

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	\$1.0490 / \$1.0480
Fund Size	\$59.1m
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 (%)	0.06	-0.50	0.03	1.48	2.64	6.49
RBA Cash Rate (%)	0.03	0.07	0.12	0.34	0.80	1.93
Spread to RBA (%)	0.03	-0.57	-0.09	1.14	1.84	4.56
Income Distribution	0.00	0.59	2.29	3.34	2.86	3.77

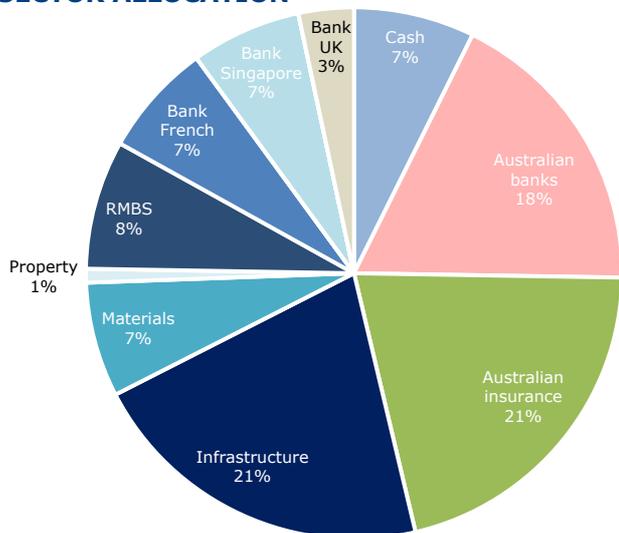
NOTE: Past performance is not a reliable indicator of future performance.

INCOME DISTRIBUTIONS

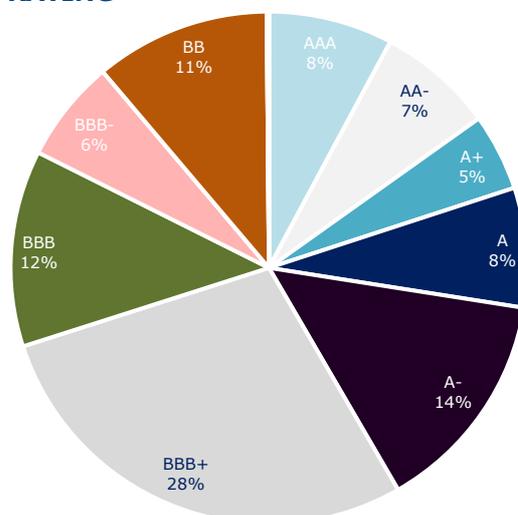
2021/2022	Jun	Sep	Dec	Mar
Distributions (cents per unit)*	1.28	0.41	0.29	0.30

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

SECTOR ALLOCATION



CREDIT RATING



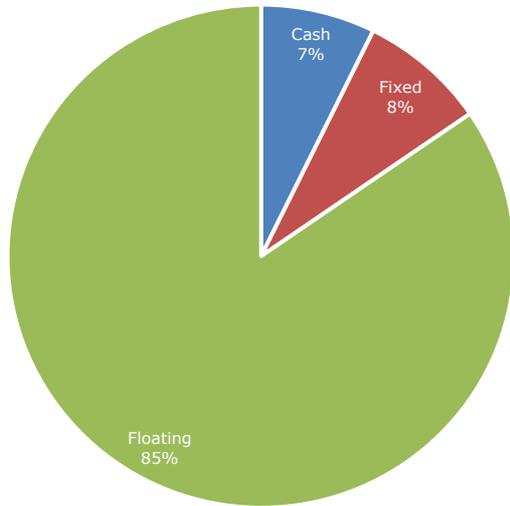
RATINGS



PLATFORMS

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

FIXED / FLOATING



TOP TEN HOLDINGS as Securities

NAB Sub	8.6%	Ausgrid Finance Snr	5.0%
Cash	7.3%	AMP Group Sub	4.9%
Verizon Snr	7.0%	AMP Group Sub	4.5%
AAI Sub	6.6%	NAB AT1	4.3%
DBS Group Sub	5.0%	Network Finance	3.4%

MARKET COMMENTARY

May was an interesting month because much of the volatility was unusual. Bonds weakened as expected, the main narrative being persistent inflation pressures and the RBA, like most central banks, in a cycle of tightening. Goldilocks was not to be seen anywhere. Then we had the soothing words of Powell (U.S. Federal Reserve) suggesting that the tightening cycle may not be as aggressive and that led to both bonds and equities rallying because in equity speak the belief was that a recession would now be avoided. In other words, the Central Banks in general were not going as hard as first feared.

