

SPECTRUM STRATEGIC INCOME FUND (SSIF)

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	1.0676/1.0666
Fund Size	\$50m
Liquidity	Daily
Distributions	Quarterly
Inception Date	31 May 2009

Income Distributions

2023/24	JUN	SEP	DEC	MAR
Distribution (CPU)	1.01	1.06	1.68	1.19

Fund Rating



Fund Metrics

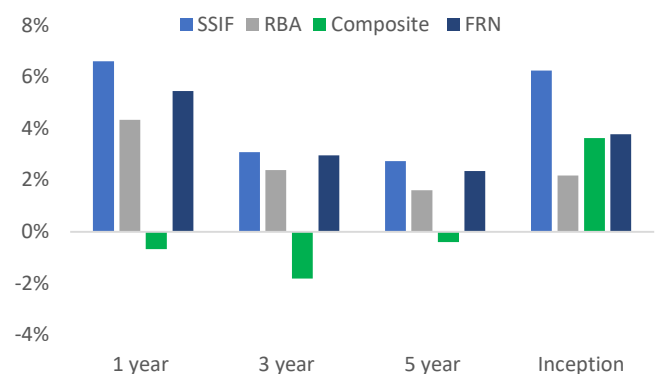
Running Yield	5.45%
Average Yield to Maturity / Call	5.65%
Duration	0.58 years
Credit spread duration	2.11 years
Average credit spread	140 bp
Number of positions	46
Percentage floating rate assets	82.2%
Largest drawdown since inception	1.86%
Best monthly return	4.49%
Negative Total return in a calendar year	0/16

Performance

PERFORMANCE	1 MTH	1 YR	3 YRS	5YRS	SI
Distribution return	1.00	4.82	2.97	2.95	4.52
Growth return	-0.53	2.01	0.21	-0.21	1.72
Total net return	0.47	6.63	3.18	2.74	6.24
Benchmark	0.36	4.35	2.50	1.66	2.40
Active Return	0.11	2.28	0.68	1.08	3.84

² Performance: distribution return is the return due to distributions paid by the Fund, growth return is the return due to changes in initial capital value of the Fund, total net return is the Fund return after the deduction of ongoing fees and expenses and assumes the reinvestment of all distributions. Results greater than one year are annualised. Past performances should not be taken as an indicator of future performance.

Performance comparisons



FRN - Bloomberg FRN Index

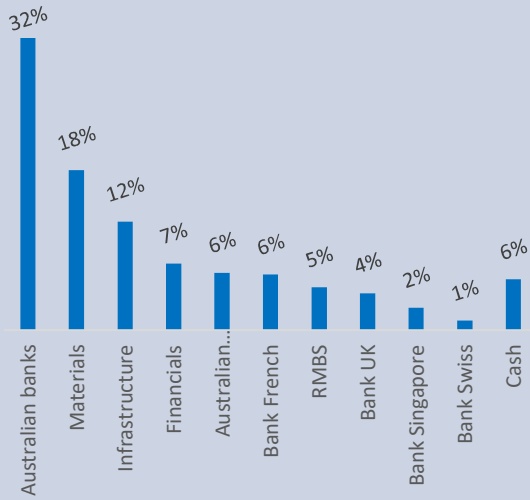
Composite - Bloomberg Composite Index

Cash - RBA Cash rate

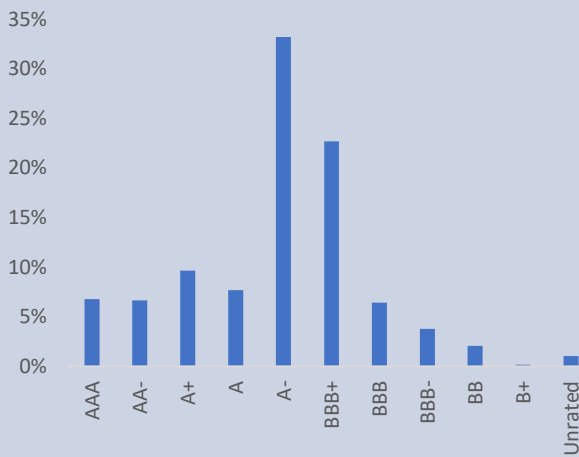
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Sector Allocation Breakdown



