August 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.

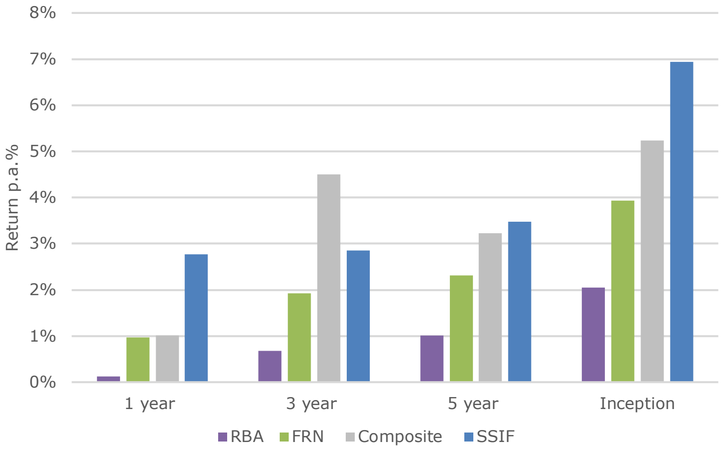
Investment Strategy
The Fund holds a diversified portfolio of listed and unlisted debt and hybrid debt securities with a view to maximising income and preserving capital. Issuers may be government bodies, banks, corporations and, to a limited extent, specialist financing vehicles. To maintain a diversified 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	$1.0662 / 1.0630
Fund Size	$64.4m
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 (%)	0.17	0.86	2.77	2.86	3.48	6.94
RBA Cash Rate (%)	0.01	0.05	0.13	0.68	1.03	2.05
Spread to RBA (%)	0.16	0.81	2.64	2.18	2.45	4.89
Income Distribution	0.00	1.72	2.68	3.33	3.05	3.95

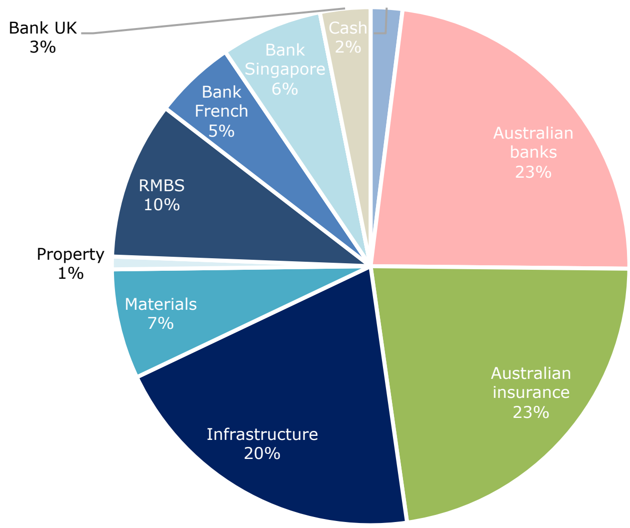
NOTE: Past performance is not a reliable indicator of future performance.

INCOME DISTRIBUTIONS

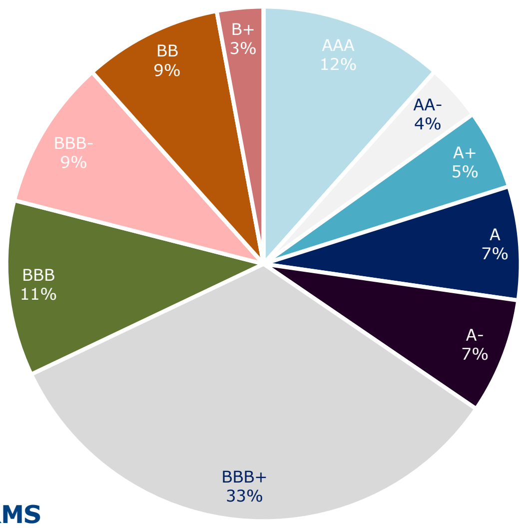
2020 /2021	Sep	Dec	Mar	Jun
Distributions (cents per unit)*	0.45	0.51	0.43	1.28

