SPECTRUM STRATEGIC INCOME FUND

January 2024

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.

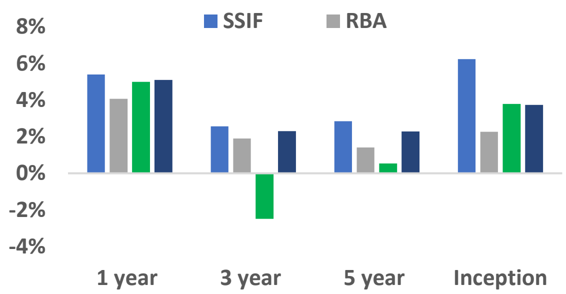
Investment Strategy
The Fund holds a diversified portfolio of listed and unlisted debt and hybrid debt securities. Issuers may be government bodies, banks, corporations and, to a limited extent, specialist financing vehicles. To maintain a diversified portfolio structure, certain limits are imposed on 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	$1.0622 / $1.0612
Fund Size	$42.4m
Unit Pricing	Daily
Distributions	Quarterly
Inception Date	31 May 2009

Performance comparisons

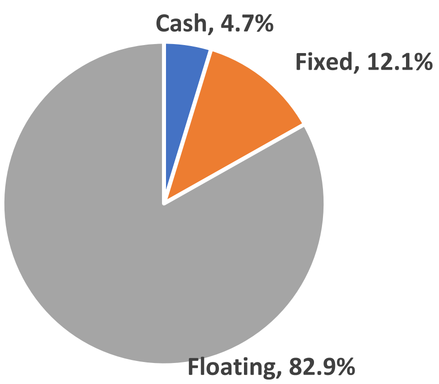


Fund performance

	1mth	6mth	1yr	3yr p.a.	5yr p.a.	Incep p.a.
Net Return (%)	0.41	3.29	5.39	2.57	2.85	6.23
RBA Cash Rate (%)	0.36	2.11	4.07	1.90	1.41	2.27
Spread to RBA (%)	0.05	1.18	1.32	0.67	1.44	3.96
Income Distribution (CPU)	1.68	2.74	4.46	2.82	3.11	3.57