Security Ratings Profile



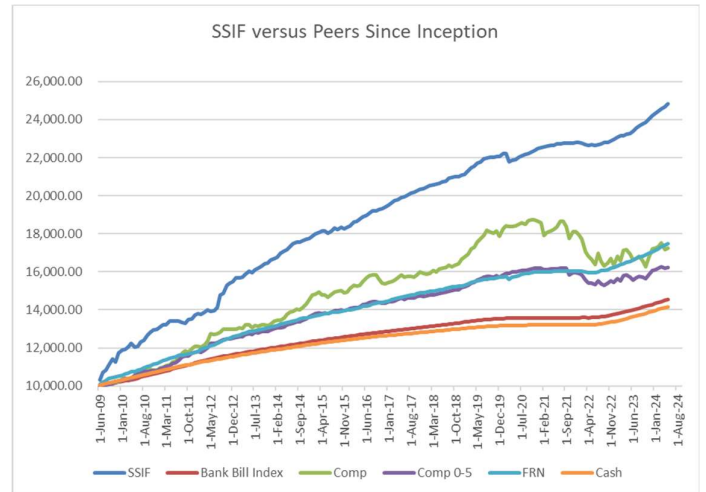
Top 10 Securities

CBA 30'25	5.74%	IAG 45'25	4.09%
Cash	5.61%	Ausgrid	4.09%
ANZ 34'29	5.44%	Victoria Power Network	4.07%
NAB 27'25	5.27%	Paccar 27	4.02%
ANZ31'26	4.13%	Paccar 26	2.51%

Platforms

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

Growth of \$10,000 since inception



FRN - Bloomberg FRN Index

Comp - Bloomberg Composite Index

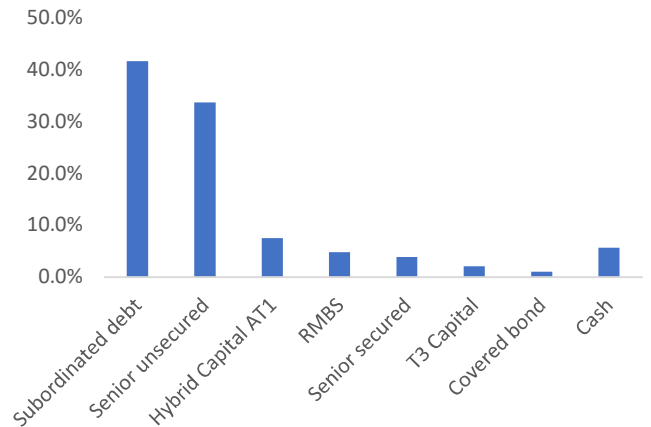
Comp 0-5 - Composite Bloomberg Index 0-5 years

Cash - RBA Cash rate

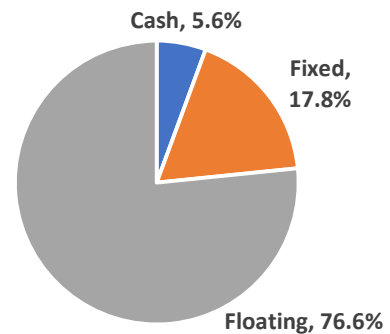
ASX TR - ASX 200 Accumulation

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Legal Structure



Fixed/Floating Rate





Portfolio Management

The main risk for markets at present is how markets will react to a second term of a Trump Presidency. The policies that Trump and his advisers are suggesting are seen as inflationary. It's how markets react in the near term that will drive returns.

Currently markets are building in a friendly environment for business but a somewhat less optimistic view about interest rates and bond yields. Eventually this divergence breaks down and higher rates for longer and bond yields become relevant.

This means that credit at some point is impacted. However, credit will provide a safe haven to both rising bond yields and potentially falling equity markets.

The portfolio is positioned to take advantage of the current market with an eye to the future. The average credit quality has risen to a very strong A- equivalent portfolio rating.

The portfolio has benefitted as a result.

Currently the portfolio has widened its diversification by buying some kangaroo bonds where the parent has limited exposure to Australia. The portfolio has benefitted through compression in high beta securities. Bank Tier 2 sub is preferred, especially domestic banks.

Holdings in offshore banks have increased and this has provided some timely gains. We have seen solid compression in this sector. For example, the holding in Natwest has seen spreads tighten a further 6bp over the month. Demand for Bank Tier 2 sub has driven spread compression in bank majors by up to 20 bp during the month. This trend of spread compression will continue to remain supportive especially as demand for both A- and BBB Tier 2 securities remains strong.

The infrastructure sector will continue to be targeted. The portfolio will invest in quality entities within this sector as further diversification into the sector will continue to improve the underlying risk profile of the portfolio.

The Portfolio has several maturities in the next 3 months. These maturities will allow some reinvestment at higher interest rate levels and provide opportunities for further diversification and investments.

As insurance, the portfolio has increased its weighting of fixed income securities marginally.

