June 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.

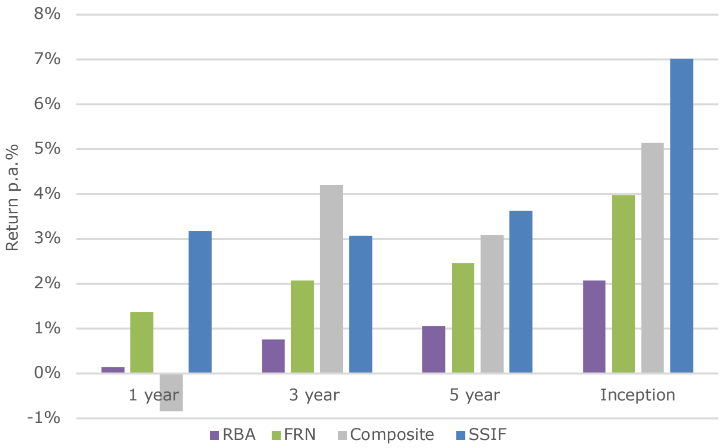
Investment Strategy
The Fund holds a diversified portfolio of debt and income securities with a view to minimising any loss of income and capital of the Fund. Issuers may be government bodies, banks, corporations and, to a limited extent, specialist financing vehicles. To maintain a diversified portfolio 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	$1.0631 / 1.0599
Fund Size	$75.7m
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 (%)	0.21	1.04	3.17	3.07	3.63	7.01
RBA Cash Rate (%)	0.01	0.05	0.15	0.76	1.06	2.07
Spread to RBA (%)	0.20	0.99	3.02	2.31	2.57	4.94
Income Distribution	1.28	1.72	2.68	3.33	3.05	3.95

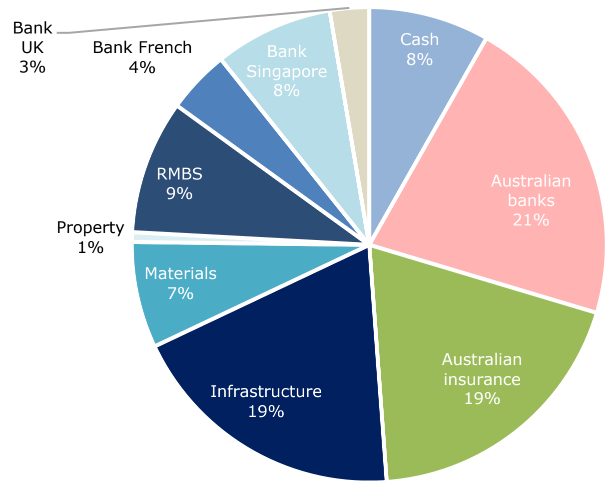
NOTE: Past performance is not a reliable indicator of future performance.

INCOME DISTRIBUTIONS

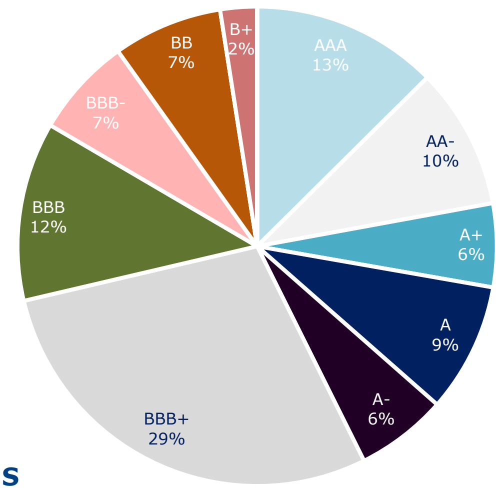
2020 /2021	Sep	Dec	Mar	Jun
Distributions (cents per unit)*	0.45	0.51	0.43	1.28