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

Fixed/Floating Rate



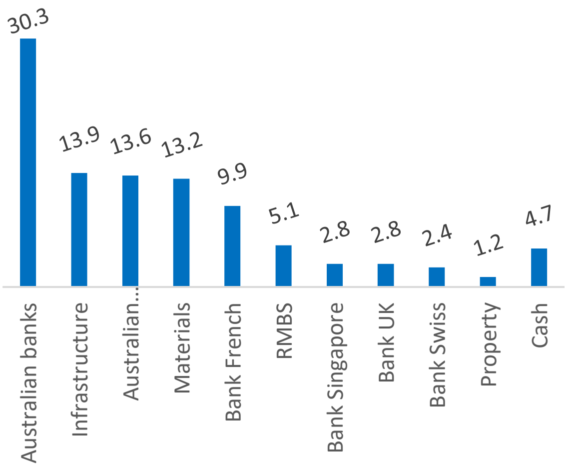
Income distributions

2023/24	SEP	DEC	MAR	JUN
Distributions (cents per unit) *	1.057	1.68	0.95	0.77

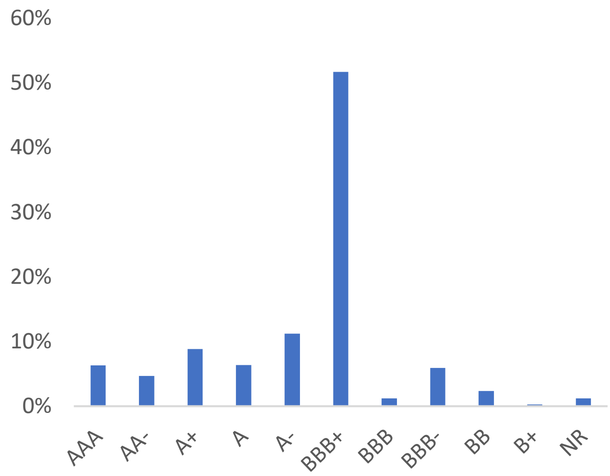
Ratings

Superior
SQM RESEARCH

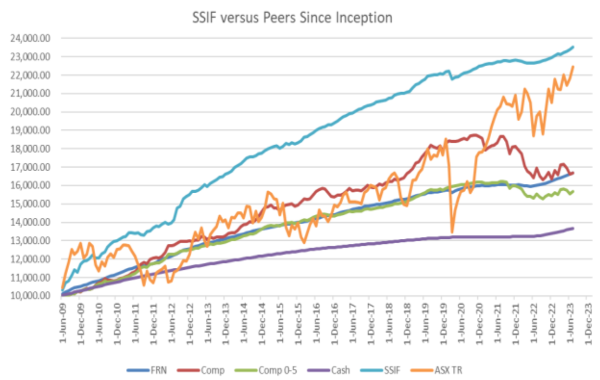
Sector Allocation (%)



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

National Australia T1	6.0%	Cash	4.7%
ANZ T2 31’26	4.8%	Vic Power Network	4.7%
IAG T2 45’25	4.8%	Ausgrid	4.7%
IAG Group T2 44’24	4.7%	CBA T2 30’25	3.3%
ANZ T2 34’29	4.7%	Paccar	2.9%

Market commentary

Expectations changed markedly during the month. After initially looking to a soft landing and a possibility of a rate cut in March, markets continued to rally. Those hopes were soon dashed when various members of the FOMC weighed in to dampen expectations. As a result, assets weakened. Economic data indicated a falling inflation, weaker employment numbers, and sluggish manufacturing numbers. After initially retracing, the bond market rallied and so did the equity markets. Currently bonds are at fair value, both in the U.S. and in Australia. Rate cuts in the U.S. are likely in the next few months. Powell’s recent comments validate this view. Australia is expected to remain on hold until perhaps September or possibly October. Any rate cut will be dependent upon falling inflation.

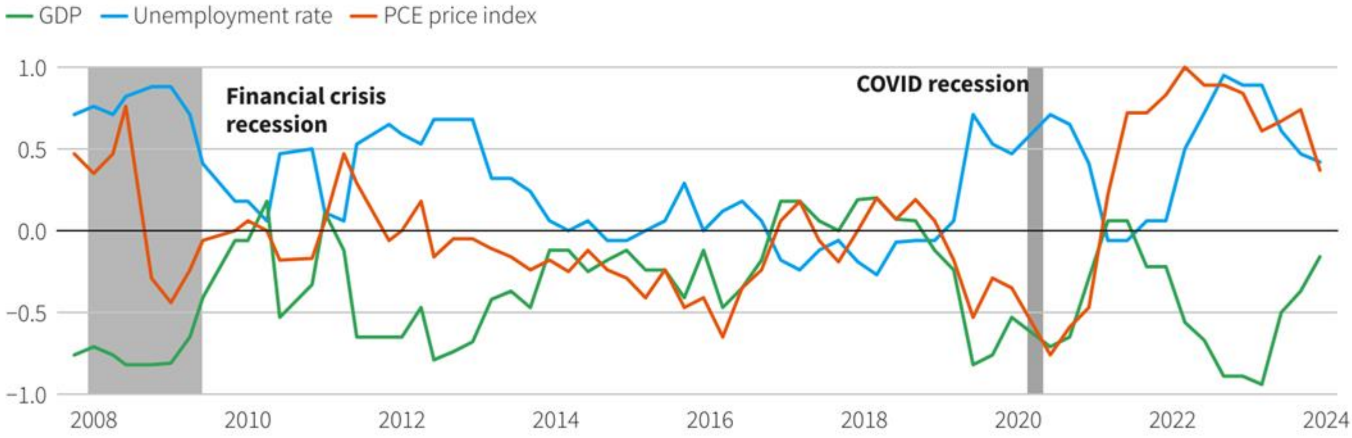
The case for an easing grows stronger as M6 (Broad Money) has fallen significantly from 25% in 2020, to current levels of 7%. Such a fall is consistent with inflation falling to 3% and places pressure on the RBA to ease. This expectation is being considered when reviewing the portfolio positioning.