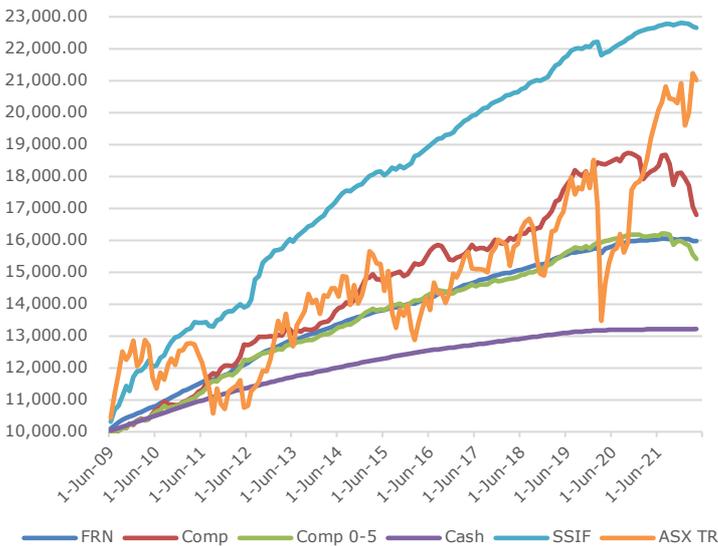
As a result, we saw high yield rally significantly and so too crossover securities, however investment grade remained in somewhat of a pickle. Investment grade spreads widened and especially bank paper as a result of issuance and T2 sub debt widened some 30bp as a result of fears of possible issuance. As it stands bank capital positions are generally in good shape. Australian credits in general now look cheap compared to their issues in offshore markets.

For the Australian homeowner this is not such good news. Costly funding means higher mortgage rates.

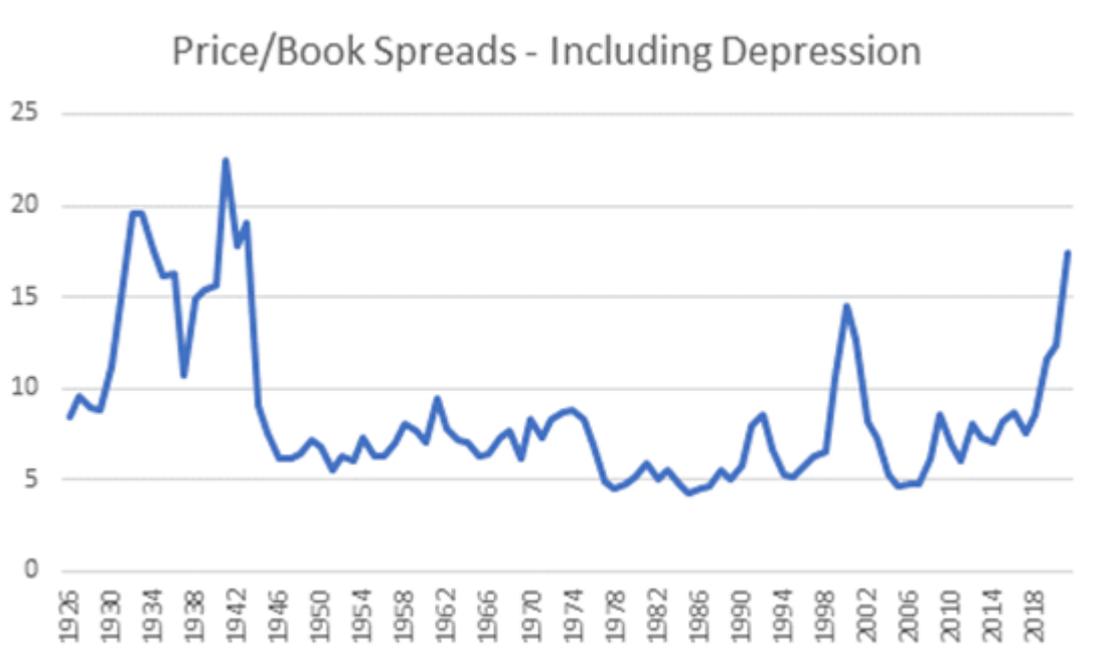
Equity markets have now steadied, and the outlook appears to be mixed. However not all is as it appears. With price-to-book spreads at the highest level in 80 years there is a strong chance of a repricing in equity markets. This repricing may occur because of bond yields spiking higher.

