September 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.

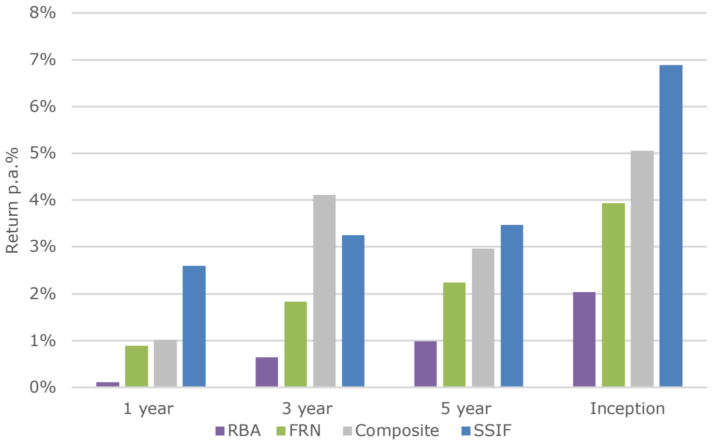
Investment Strategy
The Fund holds a diversified portfolio of listed and unlisted debt and hybrid debt securities with a view to maximising income and preserving capital. Issuers may be government bodies, banks, corporations and, to a limited extent, specialist financing vehicles. To maintain a diversified 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	$1.0625 / 1.0593
Fund Size	$66.0m
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 (%)	0.04	0.76	2.59	3.25	3.47	6.89
RBA Cash Rate (%)	0.01	0.05	0.11	0.64	0.99	2.03
Spread to RBA (%)	0.03	0.71	2.48	2.61	2.48	4.86
Income Distribution	0.41	1.69	2.63	3.32	3.03	3.89

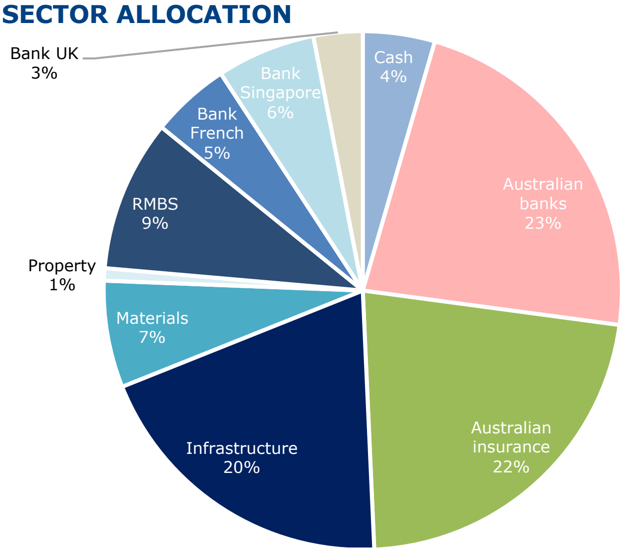
NOTE: Past performance is not a reliable indicator of future performance.

INCOME DISTRIBUTIONS

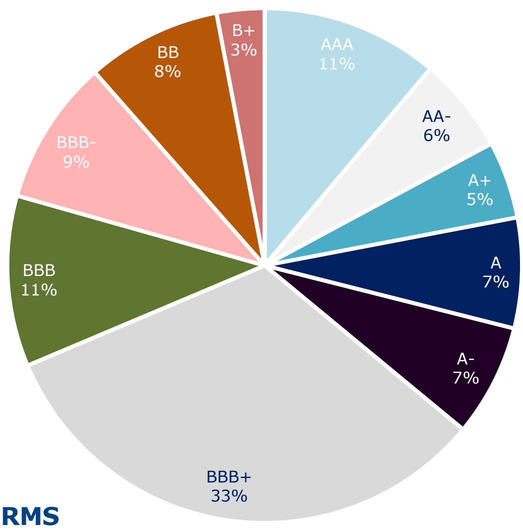
2020 /2021	Dec	Mar	Jun	Sep
Distributions (cents per unit)*	0.51	0.43	1.28	0.41

