October 2023

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.

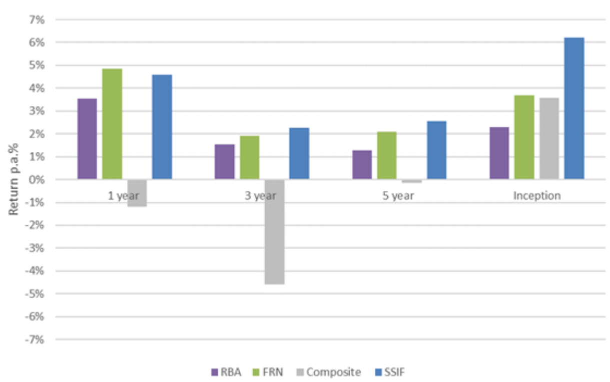
Investment Strategy
The Fund holds a diversified portfolio of listed and unlisted debt and hybrid debt securities. Issuers may be government bodies, banks, corporations and, to a limited extent, specialist financing vehicles. To maintain a diversified portfolio structure, certain limits are imposed on 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	$1.0590 / $1.0580
Fund Size	$37.6m
Unit Pricing	Daily
Distributions	Quarterly
Inception Date	31 May 2009

Performance comparisons

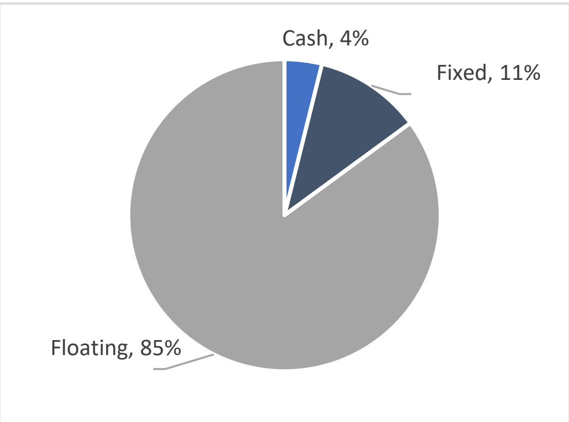


Fund performance

	1mth	6mth	1yr	3yr p.a.	5yr p.a.	Incep p.a.
Net Return (%)	0.37	2.76	4.58	2.26	2.56	6.21
RBA Cash Rate (%)	0.34	2.03	3.54	1.54	1.27	2.31
Spread to RBA (%)	0.03	0.73	1.04	0.72	1.29	3.90
Income Distribution (CPU)	1.057	1.83	3.46	2.45	2.90	3.63

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

Fixed / Floating Rate



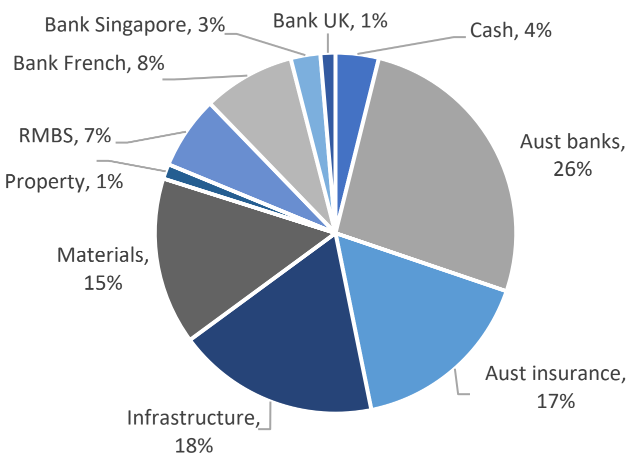
Income distributions

2023/24	SEP	DEC	MAR	JUN
Distributions (cents per unit) *	1.057	0.68	0.95	0.77

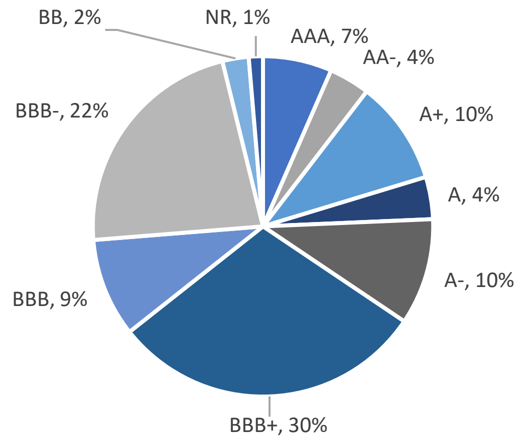
Ratings

Superior
SQM RESEARCH

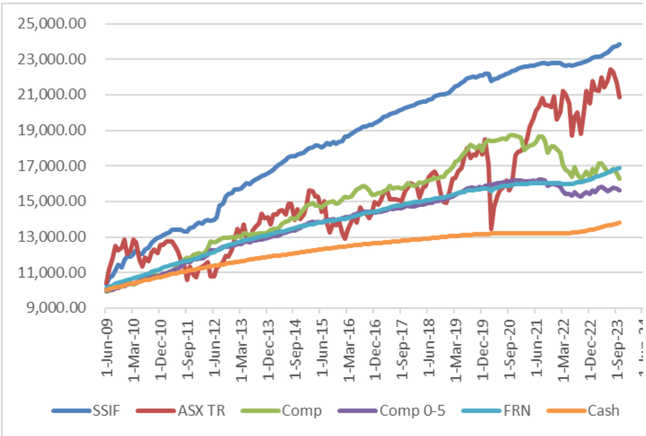
Sector Allocation



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
ASX TR – ASX 200 Accumulation

