

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	\$1.0726/1.0721
Fund Size	\$50m
Liquidity	Daily
Distributions	Quarterly
Inception Date	31 May 2009

Income Distributions

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

Fund Rating



Fund Metrics

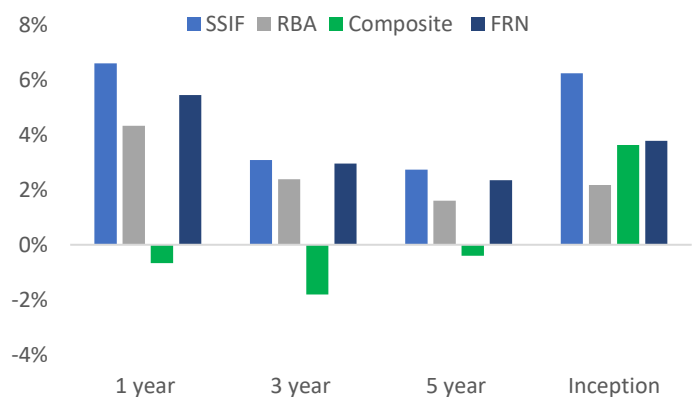
Running Yield	5.59%
Average Yield to Maturity / Call	5.83%
Duration	0.56 years
Credit spread duration	2.15 years
Average credit spread	159 bp
Number of positions	48
Percentage floating rate assets	82.4%
Largest drawdown since inception	1.86%
Best monthly return	4.49%
Negative Total return in a calendar year	0/15

Performance

PERFORMANCE	1 MTH	1 YR	3 YRS	5YRS	SI
Distribution return	0.0	4.60	3.09	3.23	4.49
Growth return	0.63	2.00	0.0	-0.49	1.75
Total net return	0.63	6.60	3.09	2.74	6.24
Benchmark	0.36	4.33	2.38	1.61	2.17
Active Return	0.27	2.27	0.71	1.13	4.07

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

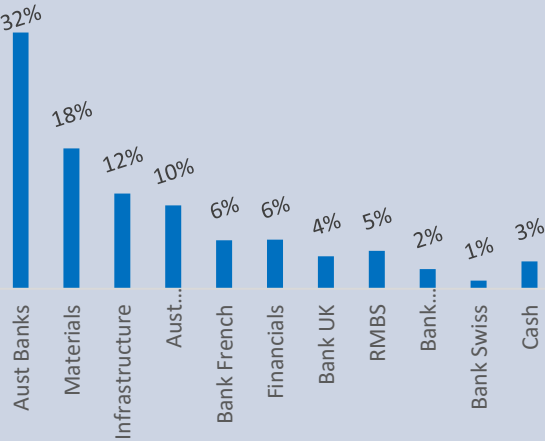
Composite – Bloomberg Composite Index

Cash – RBA Cash rate

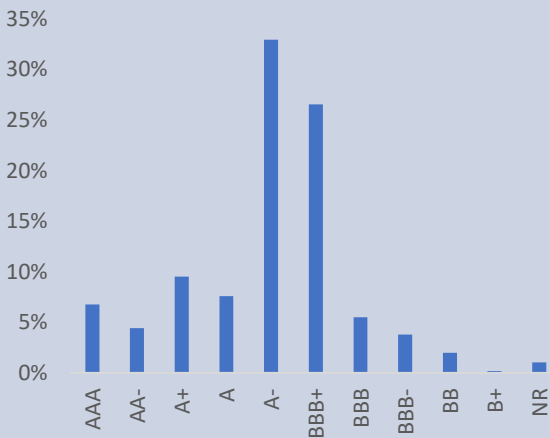
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Sector Allocation Breakdown



Security Ratings Profile



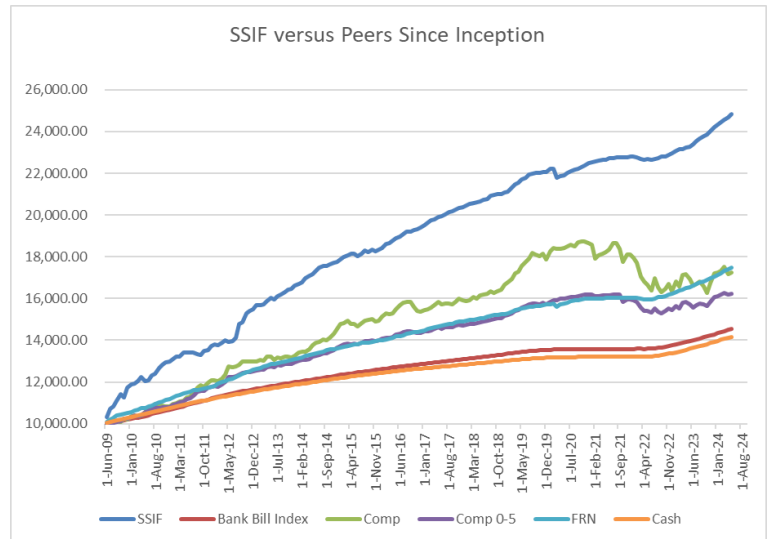
Top 10 Securities

CBA 30'25	5.76%	ANZ31"26	4.07%
ANZ 34'29	5.44%	Ausgrid	4.04%
NAB 27'25	5.19%	Victoria Power Network	4.03%
IAG 45'25	4.11%	Paccar 27	4.02%
IAG 44'24	4.08%	Cash	3.42%