* 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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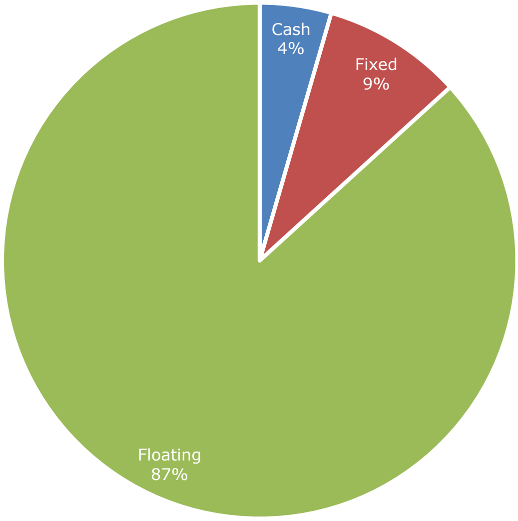
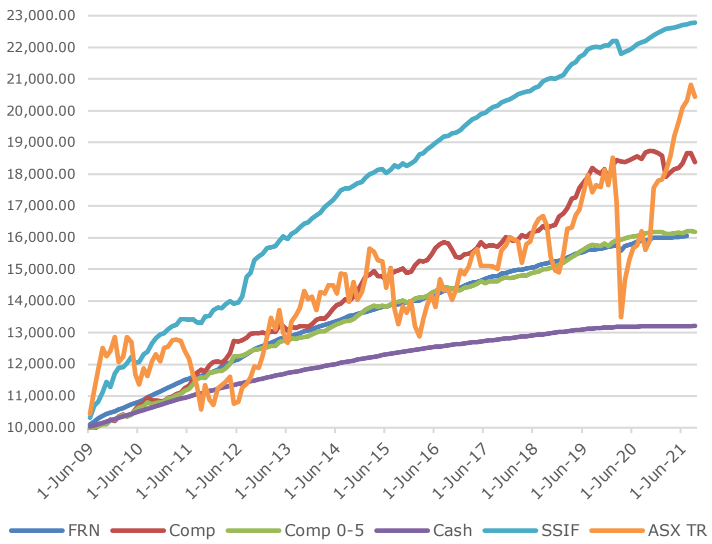
Spectrum Asset Management

FIXED / FLOATING



GROWTH OF $10,000 SINCE INCEPTION



TOP TEN HOLDINGS as Securities

NAB Sub	7.3%	Cash	4.5%
Verizon Snr	6.4%	AMP Group Sub	4.4%
AAI Sub	6.0%	AMP Group Sub	4.1%
DBS Group Sub	4.6%	NAB AT1	4.0%
Ausgrid Finance Snr	4.6%	CNH Industrial ABS	3.9%

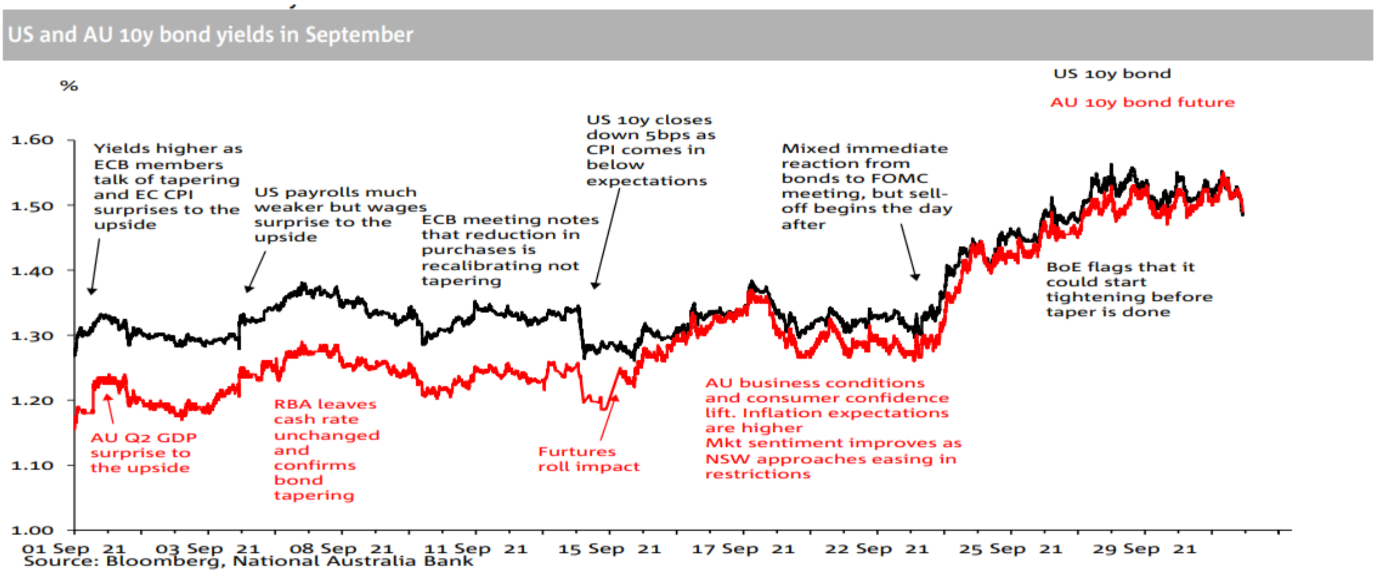
MARKET COMMENTARY

Markets are on the move and it's all about bond yields rising in the U.S. Bond yields have risen significantly over the past month in Europe, the U.S, the UK and Australia. The movements appear to be caused by the U.S. Federal Reserve looking to taper back on their bond purchases. The ECB is doing something similar. The slow-down in purchases is causing uncertainty and this is leading to the selling of bonds pushing bond yields higher.

Adding to this uncertainty is a breakdown in logistic chains and now apparently food chains. The breakdown in these chains is causing fear about inflation. Add this fear to an adjustment in the valuation models and suddenly equity markets look vulnerable and that is what we are currently experiencing.

