April 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.

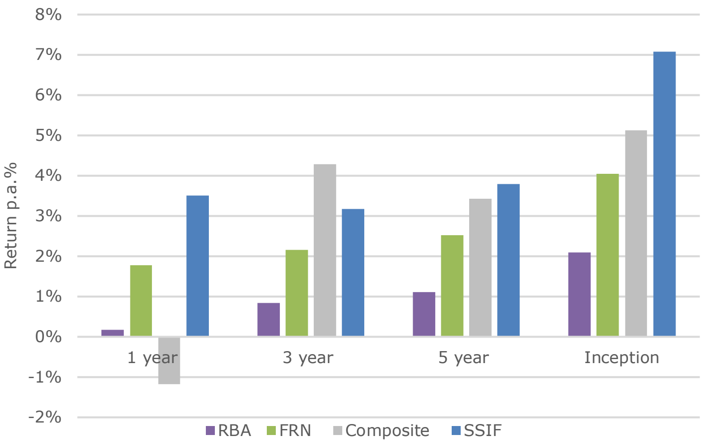
Target Return
RBA Cash Rate +1.50% p.a. net of fees.

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	$1.0726 / 1.0694
Fund Size	$74.7m
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 (%)	0.11	1.46	3.51	3.17	3.79	7.08
RBA Cash Rate (%)	0.01	0.05	0.18	0.84	1.11	2.10
Spread to RBA (%)	0.10	1.41	3.33	2.33	2.68	4.98
Income Distribution	0.43	0.94	3.02	3.15	3.30	3.97

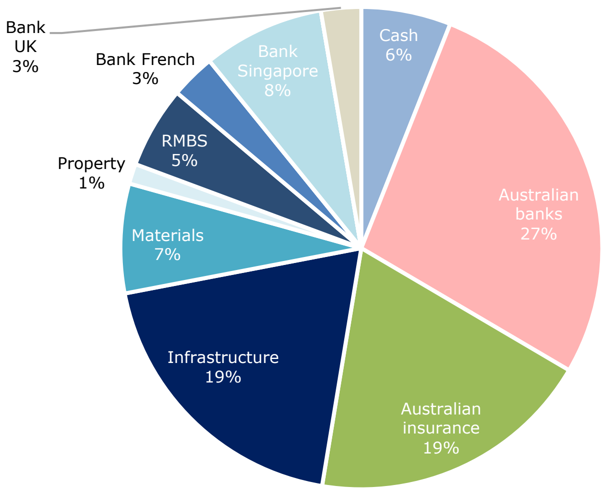
NOTE: Past performance is not a reliable indicator of future performance.

INCOME DISTRIBUTIONS

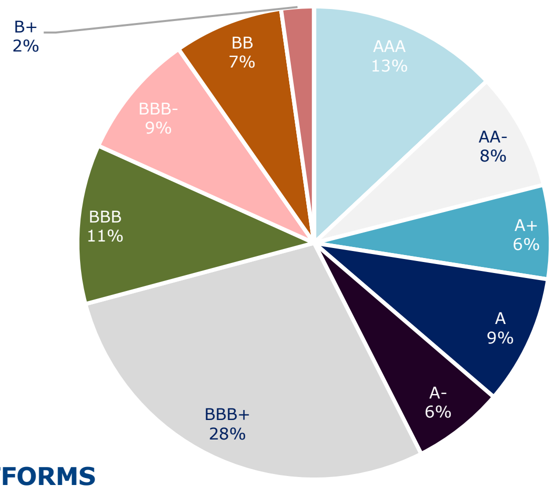
2020 /2021	Jun	Sep	Dec	Mar
Distributions (cents per unit)*	1.63	0.45	0.51	0.43

