April 2024

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
Equity Trustees Limited (EQT) is the Investment Manager.

Investment Objective
The Fund aims to generate higher returns than the RBA Cash Rate over the medium term with lower volatility than equities.

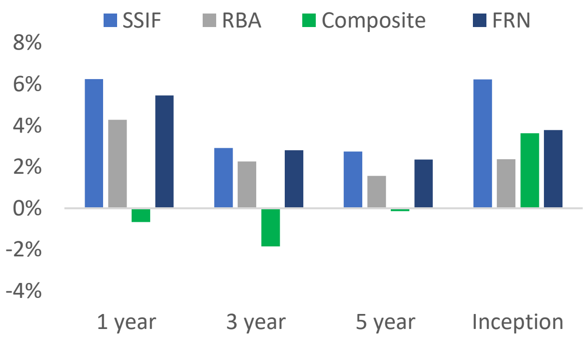
Investment Strategy
The Fund holds a diversified portfolio of listed and unlisted debt and hybrid debt securities. Issuers may be government bodies, banks, corporations and, to a limited extent, specialist financing vehicles. To maintain a diversified portfolio structure, certain limits are imposed on security type, credit risk, industry and issuers.

Target Return
RBA Cash Rate +1.50% p.a. net of fees.

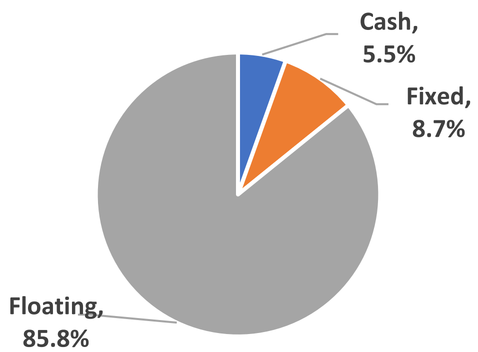
Investment Highlights
- Experienced and active management team with a proven track record
- Quarterly distributions
- Low duration portfolio
- Diversified portfolio of AUD denominated corporate securities
- Consistent top quartile performance

APIR	ETL0072AU
Entry / Exit Price	$1.0659/1.0649
Running Yield	5.73%
Avg Credit Rating	A-
Time to Maturity	2.23 Years
Unit Pricing /Distributions	Daily/Quarterly
Inception Date	31 May 2009

Performance comparisons



Fixed/Floating Rate



Fund performance

	1mth	6mth	1yr	3yr p.a.	5yr p.a.	Incep p.a.
Net Return (%)	0.37	3.40	6.25	2.91	2.75	6.23
RBA Cash Rate (%)	0.36	2.18	4.29	2.26	1.56	2.38
Spread to RBA (%)	0.01	1.22	1.96	0.65	1.19	3.85
Income Distribution (CPU)	1.19	2.87	4.70	3.06	3.19	3.56

NOTE: Past performance is not a reliable indicator of future performance. Returns greater than 1 year are annualized.