Platforms

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

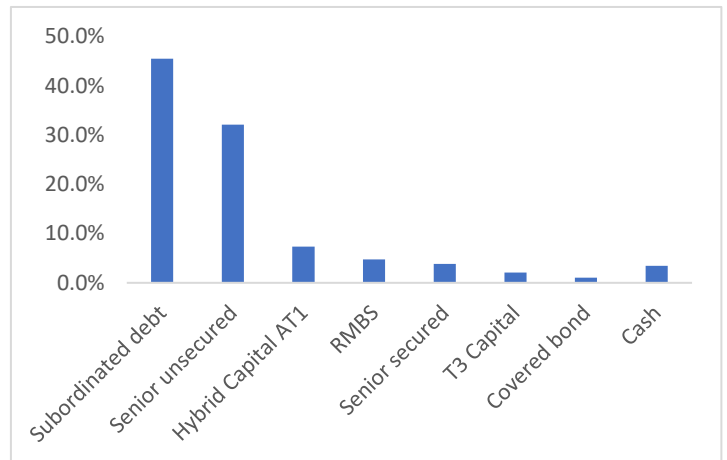
Growth of \$10,000 since inception



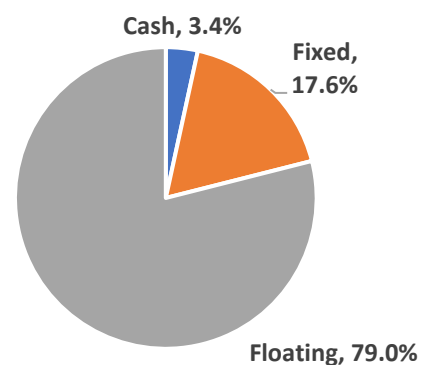
FRN - Bloomberg FRN Index
Comp - Bloomberg Composite Index
Comp 0-5 - Composite Bloomberg Index 0-5 years
Cash - RBA Cash rate
ASX TR - ASX 200 Accumulation

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Legal Structure



Fixed/Floating Rate





Portfolio Management

As a result of the recent upgrades by the ratings agencies bank, regional bank and insurance sub-debt tier 2 securities have performed driving spread compression. Insurance companies and finance companies have also performed as investors seek the best all in yielding securities. Supply forces are also driving demand as the need for major banks to issue subordinated debt has diminished dramatically and issuance is expected to be limited. Banks are expected to issue only the amounts that have been redeemed. This is also complicated by a new cohort of investors that can now invest in the Australian bank sub-debt because of the rating upgrades. Thus, increasing demand for scarce securities. This demand is expected to further compress spreads of these securities. This force will also help drive demand for the other issuers of sub-debt as they still will remain as a source of higher yielding securities.

The portfolio should continue to perform as demand for less risky assets continues. The demand for the recently upgraded bank securities will increase following 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. Rate cuts remains the focus in the U.S. and a major driver of sentiment. The Australian bond market is similarly confused. Many economists are expecting a rate cut later this year possibly in November. These expectations have changed from several rate cuts this year to maybe one.

The portfolio over the month has increased its exposure to some duration, however the amount is limited, and the securities are limited. Should there be a rate cut later this year, the Fund will stand to benefit. The portfolio also invested and increased its exposure to the AAA sector by purchasing a line of AAA asset backed securities issued by Case New Holland. The investment is worth commenting about as it adds a neat layer of diversification whilst also being repo-eligible (liquidity) improving the underlying quality of the portfolio and some good income as the security is paying a coupon of BBSW +125BP. The security's underlying assets are farm machinery, which include balers tractors of various horsepower among other major farm machinery.

