July 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.

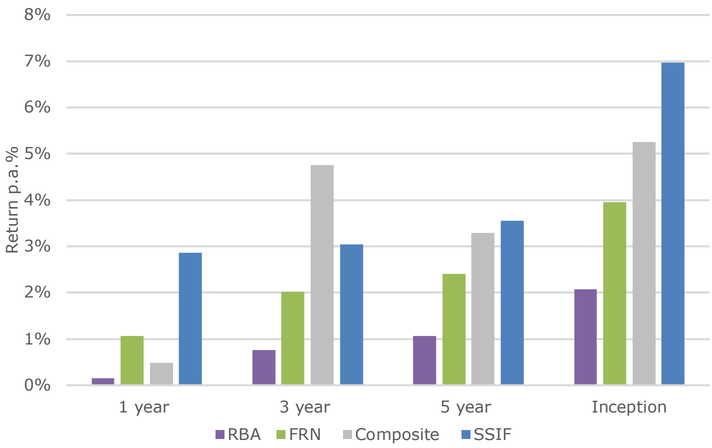
Investment Strategy
The Fund holds a diversified portfolio of debt and income securities with a view to minimising any loss of income and capital of the Fund. Issuers may be government bodies, banks, corporations and, to a limited extent, specialist financing vehicles. To maintain a diversified portfolio 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	$1.0644 / 1.00612
Fund Size	$73.5m
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 (%)	0.12	0.91	2.86	3.04	3.55	6.97
RBA Cash Rate (%)	0.01	0.05	0.15	0.76	1.06	2.07
Spread to RBA (%)	0.11	0.86	2.71	2.28	2.49	4.90
Income Distribution	0.00	1.72	2.68	3.33	3.05	3.95

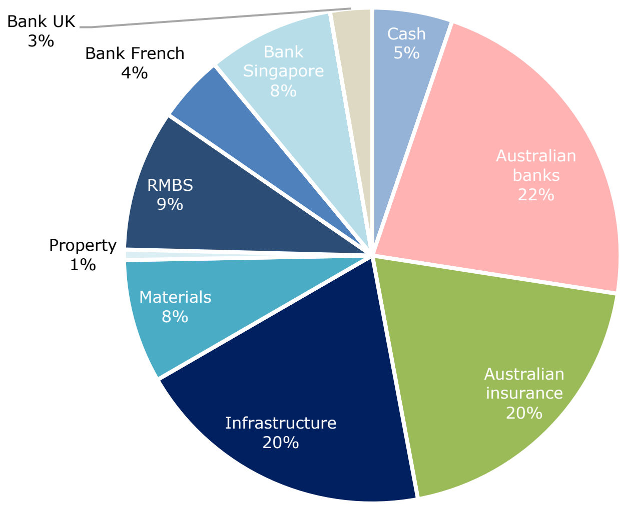
NOTE: Past performance is not a reliable indicator of future performance.

INCOME DISTRIBUTIONS

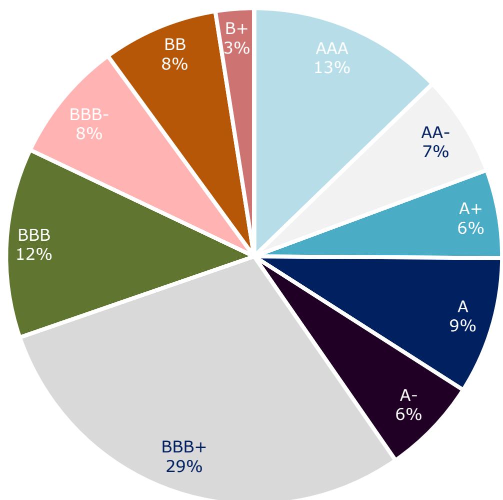
2020 /2021	Sep	Dec	Mar	Jun
Distributions (cents per unit)*	0.45	0.51	0.43	1.28