* 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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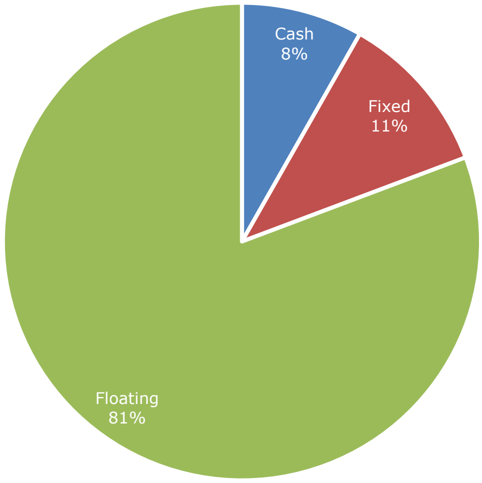
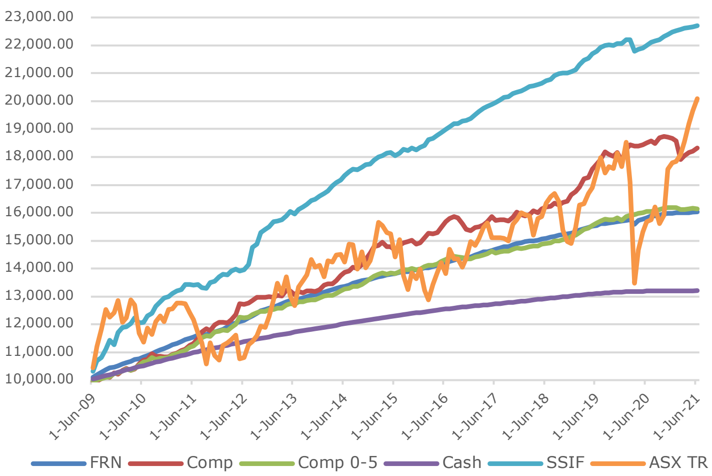
FIXED / FLOATING



GROWTH OF $10,000 SINCE INCEPTION



TOP TEN HOLDINGS as Securities

Cash	8.2%	Ausgrid Finance Snr	4.0%
DBS Group Sub	6.7%	CNH Industrial ABS	4.0%
NAB Sub	5.8%	AMP Group Sub	3.9%
Verizon Snr	5.6%	AMP Group Sub	3.5%
AAI Sub	5.3%	NAB AT1	3.5%

MARKET COMMENTARY

Over the month of June, the market was toying with the idea of rates increasing and perhaps the RBA tapering its bond purchases. However, that all crashed when COVID-19 hit. Since the middle of the month, the economy once again has become shuttered as low vaccination rates are leading to issues relating to COVID-19 necessitating State Government to either close borders or enforce strict controls.

Since the lockdown, the ASX has struggled however it still rallied 2.1% for the month. Fixed-rate bonds have rallied and with the U.S. economy appearing to be in a Goldilocks zone, bond yields do not appear to be under pressure, and they too have rallied. The RBA has suggested that interest rates will remain steady until 2024 and that comment has led to bonds rallying over the month.

Over the month we saw some tightening of credit spreads. Bank sub Tier 2 papers performed the best. With the Term Funding Facility now finished, the banks will now have to borrow once again in the capital markets. The run down into June 30, saw the banking sector draw down approximately $200b of funding out to three years. When that funding matures in three years, come time to refinance, market dynamics could be interesting.

In a blow to insurers, the NSW Court of Appeal rejected the Insurance Council of Australia's appeal case for relying on exclusions in rejecting business interruption caused by the pandemic.

During the month, the crescendo of bears calling the market a bubble has increased significantly. The number of put options on stocks has increased significantly with some investors saying that this increase points to an increase in bearish sentiment. This increase could be simply a rebalancing as there is still a significant amount of free cash within the system. Others point to bears like Richard Bernstein who suggests that if you apply his five tests, and the current market passes all five, suggesting that we are in a bubble. His tests are increased liquidity, increased use of leverage, retail stepping into purchasing securities in ever-increasing amounts, increased new issues and turnover. These tests are the litmus test for a bearish market, and all are at very high levels. The market has in part been driven largely by three sectors, technology, communication services and consumer discretionary. Any bursting of a bubble would most likely see a retracement in those sectors.

