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.

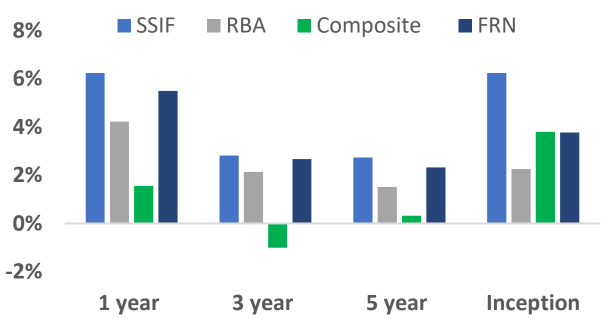
Investment Strategy
The Fund holds a diversified portfolio of listed and unlisted debt and hybrid debt securities. Issuers may be government bodies, banks, corporations and, to a limited extent, specialist financing vehicles. To maintain a diversified portfolio structure, certain limits are imposed on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

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

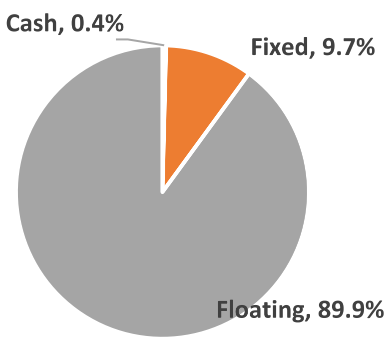
Investment Highlights
- Experienced and active management team with a proven track record
- Quarterly distributions
- Low duration portfolio
- Diversified portfolio of AUD denominated corporate securities
- Consistent top quartile performance

APIR	ETL0072AU
Entry / Exit Price	$1.0620/1.0610
Fund Size	$41m
Unit Pricing	Daily
Distributions	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 (%)	0.55	3.39	6.24	2.82	2.74	6.24
RBA Cash Rate (%)	0.36	2.15	4.22	2.14	1.51	2.26
Spread to RBA (%)	0.19	1.24	2.02	0.68	1.23	3.98
Income Distribution (CPU)	1.19	2.87	4.70	3.06	3.19	3.56

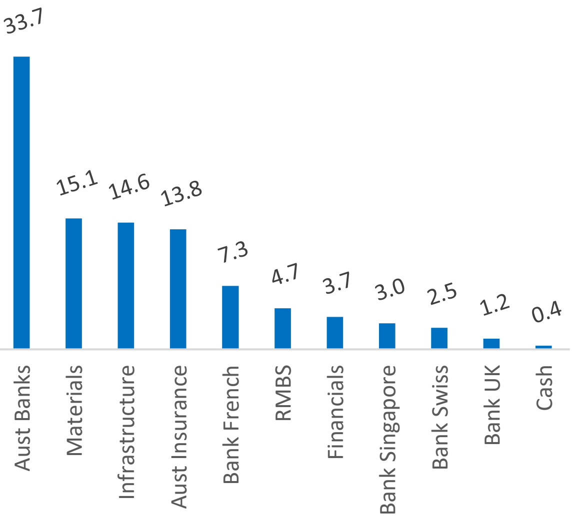
NOTE: Past performance is not a reliable indicator of future performance. Returns greater than 1 year are annualized.

Income distributions

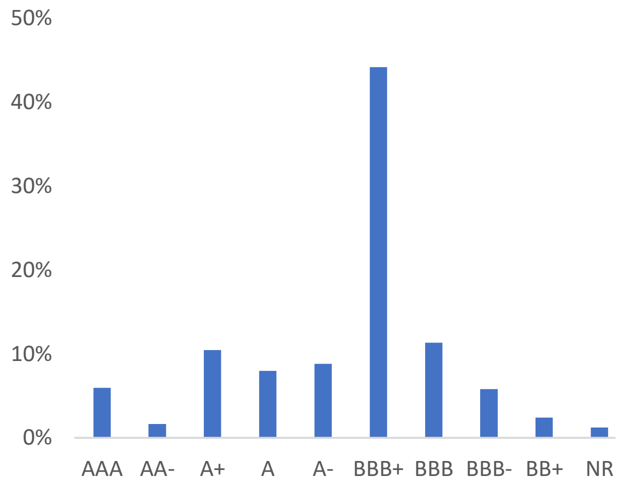
2023/24	JUN	SEP	DEC	MAR
Distributions (cents per unit) *	0.77	1.057	1.68	1.19

Ratings

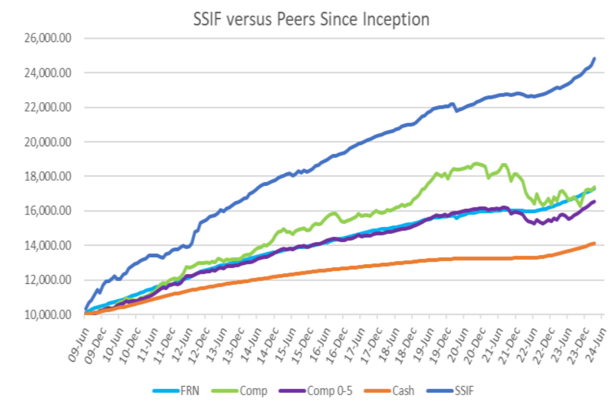
Sector Allocation (%)



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	6.4%	Ausgrid	4.9%
IAG T2 45'25	5.0%	Vic Power Network	4.9%
IAG Group T2 44'24	5.0%	CBA T2 30'25	4.5%
ANZ T2 34'29	5.0%	Paccar	3.1%
ANZ T2 31'26	5.0%	DBS 31'26	3%

Market commentary

Inflation appears to be the key before any central bank eases interest rates. Recent economic data in the U.S. has dampened the enthusiasm of rate cuts in the near term and possibly for this year. The probability of a rate cut in the U.S. has fallen from 75% to 68% but importantly the market is now expecting 65bp of cuts versus an expected 1.5% of rate cuts in February. What a difference a month makes.

