31 December 2024

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
- Short duration portfolio
- Diversified portfolio of AUD denominated corporate securities.
- Consistent top quartile performance

APIR	ETL0072AU
Entry / Exit Price	1.0779/1.0769
Fund Size	$69.7
Liquidity	Daily
Distributions	Quarterly
Inception Date	31 May 2009
Benchmark	RBA Cash Rate

Income Distributions

FY25	SEP	DEC
Distribution (CPU)	1.27	1.18

FY24	SEP	DEC	MAR	JUN
Distribution (CPU)	1.06	1.68	1.19	1.01

Fund Rating

Superior SQM RESEARCH

Fund Metrics

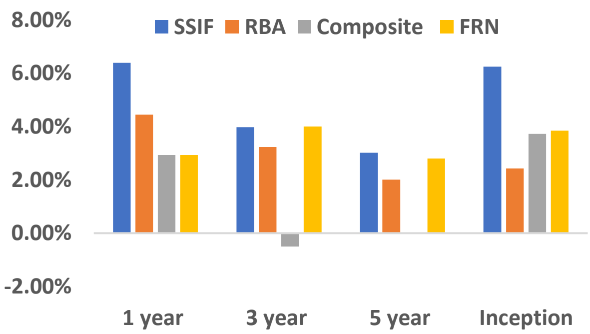
Running Yield	5.95%
Average Yield to Maturity / Call	5.69%
Duration	0.96 years
Credit spread duration	3.48 years
Average credit spread	136 bp
Number of positions	63
Percentage floating rate assets	93%
Largest drawdown since inception	1.86%
Best monthly return	4.49%
Negative Total return in consecutive months	0/21

Performance

PERFORMANCE	1 MTH	1 YR	3 YRS	5YRS	SI
Distribution return	1.12	4.64	3.53	3.19	4.53
Growth return	-0.53	1.75	0.60	-0.05	1.72
Total net return	0.59	6.39	4.13	3.14	6.25
Benchmark (RBA Cash Rate)	0.36	4.42	3.23	2.01	2.43
Active Return	0.23	1.97	0.90	1.13	3.82

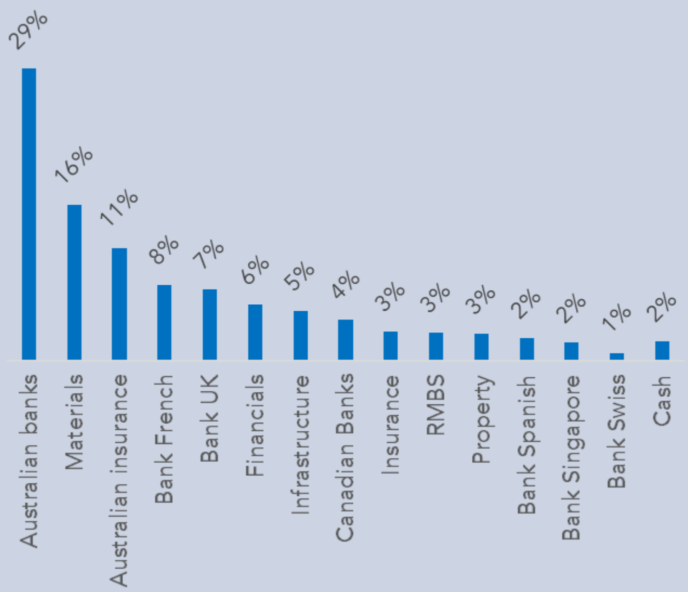
[2] Performance: distribution return is the return due to distributions paid by the Fund. Growth return is the return due to changes in initial capital value of the Fund. Total net return is the Fund return after the deduction of ongoing fees and expenses and assumes the reinvestment of all distributions.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

Performance comparisons



FRN -Bloomberg FRN Index **RBA** – RBA Cash rate
Composite – Bloomberg Composite Index
Past performance is not an indicator of future performance.

