May 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.

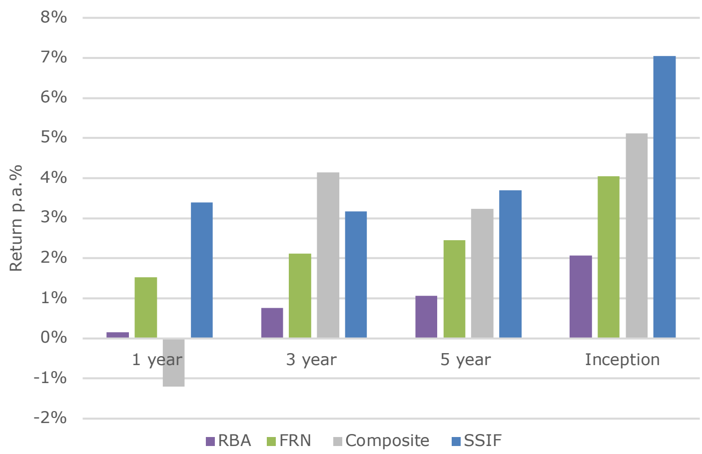
Target Return
RBA Cash Rate +1.50% p.a. net of fees.

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	$1.0737 / 1.0705
Fund Size	$76.5m
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 (%)	0.10	1.24	3.40	3.17	3.70	7.08
RBA Cash Rate (%)	0.01	0.05	0.15	0.76	1.06	2.07
Spread to RBA (%)	0.09	1.19	3.25	2.41	2.64	4.97
Income Distribution	0.00	0.94	3.02	3.15	3.30	3.97

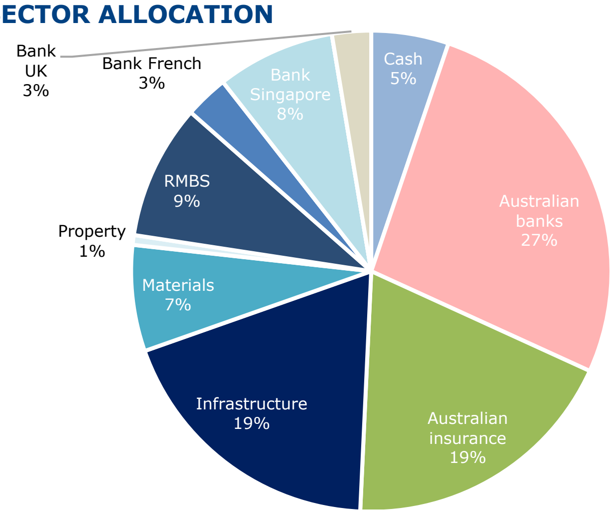
NOTE: Past performance is not a reliable indicator of future performance.

INCOME DISTRIBUTIONS

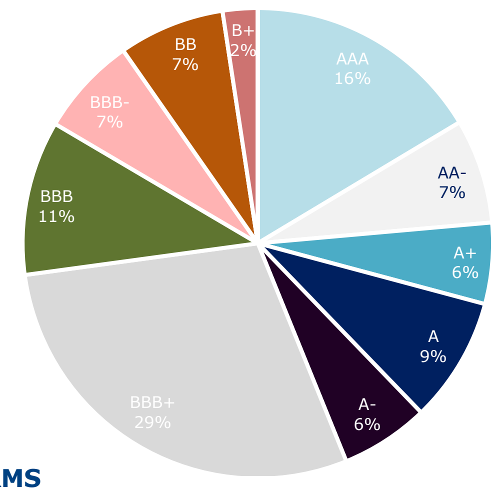
2020 /2021	Jun	Sep	Dec	Mar
Distributions (cents per unit)*	1.63	0.45	0.51	0.43