Many earnings reports are indicating reasonably strong performance. The retail sector however is pointing to problems ahead. The discretionary sector is weaker, and the non-discretionary sector is also indicating slower growth, weaker sales, a crunch in margins and higher inventories harming profitability. This trend is not only a U.S centric problem, but also a problem in many developed countries.

GROWTH OF \$10,000 SINCE INCEPTION



Price/Book Spreads - Including Depression



Inflation would appear to be the problem. Wage inflation is increasing as too the various inputs. Some of these inputs are as a direct result of the Ukrainian invasion. Phosphate, a necessary agricultural input has risen significantly and so too grain and many other products. For example, the average farmer has seen cost inputs rise by up to 300% for some products, as such it is not unreasonable to expect prices to rise in the agricultural sector. This problem is not only a rural problem, but also a manufacturing problem. Unfortunately, this is a problem that is not easily solved by a central bank simply tightening monetary policy. Monetary policy can only pare back demand and in a marketplace where liquidity is still very high, the central banks run the risk of taking rates beyond neutral which is the fear of both bond and equity markets. A rocky road to investments still lies ahead.

The May election saw a Labor victory. The new Government has major issues relating to the budget deficit, however, a stronger than expected GDP growth rate should pare that problem to some extent depending upon how much longer higher than expected growth continues in a rising interest rate environment. Taxes look likely to rise and infrastructure spending will remain a key policy. A tight labour market will impact wages, however, job creation will be a pillar for success if Labor is to succeed.

PORTFOLIO MANAGEMENT

Investment Strategy

Volatility of markets will drive the narrative over the second half of the calendar year. Over the months ahead markets will no doubt remain nervous, and investors may well be looking for some capital stability whilst seeking positive risk adjusted returns and a reliable income stream. The Spectrum Strategic Income Fund offers that value proposition and has proven this over time. The Fund provides reasonable capital stability without compromising long-term returns.

The Federal Reserve is expected to raise rates by 0.5% over each of the next 3 meetings and this trend may continue for several months after. The Federal Reserve has also pared its bond purchases, and this too is