Sector Allocation Breakdown



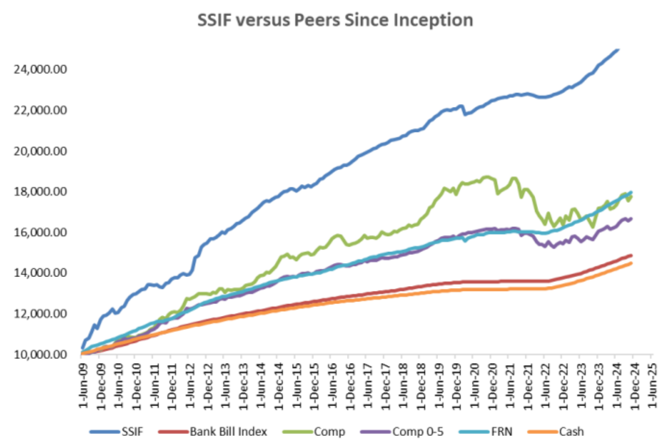
Top 10 Securities

Macquarie 35'30	5.10%	Norfina 2029	2.96%
ANZ 34'29	3.93%	Paccar 2027	2.91%
ANZ perpetual callable	3.77%	New York Life Funding	2.90%
NAB 27'25	3.71%	Ausgrid Finance 2026	2.90%
Ampol 54'30	3.26%	Toronto Dominion 29	2.90%

Platforms

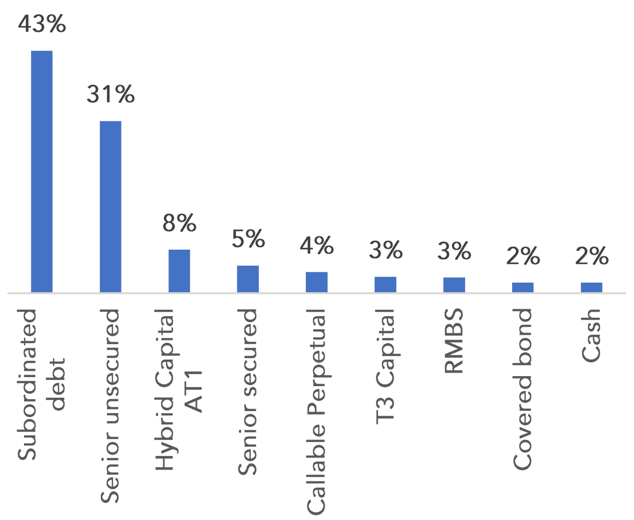
- AMG Super
- Bell Direct
- HUB24
- Netwealth
- Ausmaq
- CMC Stockbroking
- mFund
- Powerwrap
- Australian Money Market
- Freedom of Choice
- Nabtrade
- uXchange

Growth of $10,000 since inception

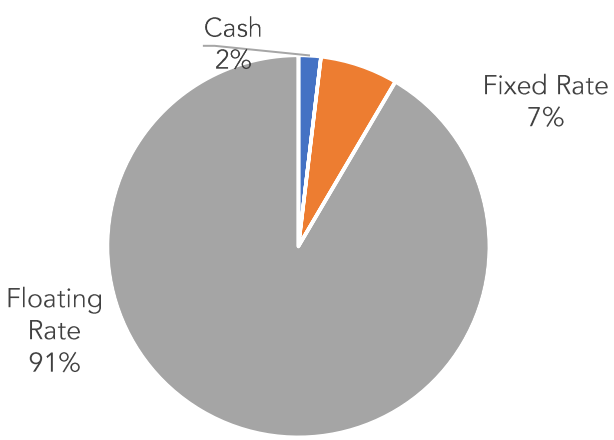


FRN -Bloomberg FRN Index
Comp – Bloomberg Composite Index
Comp 0-5 – Composite Bloomberg Index 0-5 years
Comp - Bloomberg Composite Index
Cash – RBA Cash Rate
Past performance is not an indicator of future performance.