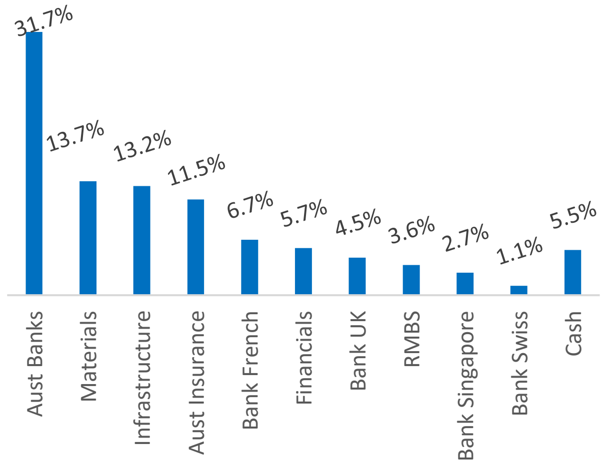
Income distributions

2023/24	SEP	DEC	MAR	JUN
Distributions (cents per unit) *	1.057	1.68	1.19	0.77

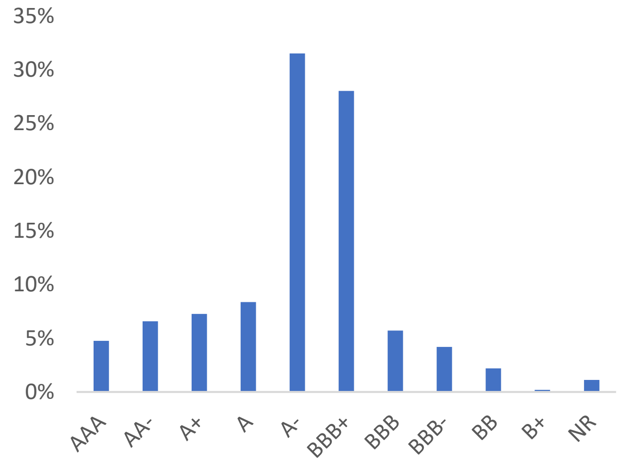
Ratings

Superior
SQM RESEARCH

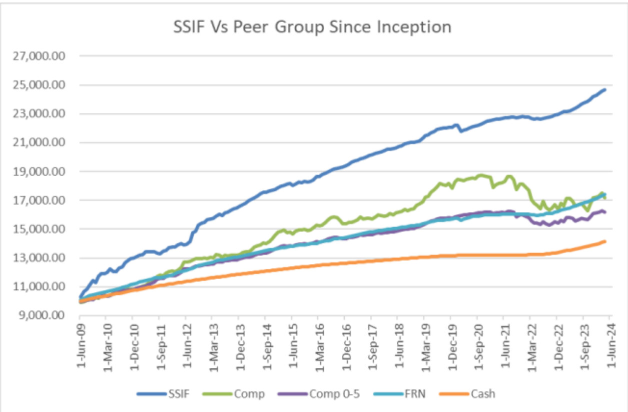
Sector Allocation (%)



Credit Rating



Growth of $10,000 since inception



FRN – Bloomberg FRN Index
Comp – Bloomberg Composite Index
Comp 0-5 – Composite Bloomberg Index 0-5 years
Cash – RBA Cash rate

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

Platforms

- AMG Super
- Bell Direct
- HUB24
- netwealth
- Ausmaq
- CMC Stockbroking
- mFund
- Powerwrap
- Australian Money Market
- Freedom of Choice
- Nabtrade
- uXchange

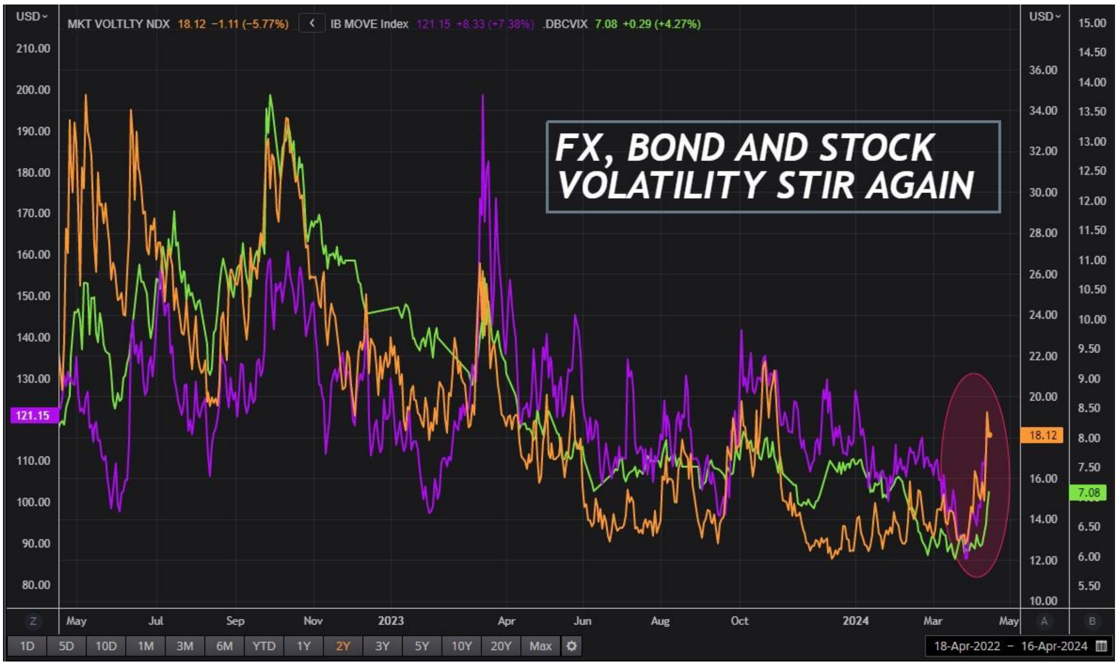
Top 10 holdings as securities

National Australia T1	5.71%	IAG 44'24	4.51%
Cash	5.45%	Ausgrid	4.47%
ANZ T2 31'26	4.56%	Victoria Power Network	4.45%
IAG 45'25	4.54%	CBA 30'25	4.08%
ANZ 34'29	4.52%	Paccar 26	2.81%