One should not be fearful though if rates do as I 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. Such a fall attracts 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

As a Manager, one of the great conundrums that have to be addressed before making any rational portfolio choices is to look through the great reflation trade. Over the past few weeks, we have seen bond yields fall and fall significantly. Does this mean that our views of the economy are darkening or does this indicate something different? More importantly, how do we position the Portfolio so that it performs.

The pre-pandemic world was one of the rapidly ageing societies. Ageing typically drives demand for income-generating products such as bonds and annuities. What we have is demand for income-generating products rather than consumption. Economies need consumption to grow. What COVID-19 has done is drive up our savings glut. This is leading to a hoarding of income-generating assets.

Source: Mike Dolan, Refinitive 9 July 2021

Economic data continues to surprise in places such as China and has now been negative for two months. The U.S. equivalents are also struggling. Liquidity measures of central bank activity suggest that liquidity is being drained and this makes things very interesting. Have bond markets and central banks fretted too much about inflation when other economic indicators are turning down? For example, the Fed is draining liquidity. Is this an overreaction that could lead to demand for securities with duration? We do know that liquidity is draining from the system and this could lead to a squeeze.

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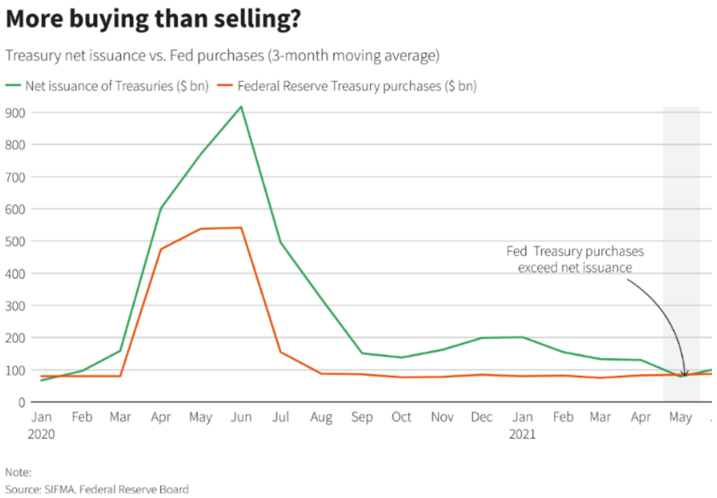

So how do we position the Portfolio should such a scenario arise? The answer is to not get carried away with being overly concerned about duration as the Portfolio is floating. What will benefit the Portfolio is buying credit where spreads are expected to tighten or have room for tightening. This means that Bank sub issued by highly rated banks would suit and maybe some lesser credits where the credit spread offers sufficient protection against any rate rises.

Fear of inflation will over time drive yields of fixed-rate bonds higher. Over the month, bonds have rallied and that's because of COVID-19 fears in Asia and concerns that economies appear to be slowing with a hint that we may have overplayed concern over inflation.

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.

The Portfolio has now returned 15 consecutive positive months.

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.

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. The Fund over the month purchased a new issue line of BNP 10.5NC 5.5-year Tier 2 FRN and a line of CNH Industrial senior unsecured 3-year MTN's. Both lines offer a level of portfolio diversification. The line of BNP is tied to Europe's performance whilst CNH Industrial offers diversification by aligning performance with the demand for agricultural heavy machinery and heavy trucks, both of which are seeing solid international demand.

We expect primary issuance markets to be more buoyant following reporting season and will look to allocate our cash holdings accordingly. With TFF running off at the end of June we will see in time the issuance of senior unsecured from the Banks.

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	65.6%	80.2%	79.5%	56.3%	60.4%
Composite Index	-5.0%	31.6%	29.6%	10.4%	-6.6%
ASX 200 Total Return	0.96%	74.4%	67.2%	39.4%	39.3%

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	128
Best monthly return	4.49%
Consecutive Positive Returns	15

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