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

SECTOR ALLOCATION



CREDIT RATING



RATINGS

MORNINGSTAR ★★★★

★★★★★ Superior SQM RESEARCH

PLATFORMS

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

August 2021

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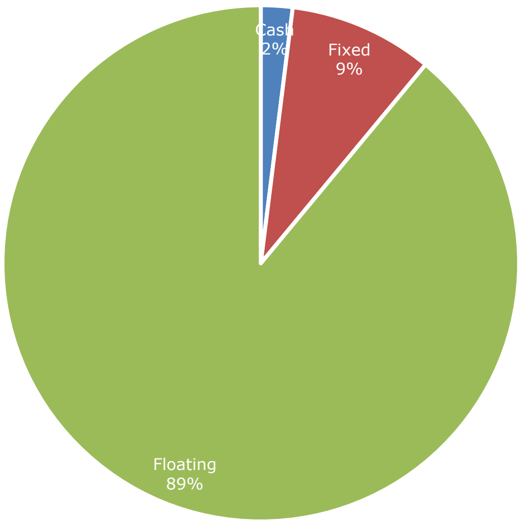
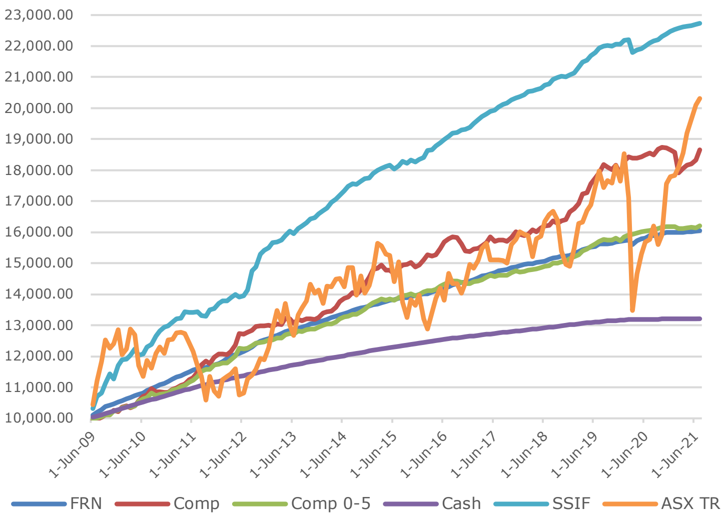
SPECTRUM ASSET MANAGEMENT

FIXED / FLOATING



GROWTH OF $10,000 SINCE INCEPTION



TOP TEN HOLDINGS as Securities

NAB Sub	7.4%	AMP Group Sub	4.5%
Verizon Snr	6.6%	AMP Group Sub	4.2%
AAI Sub	6.2%	NAB AT1	4.1%
DBS Group Sub	4.7%	CNH Industrial ABS	4.0%
Ausgrid Finance Snr	4.7%	Paccar Financial	3.2%

MARKET COMMENTARY

Over the past month, markets have become somewhat wary of the possibility of an increase in interest rates and bond yields. The supply chains appear to have been broken because of the shutdown caused by COVID-19, and the trade war between the U.S. and China. These broken chains have led to problems. A chip shortage is a headache for the car industry but also this is allowing car manufacturers to raise the prices of their cars because of demand exceeding supply. So, whilst fewer cars are being built the prices are rising. This issue is just not a car related problem it's a manufacturing wide problem and over time can lead to a significant bump up in interest rates.

Currently, we have failed to see inflation stir to any significant degree and this is keeping a lid on expectations. This means that any tantrum in the bond markets is contained presently.

Source: 31 August 2021 Bloomberg Business John Authers

For the moment markets are not focusing on inflation, however, there will be a point when markets and especially bond markets focus on inflation. If shortages for key components remain then inflation will stop being transitory and will become persistent. If this happens, we will see selling.