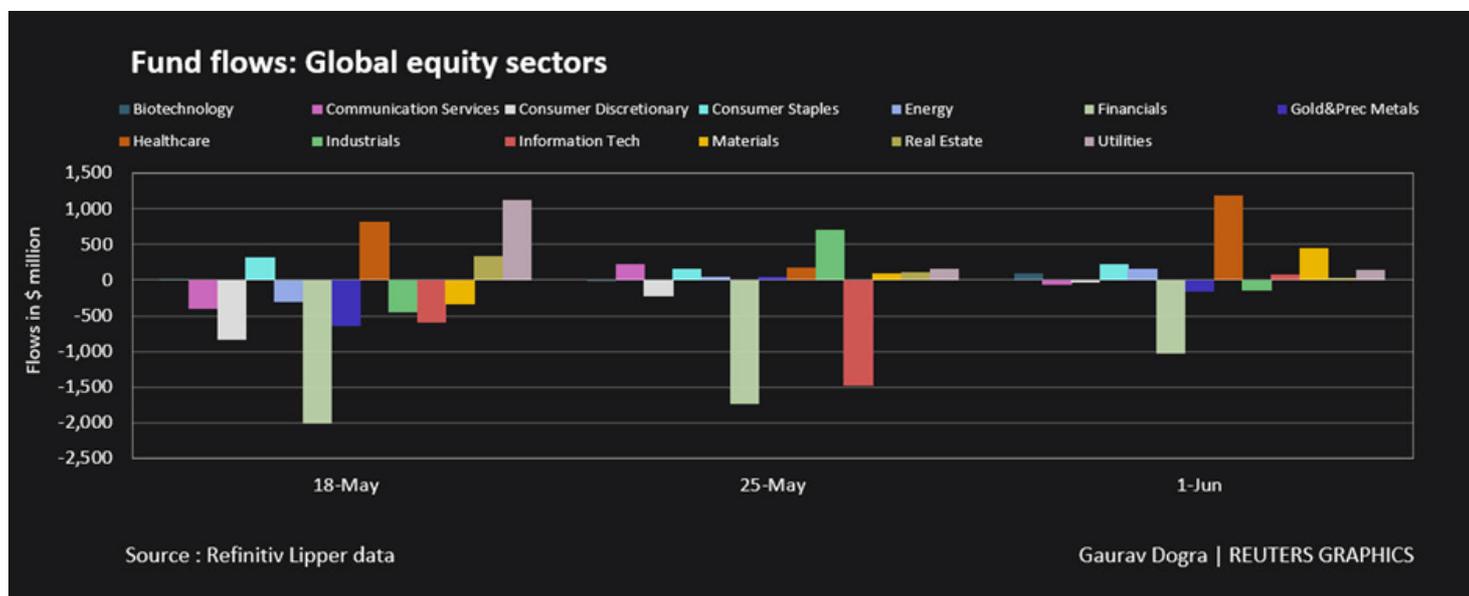
having an impact on bond markets. Liquidity is slowly being drained from markets and the era of easy cash is or has come to an end.

The big negative for markets will be inflation. Investors are being asked to purchase bonds when bond yields are on the rise and deficits are at record levels. Tax receipts and GDP growth have never been more integrated. Falling receipts and greater issuance will mean significantly higher bond yields will be required to attract investors. This problem is not only a developed market problem but also an emerging market problem. If the U.S. Federal Reserve raises rates too quickly this could allow the U.S. dollar to become stronger thus pressuring emerging market debt, emerging market equity markets and other developed markets.

The task for the RBA will be to slow inflation. The RBA is expected to raise rates again in July and the cycle of rate rises is likely to be similar to the U.S., where it is expected that cash rates will rise up to 0.50% a month over the next few months.

The new Government has already pointed to difficult times ahead as the budget brought down by the former Government contained assumptions that no longer appear valid. This may cause further issues for the RBA as to how much monetary policy adjustment is required over the course of 2022. That said, it all points to rising bond yields over the coming months and rising short term interest rates. Further catalysts are offshore bond rates are also rising, sizable bond issuance at low yields leading to waning investor interest and concerns over inflation.

How equity markets react to ever increasing interest rates and bond yields will be interesting. Many of the pricing models will be pointing to lower valuations and especially with book-to-value levels residing at levels not seen since prior to the Great Depression. The equity market looks vulnerable to repricing. Allocations to equity markets on a global basis will determine how the equity market performs over the coming months.



The Spectrum portfolio to date has weathered the storm and continues to perform strongly versus many of its peers. As the portfolio is predominantly floating rate (in excess of 90%) and relatively immune from the effect of interest rate duration. The portfolio is susceptible to credit spread movements, however, these movements are normally much less than the effect of increases in bond yields.

The Fund will continue to seek quality credits that are floating rate to minimize any duration effects and pick up increasing coupons as short-term interest rates increase. It will not be looking to invest in illiquid securities as we see a real danger of significant price movements due to credit spread widening and interest rate rises. High-yield and illiquid securities in our view are vulnerable and could face capital loss. We have reservations about High Yield Funds which could see trading levels differ markedly from the NAV. High yield indices have widened significantly over the month. For example, the Bank of America U.S. High Yield Index is currently trading at a level of 461bp over treasuries. As high yield bonds are normally fixed rate this represents a significant deterioration in value.

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 Index (fixed rate maximum tenor <5 years), and the Bloomberg FRN Index (floating rate index). Note: as of 31/5/2022. Note the SSIF has returned fewer negative returns than the various indices. The focus as always is to produce positive returns and minimize any negative returns.