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

SECTOR ALLOCATION



CREDIT RATING



RATINGS

PLATFORMS

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

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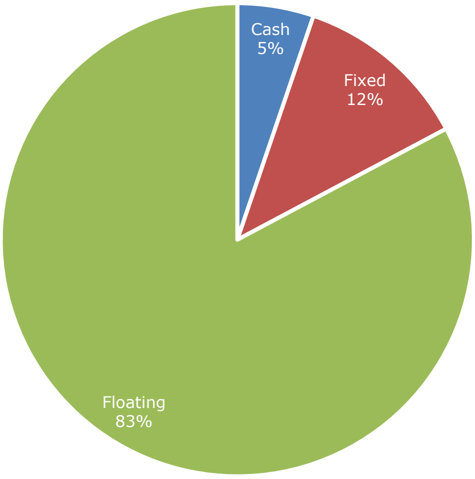
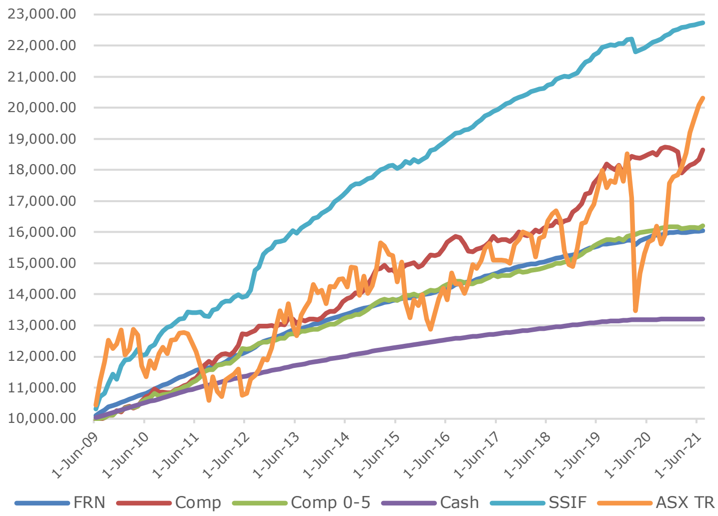
FIXED / FLOATING



GROWTH OF $10,000 SINCE INCEPTION



TOP TEN HOLDINGS as Securities

DBS Group Sub	6.9%	Ausgrid Finance Snr	4.1%
NAB Sub	6.0%	CNH Industrial ABS	4.1%
Verizon Snr	5.8%	AMP Group Sub	4.0%
AAI Sub	5.4%	AMP Group Sub	3.6%
Cash	5.3%	NAB AT1	3.6%

MARKET COMMENTARY

What's not to fear? The markets are caught up in what can be described as FOMO. Equity has rallied and Government securities have rallied because the economy is being pump primed because of COVID-19 concerns. This means that we are seeing active intervention by central banks and loose monetary policy. Corporates are receiving assistance, and this is allowing the economy to continue to grow.

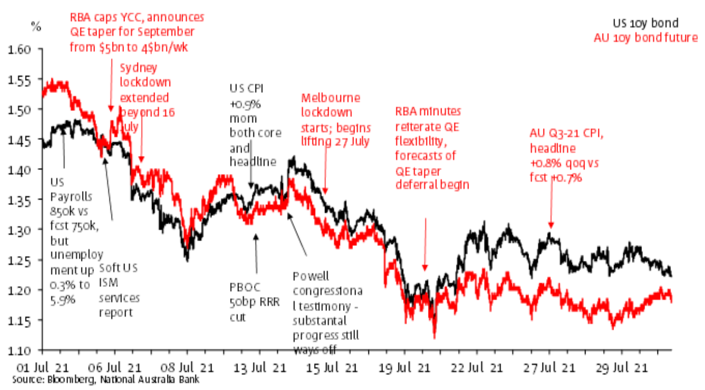
The RBA remains committed to maintaining the cash rate at 0.10% and this probably means that government bonds can rally further. Equity markets appear resilient and continue to make new highs. Credit remains keenly bid with bank senior and subordinated debt tighter over the month on no imminent signs of supply.