* 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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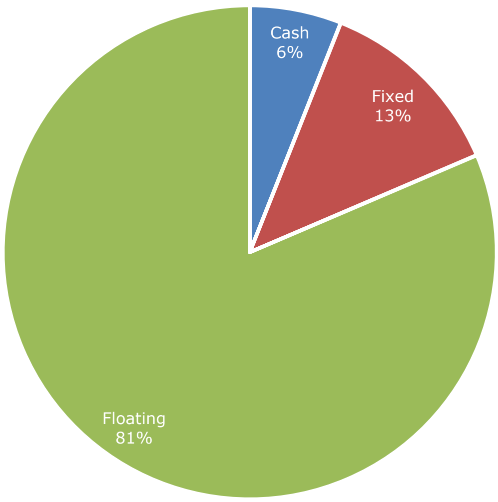
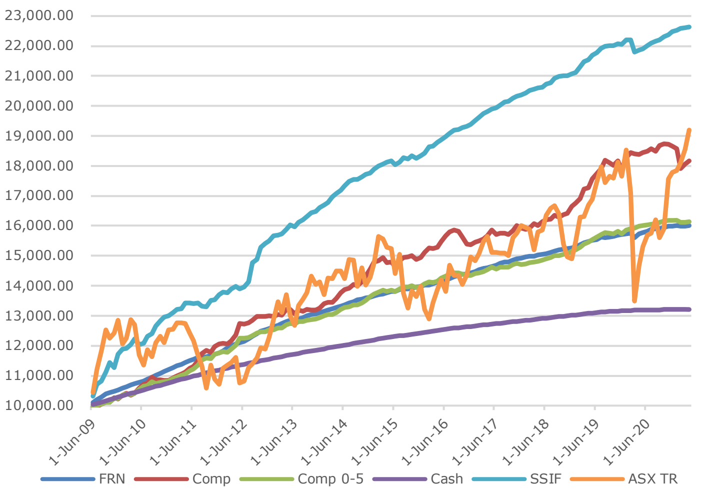
FIXED / FLOATING



GROWTH OF $10,000 SINCE INCEPTION



TOP TEN HOLDINGS as Securities

DBS Group T2	6.8%	Ausgrid Finance Snr	4.0%
Cash	6.0%	Suncorp Covered	4.0%
Verizon Snr	5.7%	AMP Ltd T2	3.9%
AAI sub T2	5.4%	AMP Ltd T2	3.6%
NAB T2	5.3%	NAB AT1	3.5%

MARKET COMMENTARY

The fallout of the Archegos misadventure continues. Credit Suisse management has come under scrutiny and so too Nomura's senior management amidst the debacle.

During the month we saw the smaller banks issuing short tenor senior unsecured securities. This was in response to a limited ability to use TFF and because lending has increased significantly during COVID-19. We expect to see an increase in issuance from the major banks in the second half of the year and that issuance is more likely to be longer-term debt.

Credit spreads remained relatively steady over the month. By type, the Bank senior unsecured widened in the longer tenors, Tier 2 bank spreads continued their tightening and lower beta corporates saw spreads tighten.

The Bloomberg Composite All Maturities Index year on year return continues its negative cycle. April was the third consecutive month where the rolling year on year returns was negative. This trend may continue as interest rates appear to have reached their secular lows.

During the month equity markets were solid. Markets, in general, are trying to determine if inflation is likely to have an impact or whether all the talk is just a mere storm in a teacup. Credit has remained stable. High yield spreads have contracted marginally as equity has rallied. Over the month, high yield spreads contracted to 286bp, a tightening of 20bp in credit spread.

The outlook for both credit and equity markets appears positive. The Biden package is expected to lead to growth in the U.S. in excess of 7% and global growth is expected to grow at a rate of 6% or more. However, with the talk of increasing marginal tax rates for companies and wealthy individuals, it is unclear how the market will take this news once the increases are a known quantity.

Central banks will continue to hold interest rates steady. It is worth noting that budgets will need to be repaired and for many countries that will be in the form of higher tax rates or higher long-term bonds or a combination of both. This can only come once growth is seen and populations and countries recover from the impacts of COVID-19.

The last few years have been rather interesting apart from the impact of COVID-19, which has just exacerbated some of the impacts. Over this period we have seen the continuing disparity between the haves and have nots and in addition, we have seen debt spiraling to ever-higher levels and default rates unexpectedly falling. Refer Appendix 1.

This is causing a problem. Debt is now at such a volume that it is a systemic risk and of systemic importance. What we now see is that a large policy shift is required to ensure that the most indebted companies don't default. As a major default will impact global financial systems and economies. The reason being is that there is so much debt which is now being sustained by Government assistance and especially so in these COVID-19 times. Any lack of commitment could see the risk of a problem rapidly evolving.