* 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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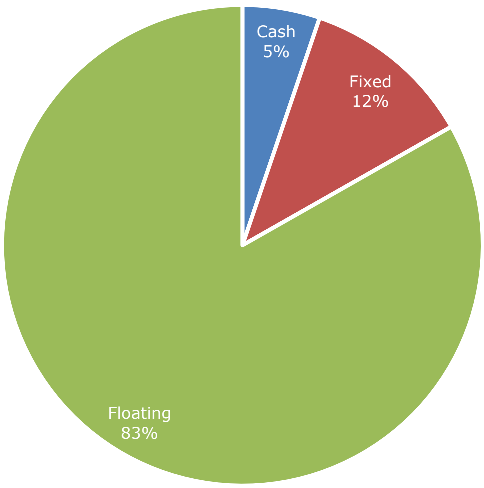
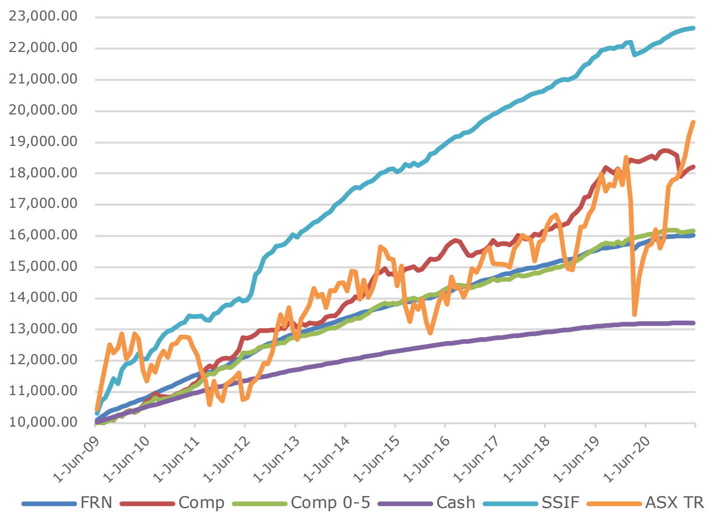
FIXED / FLOATING



GROWTH OF $10,000 SINCE INCEPTION



TOP TEN HOLDINGS as Securities

DBS Group Sub	6.6%	Ausgrid Finance	3.9%
NAB T2	5.7%	Suncorp Covered	3.9%
Verizon Snr	5.5%	CNH Industrial	3.9%
AAI Sub	5.2%	AMP Sub	3.8%
Cash	5.2%	AMP Sub	3.5%

MARKET COMMENTARY

The strategy of sell in May stay away worked well in the equity market in the earlier part of the month. Uncertainty allowed the bond market to rally after selling off earlier in the month. As the month drew towards the end of the month, equity markets rallied, and this may have been a result of a large Quantitative Fund (over $100B) managed by Blackrock reweighting from growth to value. Value stocks such as banks rallied late in the month. Sentiment which earlier in the month was negative improved over the month.

The RBA indicated that Term Funding Facility (TFF) would cease at the end of June. This has led to some issuance by the majors as they to find funding sources. Westpac has been active and has completed an issue of 5-year and 10-year USD unsecured notes. The demand for Australian Bank paper from offshore should encourage the other three majors to issue as spreads are particularly favourable even when compared to TFF Funding.

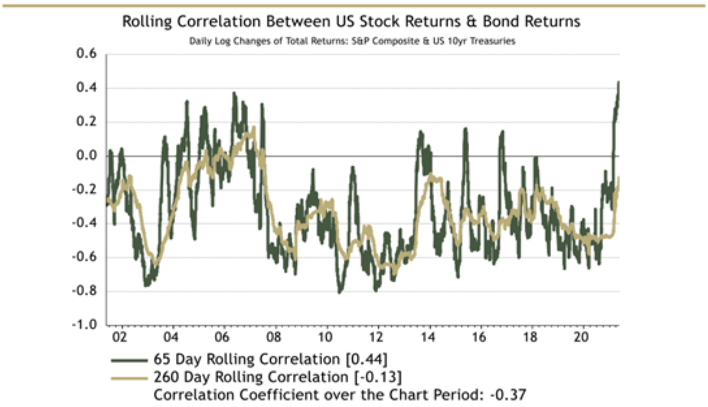
Credit spreads saw some tightening over the month. Lower T2 spreads saw continuing demand as these securities offer the best yield and some opportunity for further spread tightening.

The Bloomberg Composite All Maturities Index year on year return continues its negative cycle. May was the fourth 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.

High yield spreads have contracted marginally as equity has rallied. Over the month, high yield spreads were steady and closed at 288.