Government bonds have rallied along with the rising COVID-19 infection rate. Government bonds have rallied significantly over the month and this movement is responsible for the fixed indices performances. The RBA has maintained loose monetary policy as a response to COVID-19 and is maintaining bond purchases albeit at a lower level than previously, approximately $4b per week. APRA has provided the banks with relief on arrears recognition.

Commodities were generally higher over the month and augers well for the equity market. Once again China has been the main driver for commodity prices and our major exporters have benefitted as a result and especially so the major exporters. Coal and LNG have benefitted whilst iron ore slipped in price towards the end of July.

Earnings reports remain strong, and this is especially so in the U.S. In aggregate sales have exceeded expectations by 45% and earnings have exceeded expectations by 17%. This is good for credit and supporting underlying credit spread contraction.

Interesting to note that in Australia credit curves have steepened, with the front-end outperforming. Credit bonds rated A- were the best performers with spreads in approximately 4bp. Bonds rated BBB- in general, languished. This implies that investors are seeing better opportunities in higher-rated securities and possibly that spreads in the lesser investment-grade credits have tightened too much.



Sourced Ken Crompton NAB Rates Strategy Comment 3 August 2021

PORTFOLIO MANAGEMENT

Investment Strategy

Economic data continues to show growth. This trend should continue to spur equity performance and in turn, will spur credit performance. Over the coming weeks, we expect further tightening of credit spreads.

We remain cautious. This is caution is due to China, and the Chinese government's crackdown on Chinese businesses, in particular the fintech sector. The Chinese government has also weighed in on commodities and as a result, we have seen prices fall in some commodities such as iron ore and copper.

The portfolio has benefitted from the tightening of credit spreads and in particular, the bank and insurance T2 sub which has seen spread tightening from 5 to 6 times senior spreads to 3.5 times senior spreads. We do not expect too much more contraction however we do not see too much widening as well. These securities offer good value and return when compared to senior bank paper whose margins have been heavily influenced by lack of supply.

The impact of COVID-19 could still impact the portfolio however most central banks and governments have been supportive of business in lockdowns, and we expect this trend to continue and especially so in Australia.

The main driver of markets continues to be the U.S. whether it be equity or bond markets. A significant rise will see Australian bonds weaken in price (yields rising). If bond yields do not rise, then the Australian dollar will weaken reflecting the interest differential. A slowdown in exports could also lead to a deterioration of the Australian dollar.

The portfolio will continue to chase opportunities. These opportunities could include purchasing listed hybrids that are mispriced. For example, purchases of BENHB have been made because the security is to be called later this calendar year and is trading below par with two distributions remaining. The security is currently trading around a 3% IRR. Our holdings in short dated fixed rate securities are likely to be rotated out of the portfolio to participate in expected new issuance post reporting season.

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

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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 16 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 were redeemed on 28 July 2021. Following this redemption, the fund has been accumulating a small but strategic holding in the listed BENHB notes which is to be redeemed in coming months. The short-term nature of the subordinated note holding is a relatively low risk.

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 maintain the creditworthiness of the Fund over time and improve the diversification and credit quality.

We expect primary issuance markets to be more active once the lockdowns in the various states cease. The Fund will look to deploy funds opportunistically.

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.

Fund Metrics	
Tracking error to FRN Index 5 years	0.46
Tracking error to FRN Index since inception	2.94
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	129
Best monthly return	4.49%
Consecutive Positive Returns	16

SSIF vs Correlation to	1yr	3yr	5yr	10yr	Incep.
FRN Index	49.4%	75.5%	73.7%	57.0%	60.5%
Composite Index	-22.4%	28.4%	25.9%	10.3%	-7.1%
ASX 200 Total Return	12.0%	74.3%	66.7%	39.4%	38.0%

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