Market commentary

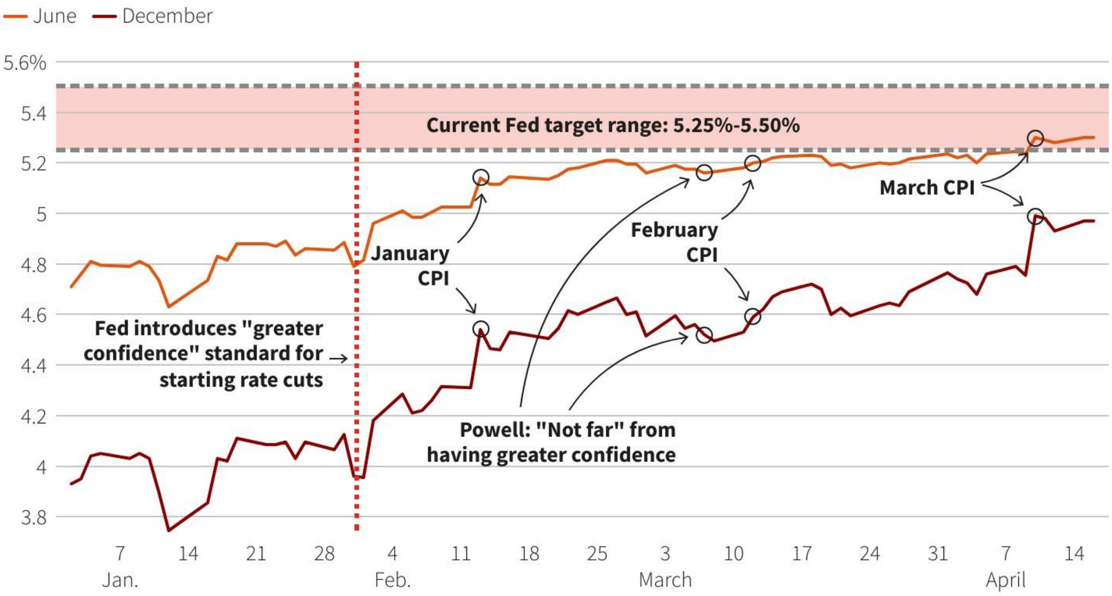
Markets are about expectations and the expectations are on the move. Over the month, we saw the Federal Reserve voting members and non-voting members rhetoric change from a dovish tone or slightly bearish tone to one of marked caution and somewhat bearish overtones. Bonds over the month finally took the hint and have started to retrace. At current levels the attractiveness of long bonds has diminished. With a neutral rate in the order of 3.5% to 4%, 10-year bonds would price as fair value at 4.5%. With the 10-year at 4.66%, bond traders could feel that there is not much in the way of return to offset any risks.

The chances of an interest rate easing have diminished. The chance of an easing in June has evaporated and a chance of an easing September is now 37%. The chance of a hike now stands at 24% in September. Volatility in bonds, equity and FX has started to increase. Expectations of inflation falling are starting to stall.



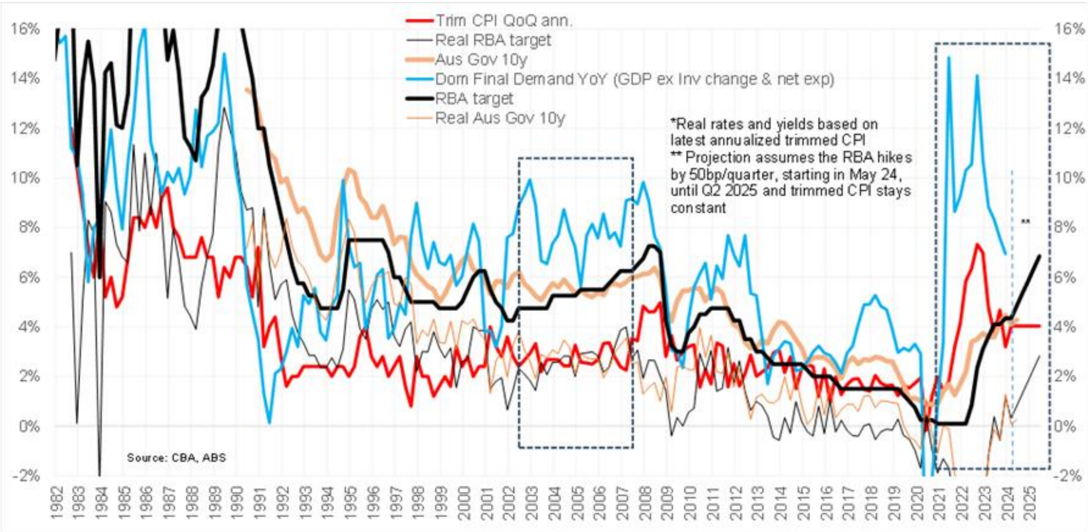
Fading confidence in rate cuts

Investor confidence in when the Federal Reserve will start rate cuts and how many it will deliver has been shaken by sticky inflation, a strong job market and hawkish commentary from central bank officials.