The future is expected to be volatile. With the U.S. Presidential election slated for November 5, the Federal reserve will become more cautious in cutting rates the closer we get to the election. There will most likely be a political outcry if Powell cuts rates close to the election as this may seem to provide Biden a benefit. Even if a rate cut is required his action will raise the ire of the Republican Party (GOP).

The economic outlook for the U.S. is that the economy is moderating. Manufacturing has slowed and so too employment. Credit card delinquencies have risen to 9.4% still some way from the peaks, and savings have fallen. This suggests that retail sales, the engine of the U.S. economy could slow. Risk sentiment is changing. A stock market that continues to rally amid interest rate easing will benefit Biden and more so as markets feel that they are in the Goldilocks zone.

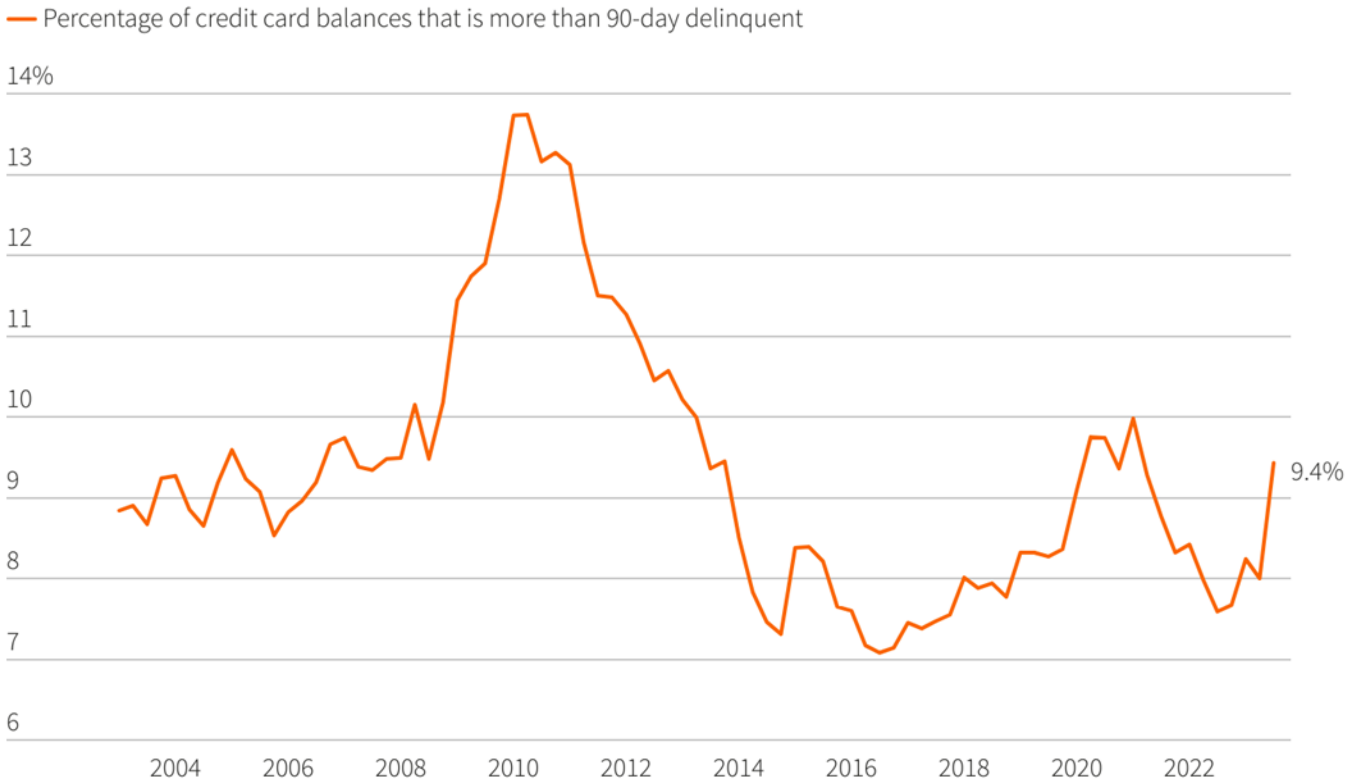
Fed risk sentiment

Federal Reserve officials were in near uniform agreement that the risks to their outlook were skewed towards higher inflation, higher unemployment, and lower growth than anticipated. But of late opinions have become more split as risks have been seen as more balanced.



Note: Diffusion index scores of 1 or -1 indicate full agreement, with 0 showing divided opinion.
Source: U.S. Federal Reserve

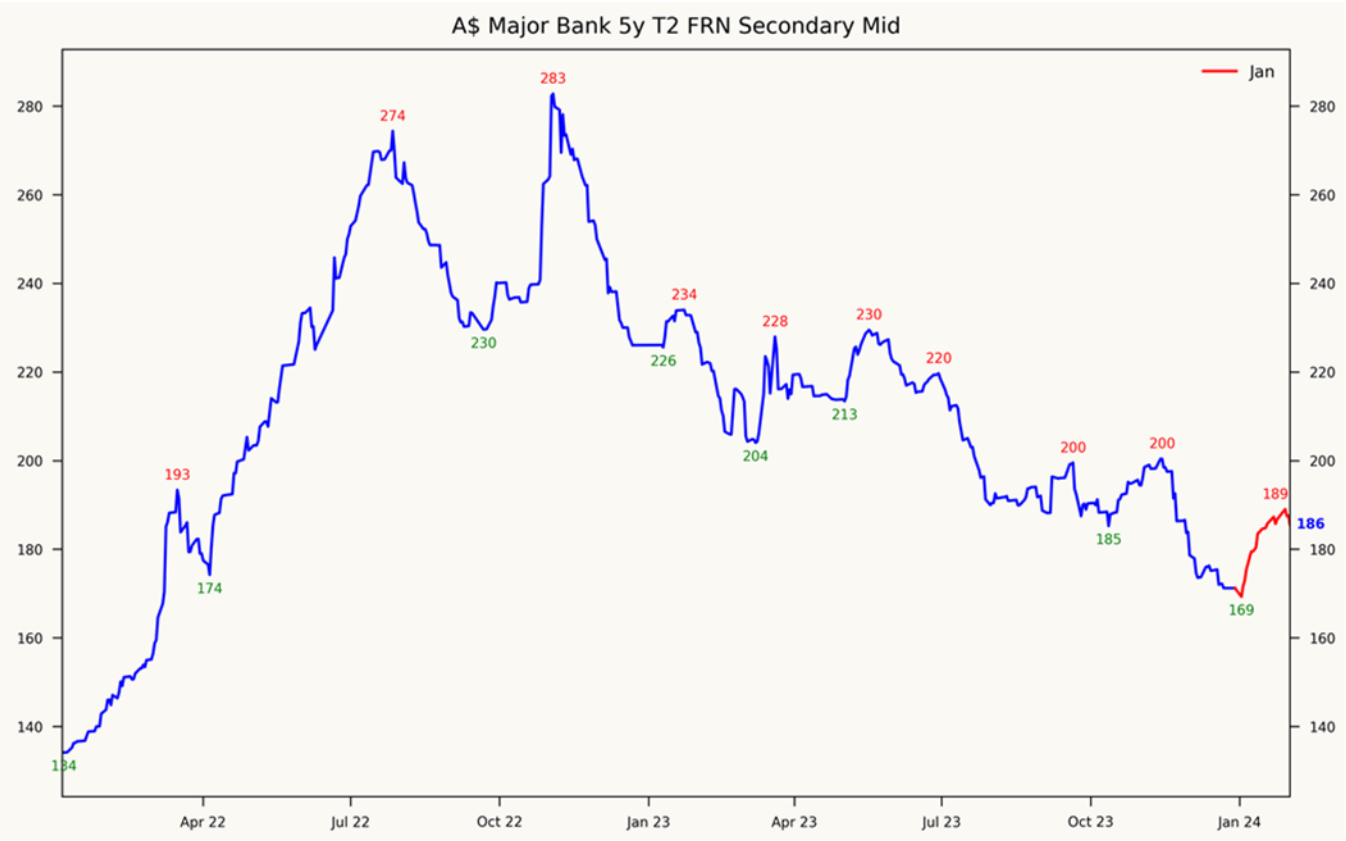
US consumers are struggling to repay credit card debt