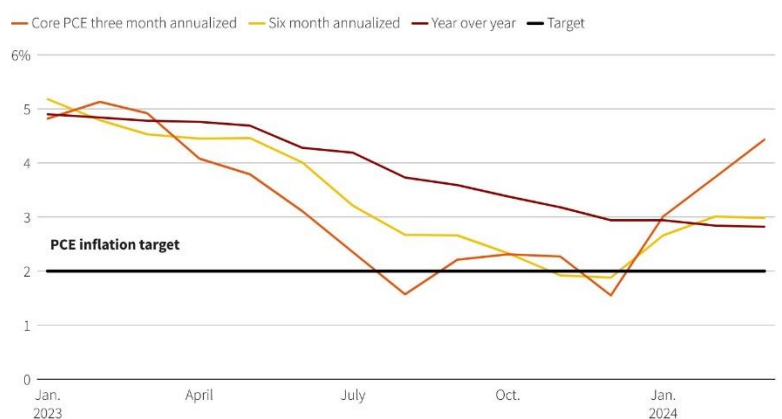
The Portfolio will continue to look for investments. The Portfolio will need to replace a line of IAG which has been recently called. Overall, the portfolio is well positioned to take advantage of any credit spread widening as there is available cash to invest. Maturities and redemptions will add to that position. Ideally the Portfolio will continue to invest in bank sub-debt as

Market Commentary

Confusion reigned during May. Early in the month, the market started to price a rate hike as opposed to an easing in the U.S. Various Federal Reserve members and non-voting members said as such. Doves turned to hawks, hawks became more hawkish, and it looked as though any cuts would only occur once inflation steadied and started to fall. The discussion was centred around inflation and inflation was the driving force for any Federal Reserve actions. The commentary suggested that rates would be on hold for longer and that any easing of rates may occur later than anticipated.

Is "disinflation" reversing?

The Fed sets its 2% target using the personal consumption expenditures price index. But "core PCE," excluding volatile food and energy prices, is considered a guide to underlying price pressures. After steady progress officials worry the annual rate is stalling as the more recent pace of price increases has accelerated.



Note: The Fed targets headline PCE inflation, but officials consider core measures better reflect underlying price trends.
Source: Bureau of Labor Statistics

*Courtesy Refinitiv Disinflation May.

U.S. Treasuries rose significantly with 4.6% a target. Hedge Funds and Commodity Trading Accounts (CTA) were active sellers with the various algorithm trading funds seen as heavy sellers.

The treasury auctions in the 2-year, 5-year and seven-year were weak and were indicating a lack of demand. Traders were becoming leery. Apart from inflation which was spooking the various members of the Federal Reserve discussion around future issuance of treasuries was also spooking the market. Even Federal Reserve Members were making mention of the challenges of issuance and the changing view on R-Star (neutral rate).

The market view was changing and changing quickly. However within the confusion, traders were prepared to buy the dips if the movements warranted profit taking. The treasury market was volatile, and this volatility seeped into other asset classes sapping confidence.

In Australia our own RBA was maintaining its focus on inflation and as a result bonds were weak as well. Credit spreads held steady over the month and in the case of banks this was certainly the case. Upgrades of the banks by the ratings agencies led to performance. In addition, the likelihood of less issuance by the banks of their Tier 2 securities only helped to drive spreads tighter. It is expected that the issuance of these securities over the next couple of years will be minimal and, in some cases, only replacing maturities/ calls.



these securities offer good value and are a good source of income.

The Fund continues to benefit from its holdings in British Banks.

The holding in French banks is relatively short and whilst France recently was downgraded by S&P, the banks in portfolio remain sound and well bid. We have seen no major deterioration in spread as these assets were well priced.

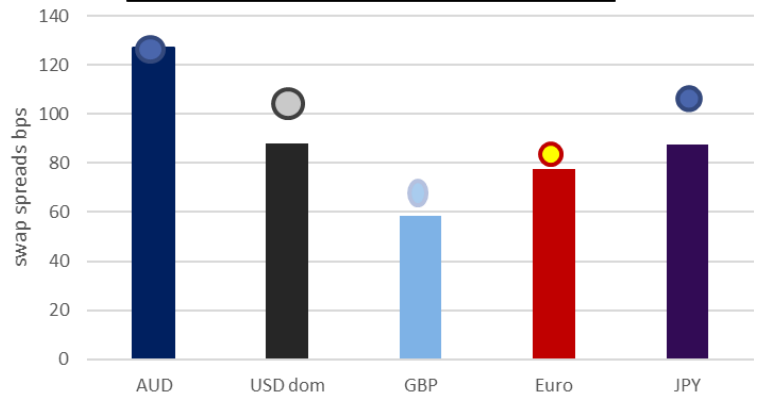
The Fund continues to invest in Bank/ Finance/Insurance sub in preference to senior as the bid tone remains.

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 issuances come 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.

As these securities are in demand due to their all-in yields one should expect this trend to continue. Spreads on a long-term basis are still trading around their long-term averages and as such demand should see them compress further. Issues by insurers, regional banks and finance companies should benefit from some spread compression.

"A" credit spreads mixed vs historical averages
A rate 5 year credit spreads over swaps



Sources: Thomson Reuters, EQT Spectrum Asset

The outlook remains positive. Should interest rates fall then the environment is supportive of tighter spreads. Spreads remain around the long term averages and unlikely to widen significantly under current benign market conditions.

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