Market Commentary

June was yet another month of two parts. Market expectations drove yields lower as participants thought that a rate cut was likely. These hopes were dashed when data released earlier in the month suggested that the economy was heating up and inflation could be difficult to tame. The PCE release tempered those thoughts and bond yields rallied and rates fell, until Macron called an early election and the market feared that the far right could win and change the business outlook. Bonds and interest rates were sold and as such rates and yields rose.

The outlook for an easing of interest rates by the Federal Reserve is changing day by day. The various members of the Federal Reserve and the Regional Federal Reserve Banks are suggesting caution. It appears that the Federal Reserve may choose to wait until more data is gathered and the election has passed, especially given the current high political stakes and a former President's in waiting view. Trump looks to be the likely winner in the coming election. As such we may see rates on hold until there is certainty around his suggested policies.

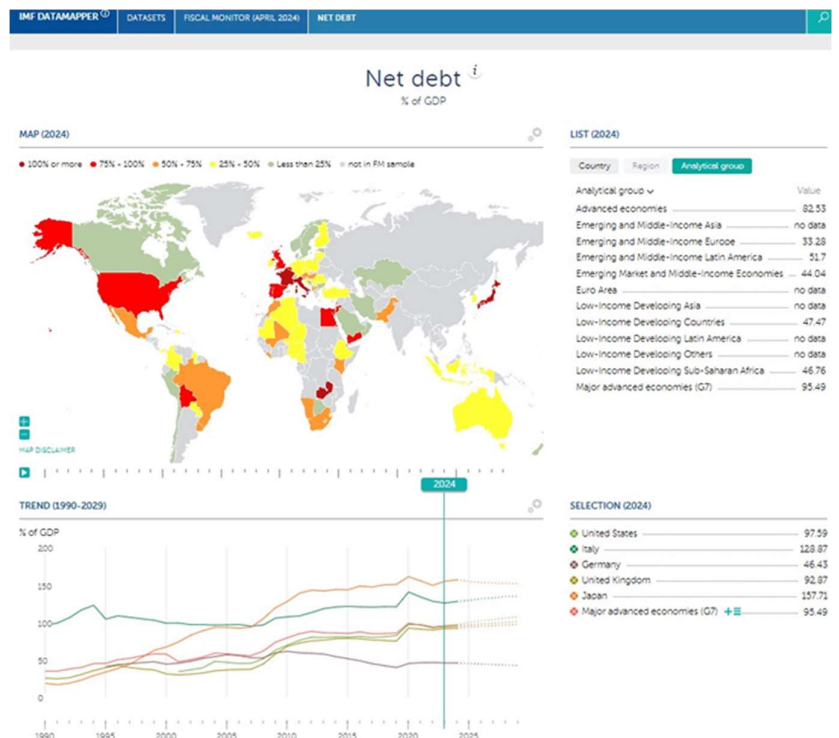
Higher for longer?

The Federal Reserve last raised its benchmark interest rate in July of 2023. Discussion of rate cuts is underway but the timing remains uncertain. The Fed has already passed the three shortest of the 5 "hold" periods since the 1990s.

● Since July 2023 as of July 2024*



Note: *Current cycle is ongoing. Other bars show number of months from last Fed rate increase to first rate cut.
Source: U.S. Federal Reserve



*Source Refinitiv.



The increase is in the form of several new issue bonds with a tenor of three years.

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 wider in credit spreads.

Meanwhile the Manager is looking for opportunities that will maintain spreads and maintain returns.

Should Trump be elected, and a number of his stated policies come into effect, we could easily see a spike in rates due to his growth and tax policies. As it stands, the U.S. has a high debt to GDP and any easing of taxes means less revenue. This loss is supposed to be captured by tariffs to be imposed, however, modelling by a number of parties, including Treasury suggests otherwise. Should the bond vigilantes become nervous, and the amount of issuance increases, markets could easily weaken.

Australia appears to be an unlikely passenger. Our own RBA would be concerned by the recent inflation number and no doubt would be looking for more data. The trend however suggests that inflation is steady and may even be rising again. If the RBA forms the view that more work is required, then we could see rates and bond yields rise. This rise would be different to the reasons why the U.S. could see interest rates rise.

There is conjecture that the RBA may hike rates in the near future. This remains a possibility because inflation remains persistent. I will add a note of caution as insolvency work has been steadily increasing and the retail spend diminishing. Some economists are pitching for a hike soon but have a rate cut pencilled in February / March.

As such the outlook looks volatile especially for fixed rate securities.

The portfolio in a rising rate environment should see extra income as the higher interest rate are reflected in the coupon resets. The low duration means that returns are protected to an extent. The high average rating within the portfolio also acts as a mitigant.

Companies that have low leverage will benefit at the expense of those more highly leveraged companies. The outlook can be very different. Should interest rates fall then the environment is supportive of tighter spreads.

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