Markets are also suffering some angst about Evergrande, the very large Chinese developer which represents approximately 4% Of China's GDP. Evergrande is experiencing problems arising from an inability to pay interest on debts. The Chinese Authorities have come to the aid of domestic investors, however, for offshore investors, there is a significant degree of uncertainty. At present Evergrande's U.S. debt is trading at around 25c in the dollar implying that the company has significant problems, and the company is stressed. It will be interesting to see how the international investors deal with Evergrande, however, with most of the company's debt in yuan, there will be only a minor impact on international bond markets. The unknown factor will be how much Evergrande's problem dents confidence.

The selloff in equity markets has led to a small widening of credit spreads. Sub debt has weakened and with the end of TFF senior bank spreads have widened in anticipation of new issuance. There has been a selloff in hybrids however this selloff is more of a technical nature rather than market sentiment. The movement in hybrids is due to recent maturities being refinanced and new issuance coming to market.



Source: Bloomberg, National Australia Bank

Author: Skye Masters, Head of Fixed Income Research; Ken Crompton, Senior Interest Rate Strategist

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PORTFOLIO MANAGEMENT

Investment Strategy

The big question for markets is whether the current sell-off for bonds in the U.S. and the Federal Reserve tapering its bond purchases could lead to a bond tantrum. If a tantrum were to occur, that probably would suit the Federal Reserve as it likely would normalise bond yields. In fact, some believe this is exactly what the Federal Reserve wants. A sell-off in bonds would cause some selling of equities with a commensurate widening of credit spreads. However, things are not that simple. The U.S. economic data is mixed and there are flags suggesting harder times ahead. There is also the fear of deflation.

If the outlook in the U.S is somewhat confusing, then the spanner thrown by Evergrande is leading to concerns in both the Asian and the western markets. Evergrande is not expected to be a major issue as the majority of its debt is in yuan, however, the collapse of Evergrande could lead to instability within China.

Concerns about inflation remain and especially as supply chains are breaking down. Food supply chains are also being impacted with one of the globe's largest breakfast foods' manufacturers, based in Brazil, is nearing bankruptcy because of crops being impacted by major weather events such as drought, frost and floods all in one year.

We remain cautious given the outlook.

Credit spreads have widened marginally, however, the portfolio is deriving benefit compared to fixed-rate securities as most of our holdings are floating rate. Coupon resets are being set at slightly higher (albeit of a very low base) interest rates offsetting some of the credit spread widening.

The portfolio will continue to chase opportunities. We have been actively managing our listed component of the portfolio rolling out of some hybrids, that on an all cash-basis, are trading at low credit spreads for Additional Tier 1 capital. Better opportunities exist including acquiring AMPPA hybrids which are likely to be redeemed by calendar year-end. Our largest position in the portfolio is in the listed NABPE which is trading extremely cheap to similar Lower-Tier 2 securities in the over-the-counter market.

The Fund has a bias to be underweight unsecured domestic bank paper. This has proven to be a positive for the Fund as recent announcements of the termination of both the Committed Liquidity Facility and the Term Funding Facility has caused domestic bank senior unsecured spreads to move wider over the month. We also expect that the higher-rated tranches of RMBS and ABS spreads will move wider as a result.

The Fund reduced its positions with duration (between 1-3 years in maturity) in mid-August and has been reinvesting in floating-rate securities. Fixed-rate bonds under the current market conditions are moving up in yield and down in price, leading to losses. The portfolio is protected because it is predominantly in floating rate securities (currently 91.2%).

The Fund has consistently outperformed fixed income benchmarks and for the month of September bettered the returns for the Bloomberg Composite Index, Floating Rate Index, and Composite 0-5 years, which were all negative. The Composite Index was down 1.51% for the month, the FRN Index was down 0.06% for the month and the Composite 0-5 years Index was down 0.17%.

The table below shows the number of monthly negative returns of the Fund against the benchmarks comprising the Bloomberg Composite Index (fixed rate index all maturities), 0-5 Bloomberg Composite (fixed rate maximum tenor <5 years) and the Bloomberg FRN Index (floating rate index). Note: as at 30/9/21.

	1 Yr	3 Yr	5 Yr
Bloomberg FRN Index	2	4	4
Bloomberg 0-5 Years Composite Index	3	6	11
Bloomberg All Maturities Index	5	11	21
SSIF	**0**	**4**	**4**

The Fund has not had a negative return for a one-year period to September 2021 versus 2 negative returns for the FRN Index and 5 negative returns for the Composite Index. The Portfolio has now returned 18 consecutive positive months and the Funds' longest positive streak of consecutive months is 35 ranging from Dec 2015 to Oct 2018.

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 likely 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	59.8%	80.8%	80.0%	56.9%	60.6%
Composite Index	-4.8%	30.2%	28.2%	15.6%	-5.9%
ASX 200 Total Return	29.0%	75.9%	67.8%	37.2%	38.0%

Fund Metrics	
Tracking error to FRN Index 5 years	0.32%
Tracking error to FRN Index since inception	2.93%
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	131
Best monthly return	4.49%
Consecutive Positive Returns	18

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