	1 Yr	3 Yr	5 Yr
Bloomberg FRN Index	7	10	10
Bloomberg 0-5 Years Composite Index	8	12	14
Bloomberg All Maturities Index	7	17	24
SSIF	5	8	9

The Portfolio will benefit materially if interest rates were to move higher. This means that as coupons reset at a higher rate it will equate to higher income distributions to unitholders. As the Fund predominantly invests in floating-rate securities, the Fund benefits as rates move 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.

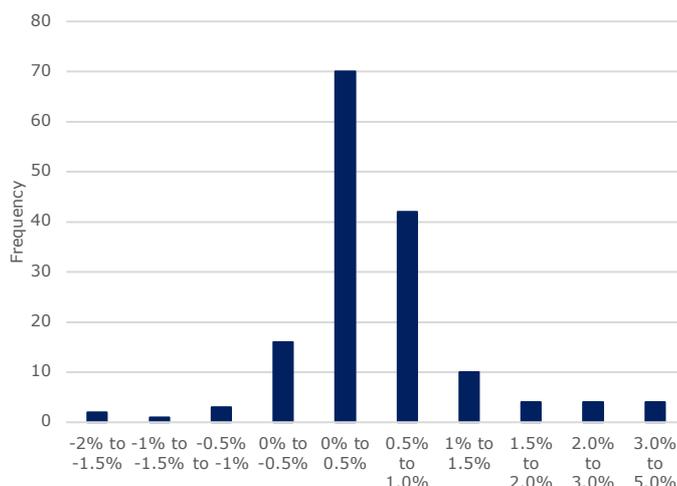
The Fund's strategy is to invest as opportunistically as our maturity profile allows. This means that we have the option of maintaining a cash balance to invest if there is a market dislocation or reinvesting these proceeds. The fund currently holds about 7% in cash, and this will allow opportunistic investments. The credit spread duration of the Fund is at historical lows which have insulated the portfolio against the move wider in credit spreads. The portfolio found itself in a similar position pre-Covid and extended its credit duration over 2020. We are likely to do the same in the second half of 2022. The Manager is looking to maintain the creditworthiness of the Fund over time and improve diversification and credit quality. By maintaining an average A- credit rating or better in the portfolio risk is being reduced and any market dislocation will have a lesser impact on returns.

Whilst uncertainty remains for the remainder of 2022, we remain comfortable with our portfolio credit spread duration.

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 short-term rates rise, floating-rate assets held by the portfolio will increase the Fund's income distributions.

In any market dislocation, the Fund is liquid. Unlike many of our competitors, the securities are priced daily and traded by many market participants, unlike many loans or high yield instruments. Our portfolio truly reflects the underlying market. It does not contain the idiosyncratic risk that portfolios are warehousing personal, residential, and SME loans. Our pricing is reflective of the market pricing and not a "black box" that may not always reflect the price nor the riskiness of the portfolio in moments of stress.

This graph shows the Fund's distribution of monthly returns since inception.



Source: Spectrum. *Past performance is not an indicator of future performance. Returns are on a monthly basis. Returns in bucket of 50bp range. Each bucket contains the number of results in each band.

SSIF vs Correlation to	1yr	3yr	5yr	10yr	Incep.
FRN Index	77.1%	83.0%	75.8%	64.9%	61.8%
Composite Index	85.1%	32.6%	39.9%	28.4%	2.3%
ASX 200 Total Return	-5.17%	72.9%	64.4%	33.2%	36.7%

Fund Metrics	
Tracking error to FRN Index 5 years	0.24%
Tracking error to FRN Index since inception	2.87%
Largest drawdown since inception	1.86%
Total drawdowns since inception	8.66%
Average drawdown	-0.47%
Number of negative months since inception	22
Number of positive months since inception	134
Best monthly return	4.49%
Consecutive Positive Returns	1

The Fund is rated 4 Stars by SQM Research.

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Spectrum Strategic Income Fund's **Target Market Determination** is available <https://swift.zeidlerlegalservices.com/tmds/ETL0072AU> A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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