Source: New York Fed Consumer Credit Panel/Equifax | F. Guerrera | Breakingviews | Jan. 29, 2024

Australia is in a somewhat analogous position. Inflation appears to have been tamed, unemployment has increased, growth appears to be slowing and bond yields have rallied along with the equity markets. Interest rates are expected to be cut in the 2nd half of the year, probably the last quarter on current observations.

Credit spreads whilst being tight remain well bid. Bank and insurance T2 securities have led the way and have seen good price action. Currently the ratio is around 1.8x senior spreads. The driver for this price action is real money, Family Offices and Asian interests looking for yield. This trend will hold as earnings and outlooks remain positive. As yields fall the extra spread should continue to generate interest.



Portfolio Management

Investment Strategy

The Fund performed well during January. Bank sub-debt and credit remained bid. Investor demand for higher yielding investment grade debt continues. The Australian debt markets will remain linked to actions by the U.S. Federal Reserve and the RBA. As expectations on easing wax and wane, credit will ride that rollercoaster. Currently credit has a bid tone because financial guidance and performance remains positive. Balance sheets are in good health. We have seen some of this improvement in the credit ratings of some issuers. Both Case New Holland and IAG have seen their rating improve by one notch. Case was upgraded to BBB+ and IAG was upgrade to A+. Their improvement also saw a slight improvement in price as their credit spread tightened.

Bond yields have rebounded since December. The opportunity of a rate cut in March by the Federal Reserve has all but evaporated, as strong data continues. U.S. bond yields have risen some 10-15 bp since the release of stronger data indicating that the U.S. economy is not slowing anytime soon. Despite the sell-off in bonds, credit spreads have held or tightened. Government bonds are rangebound and are likely to fluctuate for a while.

Over the coming months credit remains in a strong position. With relatively high all-in yields and a period where the path forward for monetary policy is more likely to be easing rather than tightening credit should continue to perform.

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 portfolio also purchased a line of covered bonds. A small line of UBS senior secured was added. A line of T3 securities issued by BPCE a well rated and regarded bank in France that issued off its Kangaroo programme adds further to the diversification of the portfolio. The average credit quality of the Fund is A-. The coupon rate of the Fund is 5.57% and has a yield to call of 5.71%. The average credit spread is 1.55%.

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	-0.41%
Number of negative months since inception	24
Number of positive months since inception	152
Best monthly return	4.49%
Consecutive Positive Returns	10

Number Negative Returns	1yr	3yrs	5yrs
Bloomberg FRN Index	0	8	10
Bloomberg 0-5 Years Composite Index	5	18	21
Bloomberg All Maturities Index	5	17	26
SSIF	1	7	10

SSIF vs Correlation to	1yr	3yr	5yr	10yr	Incep.
FRN Index	90.4%	84.5%	81.4%	67.3%	61.1%
Composite Index	8.5%	35.3%	30.9%	33.4%	3.2%
ASX 200 Total Return	56.36%	21.6%	59.9%	44.1%	34.8%

Enquiries

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