What this means for equities is that valuations will be pressured, however for those businesses able to pass on costs it could be a boon. Even if rates do move up in yield, equities can still perform due to the low level of interest rates. Valuations using the dividend discount model will be affected in outright valuations, but given the very low level of interest rates, valuations won't be so influential rather demand the ability to raise prices and the economic outlook will enable shares to rally. Under this scenario, credit should remain strongly bid.

For fixed-rate assets, a selloff should be expected. We are already seeing some of this movement in the composite index which was weak in August. Any scare regarding inflation will see bond yields rise significantly. If rates rise too rapidly, we could see a selloff in equity markets and pressuring credit spreads. Interest rates will then find their mean reversion level, and this will allow markets to then stabilise. All these scenarios require the impact of COVID-19 to diminish and economic growth to continue at a sustainable growth rate.

PORTFOLIO MANAGEMENT

Investment Strategy

Domestic economic data is becoming a little inconsistent and is pointing to perhaps a looming technical recession all because of state shutdowns due to the COVID-19 virus. China too appears to be undergoing change. The Chinese government is trying to slow the housing market and if successful means that demand for coal and iron ore will be dampened. And if true this could lead to a deepening of a recession.

There is a problem. China is trying to prick its housing bubble leading to a commensurate fall in demand for various commodities. Meanwhile, interest rates are on the move. If the U.S. does commence its tapering and if the ECB follows suit, and it appears to be doing so, then interest rates will start to move higher. The RBA may have its hand forced to raise interest rates, otherwise, the currency could weaken. Bond rates remain vulnerable as more than 50% of Australian Government Bonds are held by offshore investors. Any sell-off by these investors could lead to a weakening currency and rising bond yields. The RBA could find itself with a nasty problem to solve.

We remain cautious given the outlook.

The portfolio has benefitted from the tightening of credit spreads and in particular the bank and insurance T2 sub which has seen spread tightening. Spreads have contracted some 2-5 bp depending upon the security. Demand for corporate paper, asset-backed and various securities in the capital stack remains strong and especially so with the current level of interest rates. Anything better than cash is desirable.

The portfolio will continue to chase opportunities. These opportunities could include purchasing of hybrids that are mispriced. For example, purchases of BENHB have been made over the past few months at attractive IRR's. A Redemption Notice has been issued as these notes will cease receiving capital treatment from 1 January 2022 and are the last of the "old style" capital instruments in the domestic market.

August 2021

SPECTRUM STRATEGIC INCOME FUND

The Fund has holdings in both AMP T2 and hybrids which are deemed sub-investment grade. Given the Group's recent results, surplus capital and strategic direction we remain comfortable with this position.

The Portfolio has now returned 17 consecutive positive months.

We expect primary issuance markets to be active once again now that the domestic reporting season has finished. Offshore banks, SSA's and ABS issuance have filled the void. Both the refinancing and new issuance of hybrids has coincided with the announcement of capital initiatives (share buybacks) amongst the domestic banks. The Fund will look to deploy funds opportunistically and is well-positioned to take advantage of any dislocation in credit.

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 as rates have moved higher. 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.

The Fund's strategy is to invest as opportunistically as our maturity profile allows. This means that we have the option of maintaining a cash balance to invest if there is a market dislocation or reinvesting these proceeds. Or there is the option of selling some of our shorter-dated senior secured and unsecured holdings to raise cash. The Manager is looking to maintain the creditworthiness of the Fund over time and improve diversification and credit quality.

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	130
Best monthly return	4.49%
Consecutive Positive Returns	17

SSIF vs Correlation to	1yr	3yr	5yr	10yr	Incep.
FRN Index	51.0%	80.8%	79.3%	57.9%	60.6%
Composite Index	-21.6%	28.9%	27.2%	14.0%	-7.0%
ASX 200 Total Return	10.9%	75.3%	67.6%	37.9%	37.8%

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