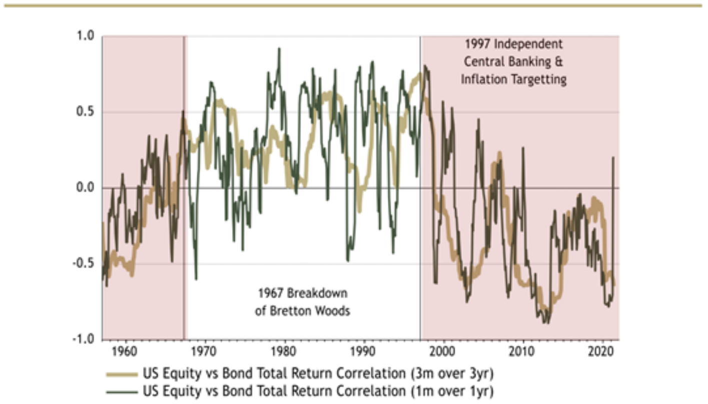
Of interest, the nexus between bonds and equities appears to be changing. Well, at least the correlations. Over the past twenty years or so, bonds and equities have been negatively correlated, (If equities rallied bonds sold). Bonds now appear to be rallying as equities also rally, and this appears to be in response to inflation and the impacts of inflation. This relationship has fluctuated between positive and negative over the past 70 years. What this means is that the relationship between bond yields and earnings yields is tenuous, much to the displeasure of the data miners. It's easy to reuse old foibles. This possibly means that equities remain cheap in a very low-interest rate environment.

Chart 1: The past three months have seen a major change in correlation



Source: ASR Ltd. / Refinitiv Datastream

Chart 2: US Stock-Bond return correlation has not always been negative



Source: ASR Ltd. / Refinitiv Datastream

The net result of these changing correlations could herald a changing environment for returns as the reliance on bonds performing when equities sell may be changing. If investors continue to fret about inflation, then this could mean that bonds and stocks may be correlated for a while.

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

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The Portfolio has now returned 14 consecutive positive months.

Fear of inflation will over time drive yields of fixed-rate bonds higher. Over the month, bonds have rallied and that's partly due to economic conditions and dovish comments from Central Bankers. However, for some market pundits, inflation concerns are sounding an ominous warning.

We expect interest rates and bond yields to track higher over time, and this will impact fixed-rate portfolios.

Fixed-rate bonds will continue to suffer for several reasons. One, the duration effect, as rates rise, the rising yields will cause the price to fall (inverse relationship). A rise in yields may see credit spreads widen. Switching activity may lead to bonds being sold as portfolios reweight selling bonds to invest in other asset classes.

The Portfolio will 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.

As a caveat, performing equity markets will lead to continued credit spread contraction. Any portfolio with credit would then benefit as a result.

The Fund holds a small amount in non-investment grade securities, and Bank hybrid securities. The portfolio has gained some benefit through a strategic investment in the Suncorp Capital Notes which are due to be redeemed on 28 July 2021. These securities were offering an IRR of 4.4% at the time of purchase, providing good value. 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. Apart from investing in the Suncorp Capital Notes the Fund also purchased a line of CNH Industrial ABS. The ABS presents great value, is rated AAA and has a weighted average life of approximately 1.6 years. Case is a heavy machinery manufacturer, with the majority of business in heavy farm equipment such as grain headers. Case also manufacture Iveco trucks.

We expect primary issuance markets to be more buoyant and will look to allocate our cash holdings accordingly. With TFF running off at the end of June we will see the issuance of senior unsecured from the Banks. We are also expecting that with the upcoming maturities of T1 and T2 sub-debt that those banks with maturing debt will look to issue. For example, CBA has T1 and T2 maturities over the coming months and we expect that they will issue T1 sub (listed) and eventually a T2 deal to replace the upcoming maturity.

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	67.8%	80.0%	78.3%	55.3%	60.4%
Composite Index	1.4%	31.8%	30.8%	10.4%	-6.5%
ASX 200 Total Return	2.17	74.8%	66.1%	39.7%	38.3%

Fund Metrics	
Tracking error to FRN Index 5 years	0.50
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	127
Best monthly return	4.49%
Consecutive Positive Returns	14

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