

# 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	1.0741/1.0731
Fund Size	\$52m
Liquidity	Daily
Distributions	Quarterly
Inception Date	31 May 2009

## Income Distributions

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

## Fund Rating



## Fund Metrics

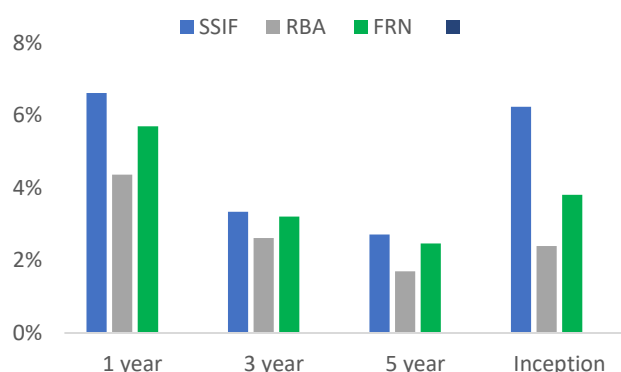
Running Yield	4.97%
Average Yield to Maturity / Call	5.06%
Duration	0.52 years
Credit spread duration	2.09 years
Average credit spread	117 bp
Number of positions	48
Percentage floating rate assets	82.92%
Largest drawdown since inception	1.86%
Best monthly return	4.49%
Negative Total return in a calendar year	0/16

## Performance

PERFORMANCE	1 MTH	1 YR	3 YRS	5YRS	SI
Distribution return	0.00	4.82	2.97	2.95	4.50
Growth return	0.62	1.79	0.37	-0.23	1.74
Total net return	0.62	6.62	3.34	2.72	6.24
Benchmark	0.36	4.37	2.62	1.70	2.40
Active Return	0.25	2.25	0.72	1.02	3.84

<sup>2</sup> 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 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 year are annualised. Past performances should not be taken as an indicator of future performance.

## Performance comparisons



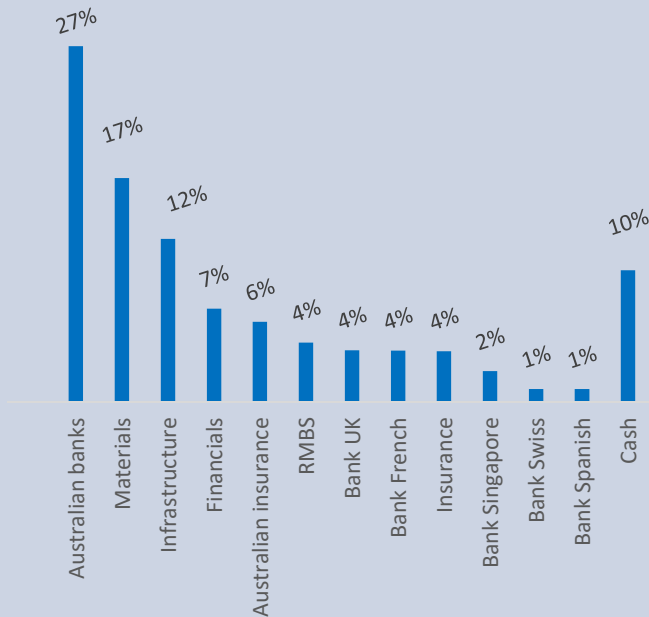
FRN -Bloomberg FRN Index

Cash – RBA Cash rate

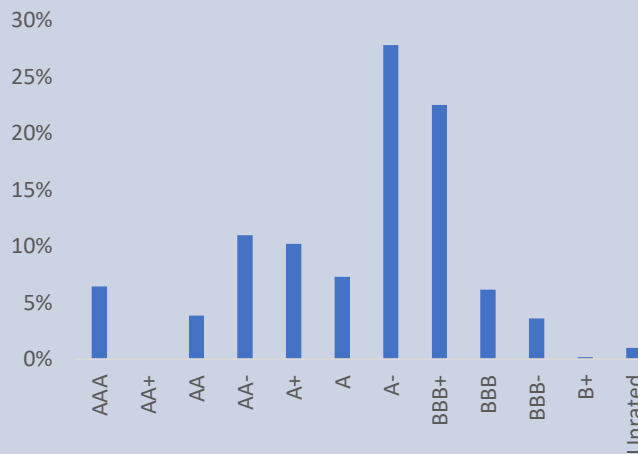
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## Sector Allocation Breakdown