Since 2004, defaults have slowed, and spreads have remained at similar levels. The lack of any restructure has allowed debt to balloon, ensured those companies that should have failed remain in business thus stymying innovation and leading eventually to a much bigger collapse. This lack of restructuring and increased debt has also led to reduced productivity. Reduced productivity makes it difficult for real wages to grow. We need real wages to grow so that balance sheets and government finances can be repaired.

For the moment the central banks will need to be unified because the industrial nations are caught in this virtuous loop of high debt, high intervention and low productivity.

One should not be fearful though if rates do as we expect and inevitably rise. Higher yields with improving credit fundamentals are credit positive. The fall in bond prices is due to duration, not interest rates, improves the risk-reward for credit. The net effect is that effects of duration, convexity and event risks fall and this attracts the flows into credit. Higher yields lead to long end performance and spread compression eventually. The impact of duration is further reduced if the portfolio is skewed towards floating-rate assets.

PORTFOLIO MANAGEMENT

Investment Strategy

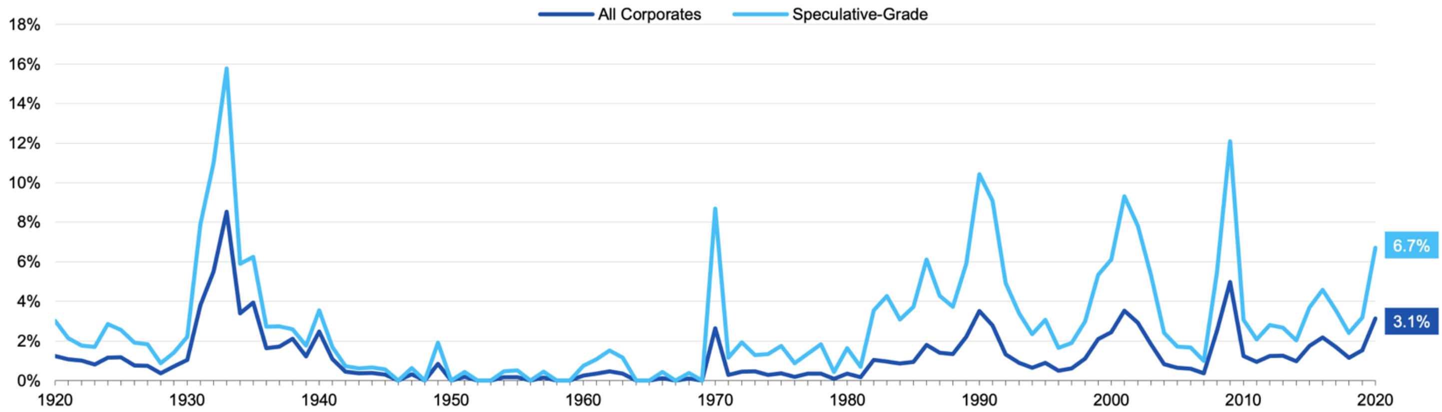
Fixed-rate bonds appear to have run their course for the moment. Bond yields have risen sufficiently to capture some investor interest and the long end of the market is a testament to offshore investor interest. How long this interest continues is a moot point. Inflation or rather fear of inflation has abated for the moment as investors weigh up possible tax hikes in the U.S. The fear of inflation could easily emerge should strong U.S and global growth continue.

Fixed-rate bonds will continue to 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 other asset classes.

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. 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.

Appendix 1

Default rate surged to its highest level in a decade*



* Issuer-weighted.

Source: Moody's Investors Service

Given the current outlook for growth in both Australia, the U.S. and globally, credit should continue to perform and especially so as equity markets continue to perform. Performing equity markets will lead to credit spread contraction.

The Fund holds a small amount in non-investment grade securities, and Bank hybrid securities. The non-investment grade holding is in AMP a company that has surplus capital where that capital could be used to reduce debt. AMP is vulnerable to takeover. 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.

The Portfolio has now returned 13 consecutive positive months.

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 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 FRNs 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	57.05%	79.8%	78.4%	54.0%	60.3%
Composite Index	4.23%	31.4%	31.7%	9.6%	-6.6%
ASX 200 Total Return	-0.40%	75.3%	66.9%	40.2%	38.5%

Fund Metrics	
Tracking error to FRN Index 5 years	0.57
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	126
Best monthly return	4.49%
Consecutive Positive Returns	13

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