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

AMP Group sub	8.1%	CBA T2	4.80%
National Australia T1	6.8%	Cash	3.9%
Network	5.3%	Paccar	3.3%
Ausgrid	5.3%	BNP	3.2%
VPN	5.3%	NAB sub T2	3.0%

Market commentary

October saw a shift in the market sentiment. The US Treasuries rallied on a flight to safety move and other assets including equities followed suit. As the month wore on this flight to safety became a fear as treasuries weakened on inflation concerns, levels of issuance and any number of other reasons one could think of. To say markets are jittery is an understatement.

The weakness in the bond market saw equities tumble and suddenly the safe havens became very unattractive. Equites recorded yet another depressed month. The Dow was down 1.36%, the Russell 2000 down 6.9% and the NASDAQ Composite down 2.78%. The ASX 200 Total Return was down 3.78%.

So, what do we make of this? The US Treasury 10-year came perilously to 5% as did the Australian 10-year bond. The Australian dollar after looking to rebound through 64c is now languishing in the low 63's. The month was not a good one for long duration investments. Certainly, investors are asking for a premium for duration.

Return of the Treasury term premium

A model of term premiums tracked by the New York Fed shows the compensation investors demand for holding long-term debt has shot to the highest in more than eight years alongside rising Treasury yields.

Note: Daily data, published once a week
Source: Federal Reserve Bank of New York

An increase in bond yields and interest rates should mean that corporate spreads should widen. We are not seeing too much evidence of that as yet. Within this scenario, if the global economy, (that includes Australia) escape a full-blown recession then there should be value in left tail sectors. These sectors include, Banks, REITS in investment grade, and infrastructure. The Fund is well positioned to take advantage should that scenario eventuate.

Whilst there is concern of the crowding out of corporates at the hand of Government borrowing, there may be a concern that these reservations are pessimistic. Corporate borrowers have an ability to respond to higher borrowing costs by issuing less. By reducing net supply several things happen, leverage may fall, but less borrowing leads to demand, due to rarity factors and demand because managers have to invest. The net result is that credit spreads should compress. This holds true for both Australia and the U.S.

Post Month End

What we have seen early November is a reassessment of risk factors and the potential for the Federal Reserve to pause its interest rate hikes or even cease. Assets saw significant gains post October. Bond yields fell 40bp as a result of perhaps a pause, or simply because rates were no longer going higher. Comments from various Federal Reserve Governors were seen as less hawkish and that combined with a slightly lower borrowing task was the catalyst for the significant rally in assets that we saw early November.

The issue of a Government Shutdown has been pushed out to 2024 and the risk of further hike in rates now has a probability of 20%. Major shorts in the long end were closed and that led to the 10-year Treasury rallying 40bp. That said, shorts in both the 2 year and 5-year treasuries have increased and are at record highs. Economic data is somewhat benign and that too is altering market views.

Market sentiment has changed markedly and is far more positive than where it was in October.

Portfolio management

Investment Strategy

The Fund performed well over the month of October despite significant market volatility over the period. Bank sub-debt and credit in general saw spreads widen and this reflected the general risk off view and spreads also saw some impact from the issuance of papers replacing maturities at wider spreads and new issues that were being launched at wider spreads. Issuance did come as a deluge and that too was a reason for spreads widening.

Rising rates are playing their part in the general malaise of fixed interest, however, as the Fund is predominantly invested in floating rate securities, the return is now starting to see improving coupon rates and improving credit spreads. The coupon rate of the Fund is 5.75% and has a yield to call of 6.50%. The average credit spread is 2.29%.

Any increases in interest rates will eventually feed into bond yields and we expect bond yields to continue to rise. This means that fixed rate securities are likely to continue to underperform as the capital price falls as bond yields increase. Floating securities will benefit from increasing rates as their coupons will increase as interest rates rise. Any tightening of credit will also see the capital price increase.

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.

Fund Metrics	
Tracking error to FRN Index 5 years	0.14%
Tracking error to FRN Index since inception	2.7%
Largest drawdown since inception	1.86%
Total drawdowns since inception	9.84%
Average drawdown	-0.41%
Number of negative months since inception	24
Number of positive months since inception	149
Best monthly return	4.49%
Consecutive Positive Returns	7

Number Negative Returns	1yr	3yrs	5yrs
Bloomberg FRN Index	0	8	10
Bloomberg 0-5 Years Composite Index	6	18	21
Bloomberg All Maturities Index	6	20	25
SSIF	1	7	11

SSIF vs Correlation to	1yr	3yr	5yr	10yr	Incep.
FRN Index	84.9%	77.7%	80.2%	66.4%	61.2%
Composite Index	-32.6%	19.7%	24.9%	31.1%	2.5%
ASX 200 Total Return	13.6%	8.7%	57.9%	41.4%	34.7%

Enquiries
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