Legal Structure



Fixed/Floating Rate



Portfolio Management

December saw a reappraisal of assets and asset valuations. The Federal reserve finally cut rates in December but uncertainty looms over further rate cuts. Since October, market expectations have shifted from 6 rate cuts to possibly two in 2025. The terminal rate has adjusted to 4%, 25bp below the Fed Funds rate.

Various voting members have voiced concerns about inflation. The resilience of the employment market and a strong economy work against rate cuts. Concerns over the debt ceiling and significant bond issuance, makes it difficult to argue for a decline in bond yields from current levels.

Equity markets remain strong with forward Price to Earnings ratios around 22 times. High yield spreads are tight with the ICE (Intercontinental Exchange) High Yield Index at levels similar to those seen in 2007, driving issuance by high yield issuers.

Credit spreads have remained tight and continue to compress both domestically and internationally. Domestically spread compression is being driven by family offices, and private banks seeking higher-yielding products in the absence further AT1 hybrid issuance by the banks.

The view on cash rates is slowly changing with several bank economists pushing back the timeline for rate changes. With a new Committee deciding interest rates starting in March, it is unlikely the current Committee would pre-empt any changes. An upcoming election adds further caution for the RBA. The resilient Australian labour market and ongoing inflation concerns suggest a rate cut may not be imminent.

The underlying market for credit however remains positive and we continue to see spreads compress.

<u>Portfolio Adustments:</u> The portfolio has subtly reacted to these changes. An increase in the AAA sector was achieved through the purchase of CIBC covered bonds and Barclays Tier 2 bonds, enhancing portfolio diversification. The portfolio also acquired the new Ampol hybrid, which saw a rating upgrade due to its structure. These bonds are rated BBB and feature a shorter legal maturity, capped interest deferral, and improved ranking in the credit stack.

These new investments were timely, taking advantage of spread widening earlier in the month. The portfolio benefited from solid performance by Ampol, which rallied 20 basis points from issuance, and spread compression in both Barclays Tier 2 and CIBC covered bonds.

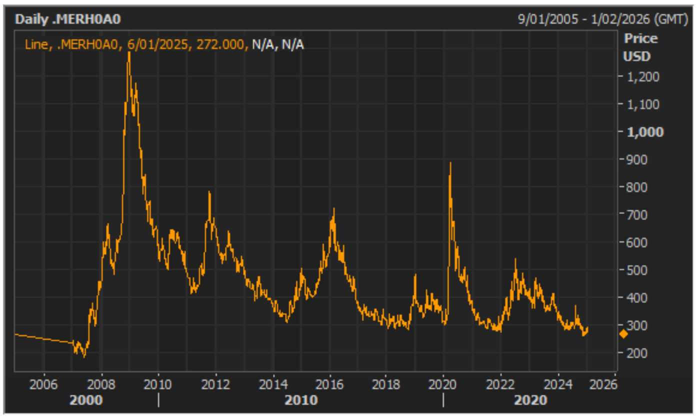
<u>Portfolio Strategy:</u> The portfolio aims to maintain an average credit rating in the A band. Over time, adjustments will be made to reduce risks, increase diversification, and realize capital gains. Credit spreads

Market Commentary

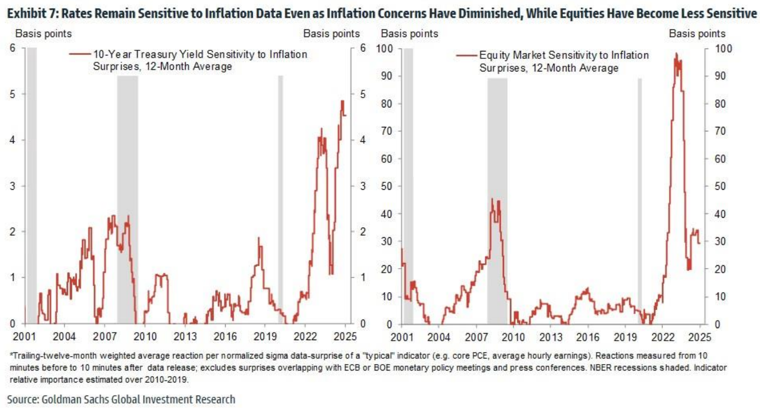
December saw a retracement in markets driven by several factors. Persistent inflation, a strong U.S. economy, concerns over the debt ceiling, changes in rate forecasts, uncertainty surrounding interest rate easing by the Federal Reserve all contributed to this movement. Publicly held debt was 98% of GDP in October, compared to 32% in October 2001.