## Security Ratings Profile



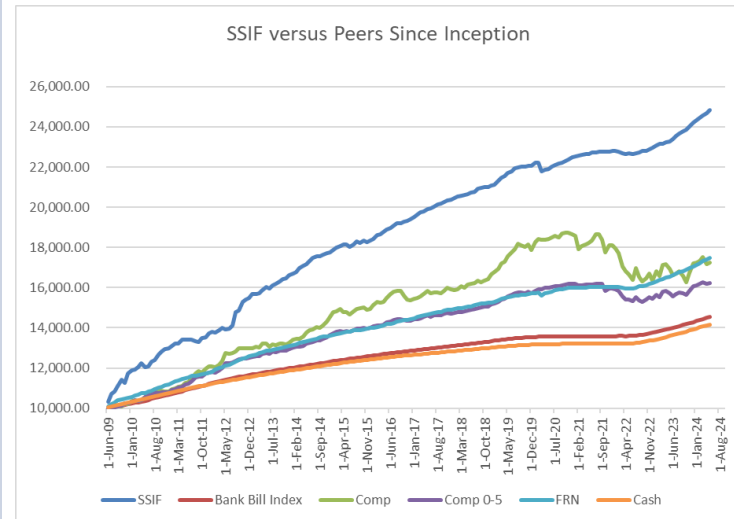
## Top 10 Securities

Cash	9.99%	IAG 45'25	3.91%
ANZ 34'29	5.20%	Ausgrid	3.86%
NAB 27'25	4.93%	New York Life Funding	3.86%
ANZ31'26	3.95%	Victoria Power Network	3.84%
Paccar 27	3.92%	Paccar 26	2.41%

## 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

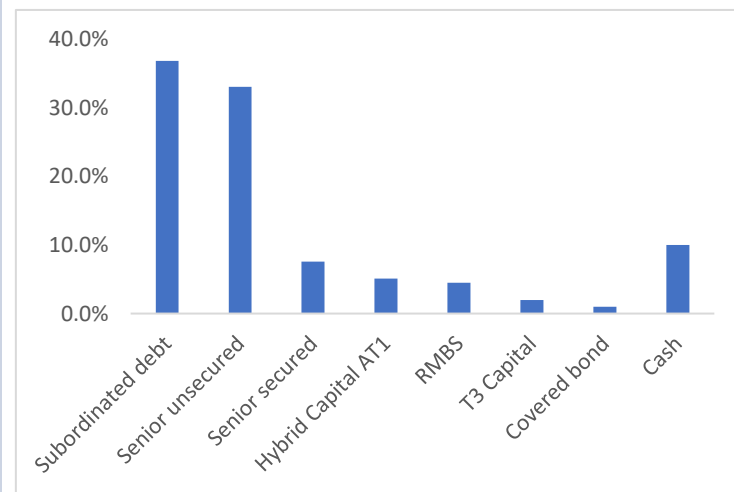
Comp 0-5 - Composite Bloomberg Index 0-5 years

Cash - RBA Cash rate

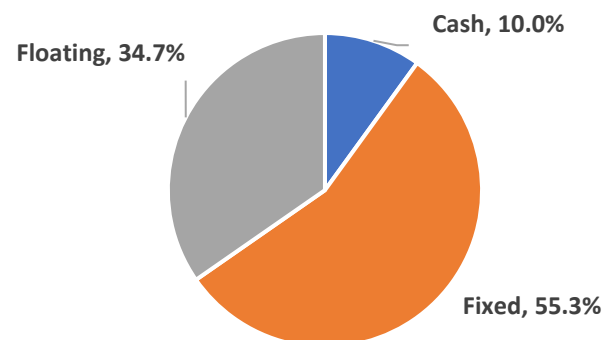
ASX TR - ASX 200 Accumulation

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## Legal Structure



## Fixed/Floating Rate





## Portfolio Management

Markets currently are reviewing the outlook on growth in various countries, especially in the U.S.A.

Fixed income markets have to decide if rates are going to be cut and is growth slowing sufficiently to warrant a cut. Fixed Income markets also have the burden of growing public debt and how that debt will be funded. This is especially true of the U.S. where the interest burden will become significant as a portion of U.S. GDP.

Equity markets are reviewing growth, potential tax cuts and this is especially true should the GOP win in a landslide, and this was a possibility until Biden dropped out of the race in favour of his Vice President Harris.

Harris has reinvigorated the race for the White House, and this has no doubt unsettled those investors looking to tax cuts for business. This means that valuations may need to change and P/E's revised slightly. Currently P/E's are in the top decile so there is a chance for a revision.

The outlook then is a little confusing. To minimise impacts to the portfolio, we have taken some risk off the table.