Note: Figures are implied yields at contract expiration of CME federal funds futures contracts for June and December
Source: LSEG

What this means for Australian bonds and the Australian market is perhaps a more bearish outlook on rates. The RBA will have to contend with a slowing economy where inflationary price pressures remain, and should the currency fall further, then the RBA will have some real challenges.



*Courtesy CBA Credit Market Views Gus. Medieros 30/4/2024

The chart above highlights some of the issues at play. What is worth noting is that the change in psychology and the risk of rising bond yields increases the attractiveness of floating rate assets.

Geopolitics continues to play its part with confusing supply chains, impacting oil prices, demand for commodities and confidence. Inflation appears to be problematic and discussions about the possibility of stagflation continues.

Despite the bearish sentiment, expectations can change and change very quickly. Inflation remains the key and if the "inflation genie" can be put back in the bottle, discussions about rate rises will turn to easing. However, the outlook remains whereby the risk is on the upside due to inflationary pressures. Markets have started to price in no easing in current interest rate policy. Companies that have low leverage will benefit at the expense of those more highly leveraged companies.

Portfolio Management

Investment Strategy

The Fund continues to outperform. With the recent rating upgrades provided by S&P, the portfolio now has an average portfolio rating of A- and bordering on single A. In effect the portfolio has become less risky because of these rating upgrades. The banking sector was the key beneficiary of the rating upgrades.

The portfolio should continue to perform as demand for less risky assets continues. The demand for the recently upgraded bank securities will increase due to these upgrades. Many Funds that had a minimum investment rating of A- can now invest in these recently upgraded bank securities that are held within the portfolio.

Bond yields continue to be volatile. This volatility will continue as we head into the U.S. election. The Federal Reserve voting members and non-voting members have been pointing towards sticky inflation as being problematic and it is unlikely that inflation will fall rapidly. The probability of a rate cut has changed markedly. Using the Fed Fund futures as a guide there is a chance of a cut in November of 68% and one in December of 80%. In January the market had priced in 6 rate cuts, the market now has barely one rate cut. In fact, the chance of a rate hike has been elevated to a 23% chance of a hike by year end.

In Australia the market is now pricing in a hike, rather than a cut. A hike may be unlikely based on current data, however it may be some time before rates are eased in Australia.

The Australian market is expected to have a different outlook. Whilst the market is influenced by the U.S., it is still expected that the RBA will cut rates later in the year. The bifurcation of markets is a likely outcome.

Over the coming months, credit remains in a strong position. The portfolio benefitted from recent investments in both Lloyds and Natwest. Both recently provided their quarterly earnings with the equity responding positively and credit spreads compressing.

The Fund continues to invest in Bank/ Finance/Insurance sub in preference to senior as the bid tone remains and the spreads remain attractive for real money investors and family offices.

The average credit quality of the Fund is A-. The coupon rate of the Fund is 5.76% and has a yield to call of 5.82%. The average credit spread is 1.63%. The Portfolio has pivoted taking advantage of near maturity issues trading tight and that explains the residual position in cash. The cash reserves will be put to work as new issuance comes to market.

The focus as always is to produce positive returns and minimize any negative returns. The Fund is positioned to take advantage of new issues and any movement out in credit spreads. Meanwhile the Manager is looking for opportunities that will maintain spreads and maintain returns.

Fund Metrics	
Tracking error to FRN Index 5 years	0.15%
Tracking error to FRN Index since inception	2.68%
Tracking error to RBA Cash since inception	4.24%
Largest drawdown since inception	1.86%
Total drawdowns since inception	9.84%
Average drawdown	-0.42%
Number of negative months since inception	24
Number of positive months since inception	154
Best monthly return	4.49%
Consecutive Positive Returns	13

Number Negative Returns	1yr	3yrs	5yrs
Bloomberg FRN Index	0	7	10
Bloomberg 0-5 Years Composite Index	5	18	22
Bloomberg All Maturities Index	5	16	26
SSIF	0	7	10

SSIF vs Correlation to	1yr	3yr	5yr	10yr	Incep.
FRN Index	65.7%	87.0%	81.5%	67.5%	60.7%
Composite Index	86.0%	37.8%	28.0%	34.0%	3.4%
ASX 200 Total Return	85.7%	22.5%	59.3%	45.2%	34.8%

Enquiries

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