the high yield or in the sub-investment grade sector.

The Fund holds a small amount in non-investment grade securities, and

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this holding is in AMP and strategic. The subordinated bonds and hybrids were purchased at a discount to par. AMP has an "up for sale sign" and several parts of the business have appeal and are of strategic interest to suitors. The listed AMP hybrids (approximately 2% of FUM) we hold have a "change of control'' event, that if occurs, ensures AMP redeems and/or converts the security at a price of $101 + distribution. Given the recent sale of ME Bank to Bank of Queensland, we think the bank could also attract attention. If a suitor of higher credit quality purchases AMP Bank then the subordinated securities that we hold would receive a significant credit rating upgrade. It also should be noted that AMP Group has excess subordinated and hybrid capital then it requires, so it is also possible (with regulator permission) to undertake a buyback of these securities. An outcome in this situation is that we are paid out at par ($100) or the Fund receives the significant benefit of an entity with a better credit rating, and we see the bonds trade at a premium. There are a potential number of suitors and any purchase of the parts of the AMP will require ACCC and/or APRA approvals.

Bank hybrid securities should also attract attention over the coming months. Some of the listed securities are currently trading at much tighter spreads when compared to their unlisted cousins trading in the interbank market. There are some relative value 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.

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. Demand for investment-grade corporates is expected to continue. Bank capital products continue to attract attention and demand is solid. The spreads of bank capital products have tightened approximately from 6 times senior spreads to about 5 times the spread. There is still room for further tightening as the long-term average is approximately 4.2 times.

The Portfolio has now returned 11 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 4 consecutive negative months and this underperformance is expected to continue.

During the month, the Fund received the capital plus final distribution payment of the NAB Income Securities (NABHA). This has been a long-held strategic position. We have yet to reinvest all the redemption proceeds but did allocate some of this into RMBS over the month. With corporate reporting season now behind us, we expect primary issuance markets to be more buoyant and will look to allocate our cash holdings accordingly.

The Fund, as a result of the NABHA redemption, has a cash holding larger than normal. This holding is defensive given concerns over the current state of markets and the increased volatility and bond sell-off. The Fund is well positioned to take advantage of any dislocation in credit.

The outlook for the Fund is positive. The Fund is protected against the impact of rising yields and duration as a significant proportion of the Fund is in floating rate assets. The fixed-rate bonds that are held in the portfolio are short-dated and less than 3 years. As rates rise, demand for floating-rate assets will continue and increase. A bifurcation of the credit market is possible leading to FRN's trading at a premium to their fixed-rate cousins.

The Fund is rated 4 Stars by SQM Research.

SSIF vs Correlation to	1yr	3yr	5yr	10yr	Incep.
FRN Index	83.9%	79.6%	77.5%	54.0%	60.2%
Composite Index	4.0%	31.6%	33.3%	9.8%	-6.4%
ASX 200 Total Return	87.7%	76.1%	68.0%	40.3%	39.2%

Fund Metrics	
Tracking error to FRN Index 5 years	0.56
Tracking error to FRN Index since inception	2.96
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	124
Best monthly return	4.49%
Consecutive Positive Returns	11

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