Several securities in the A- to BBB+ sectors have been sold in favour of A+ and AA securities. Some gains have been taken on AT1 and Tier2 securities. This has meant that for the moment running yield and yield to maturity have been reduced and the holding in cash has increased and is available to take advantage of any widening.

The average credit quality has risen to a single 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 for example New York Life. The Fund has added China Light and Power (parent) recently.

The portfolio has benefitted through compression in high beta securities. Bank Tier 2 sub is preferred, especially domestic banks.

Holdings in kangaroo issuers have increased. This adds to diversification and lessens the exposure to the Australian economy and Australian Banks (a significant part of the Australian Fixed income Market).

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

## Market Commentary

July could be summed up as a month of two halves. Earlier in the month, the focus had moved from when the Federal Reserve will cut to no cut as a sleuth of data and Federal Reserve voting members and non-voting members were suggesting that more data was required. One bad data point had the market hyperventilating. And the market then double downed on the issuance at hand.

Post the first debate between Trump and Biden, markets clearly factored in a landslide Trump victory come the November elections. As a result, bonds were sold and a risk off view became the norm as fears of spikes in inflation and future bond issuance were being factored into investors views. After several weeks of calls for Biden not to seek a second term, Kamala Harris the Vice President was nominated. Harris has excited the younger set and also brings more cohesion and possibly the black vote. Such a change in fortune has seen the gap between the GOP and Democrats close markedly where according to recent polls the result is very close.

Earlier we saw the market sell-off expecting a Trump victory, now we see a risk on, as it appears the GOP won't win by a landslide and perhaps the Democrats could even win.

So, what happened in markets and especially the bond market? The two-year and seven-year bond auctions were well bid, the data shifted from inflation rising and stress in the labour market to, inflation moving towards the Federal Reserve's target, and labour has steadied, and productivity has leapt higher.

We are now once again in the Goldilocks zone; data is moving steadfastly towards the Federal Reserve's target and the markets are talking easing. In early August we saw the BoE ease and the psychology has dramatically changed. The U.S. markets have priced in a 100% cut in rates in September (as we go to press). The U.S. 10-year over month has seen a strong rally.



\*Courtesy Refinitiv U.S. Government Wrap 1/8/2024 Roseanne Briggen

Markets are looking for an easing in interest rates. In Australia our concerns earlier in the month of a potential tightening has diminished. Our fears of a tightening have been assuaged and we are also focussing on a rate cut. Like the U.S., recent inflation data has been benign and as a result many economists are now starting to believe that a rate cut in Australia could also be in the offing.

With reasonably low unemployment, credit fundamentals remain positive. Falling inflation, robust employment and stable rates are all supportive. As nominal rates have rallied, current bond yields are not too dissimilar to inflation, the net result being real yields are very low. This is credit positive. Corporate spreads have continued to remain around the long-term average and as such without a shock, spreads are more likely to compress as investors weigh returns which remain attractive, circa 5% for 5-year corporate debt and 6% for bank T2 sub debt.



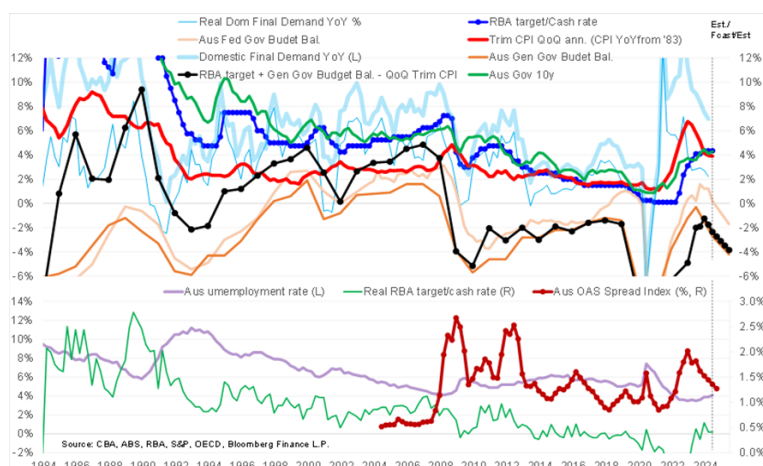
continue to improve the underlying risk profile of the portfolio.

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. 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.



\*Courtesy CBA Credit Market Views: Spreads stable Gus Madeiros 31/7/2024

The main risks to the portfolio currently are geopolitical with a change from risk on to risk off. This would be negative for spreads. Interest rate rises, this would require an outlier in the current expected data set. Depending on the data this would negative for bonds and a small negative for spreads.

The portfolio in a rate rise 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.

As such, outlook is set to remain volatile especially for fixed rate securities.

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