What to watch? At present we have both Federal Reserve voting and non-voting members commenting on the direction of rates and these comments provide a window to the deliberations of the voting committee. Currently the weight of words suggests any easing of interest rates could be a while. Late in the month in an interview, a Trump Federal Reserve nominee (should Trump win the U.S. election) without hesitation suggested that rates do not need to be eased. This suggests that the Federal Reserve could come under increasing pressure not to ease as the November elections start to loom large. Ed Yardeni, a well-regarded economist also weighed in over the month, suggesting that the Federal Reserve had done a great job and that an easing was not necessary. Opinion seems to be becoming increasingly divided.

In turn the RBA is focussing on inflation which remains sticky, and especially so for the services sector. Inflation does appear to be tracking lower and this is good for the RBA. Whilst a rate cut may not be imminent there is an expectation that the RBA will be cutting later this year. Housing continues to see price inflation due to the massive shortness of stock and due to the demand for rentals. Based on current data available (RBA) there is a +125k shortage in housing due to covid effects before looking at immigration. Apparently, due to Covid, households have fallen from 2.87 to 2.3 members per household. Our housing shortage appears to be one of the worst as our net migration places Australia as one of the fastest growing populations.

*Courtesy Tony Brinker Select Equities Research Paper 28 March 2024

Consensus has the current economic outlook as benign, and one could believe that a rate cut in the US could be some time coming if at all prior to the US elections. Equally, the RBA may end up easing rates later than expected as inflation remains sticky, and housing remains very tight whist prices continue to rise and rise at a steady pace.

Geopolitical risk remains high, however its impact on the global economy has been an impact on logistics and materials for which business continue to adjust. It is apparent that if inflation remains somewhat sticky, central banks will reluctantly hold rates steady.

Portfolio Management

Investment Strategy

The Fund continues to be a consistent performer. Bank sub-debt and credit remained bid. Investor demand for higher yielding investment grade debt continues. Currently credit has a bid tone because financial guidance and performance remains positive. Balance sheets are also in good health. We have seen some improvements in the credit ratings of some issuers. The Fund will continue to benefit as the bid tone on the bank subT2 will continue because of recent one notch upgrades by S&P. The one notch upgrade takes these securities to A-. The rating upgrade means the securities can now be purchased by Funds that have a mandated minimum A- rating. This is especially important for some offshore investors.

As demand continues in these securities and as these securities spread tightens, the roll down effect will be found in other securities. Similar issues, issued by international banks will also tighten as investor demand increases. The Fund's holding in Liberty has benefitted significantly, due to demand because of the one notch upgrade (BBB) and the high coupon.

Bond yields continue to be volatile. This volatility, in my belief is due to a reluctance by the Federal Reserve to ease rates. Recent economic data suggests that the economy is in the Goldilocks zone, and nothing really needs to be done. Employment remains strong. Earnings growth will be the key as companies report their results. Earnings growth in the U.S. in March quarter is expected to be around 5%, down from December 2023 of 10%, however this will still be a strong result.

The various messages from the FOMC voting members and non-voting members suggests that a cut remains dependent on inflation easing. With the election due November 5, 2024, the probability of a rate cut is low unless there is an economic downturn or mitigating factors.

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 recently when S&P changed their BICRA model, meaning that many of our Banks and Finance companies received a ratings upgrade of a notch. These upgrades were similar to the Moody's upgrades a couple of weeks earlier. What this means for the portfolio is some spread compression as demand for these securities increases. Over time demand for similar rated securities will increase leading to further performance. Over the month the Fund invested in several new issues. The Fund invested in the new issue Liberty 29, which has since received a one notch rating upgrade. The Fund invested in the Suncorp Bank 29 a final new issue by the bank before it becomes ANZ. Other new issues the Fund invested in are the HSBC subT2 34's and the Westpac T2 34's. Since their issuance, there has been some spread tightening. Westpac and Liberty both received upgrades from S&P.

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 5.97% and has a yield to call of 6.03%. The average credit spread is 1.73%.

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	0.21%
Tracking error to FRN Index since inception	2.7%
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	12

Number Negative Returns	1yr	3yrs	5yrs
Bloomberg FRN Index	0	8	10
Bloomberg 0-5 Years Composite Index	4	17	21
Bloomberg All Maturities Index	4	16	26
SSIF	0	7	10

SSIF vs Correlation to	1yr	3yr	5yr	10yr	Incep.
FRN Index	67.9%	87.4%	81.7%	67.9%	60.8%
Composite Index	80.7%	37.4%	29.3%	34.9%	3.2%
ASX 200 Total Return	78.1%	23.1%	59.8%	45.6%	34.8%

Enquiries
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