Markets remain mixed. Government debt markets are nervous, while equity markets are optimistic about an improving economic outlook with Trump taking office. Inflation remains a concern, but debt markets are focused on inflation and growth.

High yield indices remain very tight, suggesting that rates and bond yields may be bottoming.



*Courtesy LSEG



*Source "Trump trade uncertainty exposes stretched market volatility shocks: McGeever 7/1/2025 LSEG"

Economic indicators such as GDPNOW remain solid, with the latest forecast suggesting U.S. economic growth of around 2.7%. Ten-year bond yields have risen by over 75 basis points since October, reflecting concerns over the U.S. fiscal position and issuance. Expectations are for volatile rates and bond yields in 2025.

are generally trading well within one standard deviation for both single A and BBB spreads.

The portfolio consists of 93% floating-rate securities and 7% fixed-rate securities, with the fixed component maturing mostly by 2027. Duration extension is not anticipated unless there is a spike in bond yields.

The portfolio has an average coupon of 6.2% and a running yield of 6%. The yield to maturity is currently 5.7%. The portfolio returned 0.59% over the month and 6.39% year-on-year. The average credit spread is 136 basis points, with potential for further increase. The calendar year distribution was 5.25%. Liquidity remains a priority, over 90% of the portfolio actively traded and was marked to market daily.

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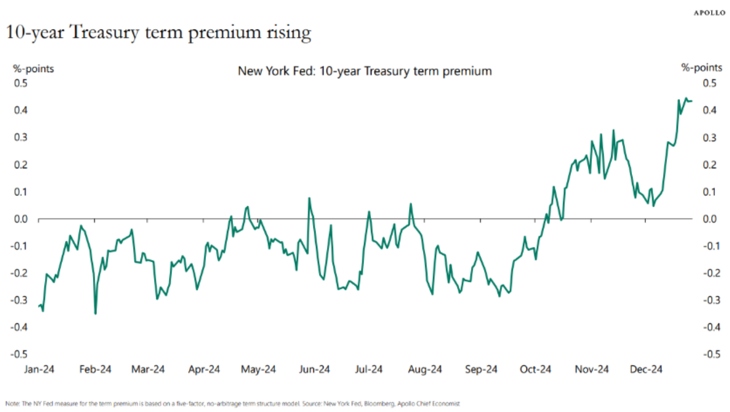

With Trump about to take back the Presidency, the Federal Reserve may wait to see what changes he implements. The Fed may decide against further cuts while inflation remains steady in the upper band limits and employment remains resilient.

A rate cut by the RBA appears increasingly difficult under current conditions. The economy remains sound, but pressures are building. Government spending continues to crowd out the private sector. With changes to the RBA Board and a new interest rate committee starting in March, it is unlikely the RBA will change monetary policy before then. An upcoming election and currency-induced inflation, with a weak AUD potentially increasing inflation, are also concerns for the RBA.

Credit should benefit from a positive economic outlook. Employment growth remains buoyant, but weak productivity growth and a weak AUD suggest some uncertainty. Credit spreads remain within the average. Given interest rate uncertainty, floating rate securities may offer a better outlook.

With an election possibly as early as March 2025, Australian asset markets may have much to consider early in the new year. Recently, over AUD 2 billion of T2 Bank sub-debt and a further AUD 4 billion of senior debt were issued. All issues experienced price compression from indicated levels and received significant bid interest.