Switzer | Higher Yield Fund

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Investment Update

31 August 2021

Investment Objective

The Switzer Higher Yield Fund (**SHYF** or the **Fund**) is a zero-duration bond fund which aims to provide investors an attractive cash yield with low capital volatility by investing in a portfolio of high quality and liquid fixed income securities. The portfolio is managed by Coolabah Capital Institutional Investments (**Coolabah**). The Fund provides investors with daily liquidity and aims to achieve total returns which are between 1.5% to 3.0% greater than the RBA Cash Rate after fees and expenses on a rolling 12-month basis.

Performance Summary

For the month of August, the Fund delivered a return of -0.16% net of fees, compared with 0.13% for the benchmark RBA Cash Rate + 1.5%. Over the past three years the Fund has returned 2.81% p.a. net of fees, compared with 2.20% p.a. for the benchmark.

At the end of the month, the Fund had a weighted average interest rate of 1.73% compared with the actual RBA Cash Rate of sub-0.10%. The average credit rating of the Fund is A+; it has an average A ESG bond rating from MSCI; and the modified duration of the Fund is 0.06 years. The Fund has exposure to 43 different bonds/hybrids across the capital stack, including a 47.1% weight to highly rated Australian state government bonds and a 7.6% weight to cash.

Market Commentary and Outlook

State government bonds (also known as "semis") tend to be amongst the safest and most liquid holdings in the portfolio. While almost all our bond yields increased in August, the interest rate spread paid by these bonds above the yield on Commonwealth government bonds jumped by 30 basis points (bps). This is on par with the near-record 30-40 bps increase in semi-spreads observed during the initial pandemic shock in March 2020.

At around 45 bps above 10-year Commonwealth government bond yields, NSW's 10-year bonds are trading on spreads well above the average ~30 bps that prevailed between 2014 and 2018. In a world where most asset-classes are very expensive, this is one sector that offers a compelling opportunity, which we have been eager to exploit.

As we look ahead, there will be several key drivers that we believe will help drive semis spreads tighter:

- NSW has $28bn of cash ready for debt clearance in its Debt Retirement Fund.
- The lockdowns in NSW and Victoria are costing the economy around 50% less than what was initially expected.
- We are forecasting the NSW lockdown to end in October.
- GST revenue, which is the single biggest source of State government tax revenue, remains strong.
- Other states not in lockdown will revise down their debt issuance requirements.

Performance[1]	Portfolio	Benchmark	Value Added[2]
1 Month	-0.16%	0.13%	-0.29%
3 Months	0.00%	0.40%	-0.40%
6 Months	0.42%	0.80%	-0.38%
1 Year	2.60%	1.64%	0.96%
3 Years	2.81%	2.20%	0.60%
5 Years	2.93%	2.54%	0.39%
Inception[3]	4.68%	3.85%	0.82%

Notes: *1. Fund performance is calculated based on net asset value per unit, which is after management fees, performance fees and expenses and assumes that all distributions are reinvested in the Fund. 2. Value added equals portfolio return minus benchmark return. 3. Fund inception date is 31 August 2009. Coolabah Capital Institutional Investments was appointed Investment Manager of the Fund on 1 December 2020. Source: Contango Asset Management*

Key Details	
Report Date	31 August 2021
Fund Name	Switzer Higher Yield Fund (Managed Fund)
Exchange Code	SHYF
ASRN	093 248 232
APIR Code	SWI0001AU
Investment Manager	Coolabah Capital Institutional Investments
Responsible Entity	Switzer Asset Management Limited
Coolabah Appointed Investment Manager	1 December 2020
Benchmark	RBA Overnight Cash Rate + 1.5%
Number of Holdings	30-60
Investment Universe	Fixed income assets including cash, corporate bonds, hybrid securities
Net Asset Value	$31.9622 Per Unit[1]
Minimum Investment	Nil
Distributions	Quarterly
Management Fee	0.70%
Performance Fee	20% of the excess return of the Fund (after the management fee and excluding any accrued performance fee) above the Benchmark.
Buy/Sell Spread	0.10%
Portfolio Size	$18.85m
Average Weighted Credit Rating[2]	A
Cash (Running) Yield[3]	1.73%

1. NTA is calculated after fees and expenses. The fund went ex-distribution on 1 July 2021 2. S&P Long Term 3. Cash or Running Yield refers to the annual dollar interest income/coupon divided by the market value.

Source: Contango Asset Management.

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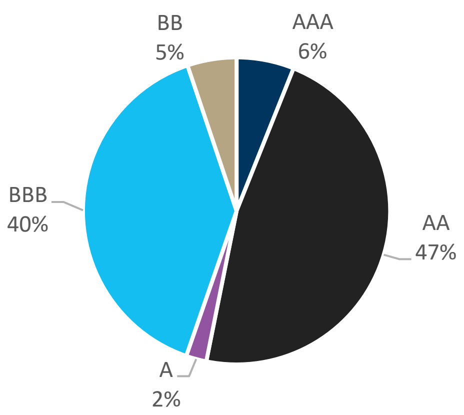
Turning to the hybrids sector, spreads on 5-year major bank hybrids increased by 5-6 bps in August as banks front-ran new ASIC marketing rules. These new marketing regulations will make it much harder for banks to sell hybrids to retail investors from 5 October 2021. This triggered a sudden spike of supply in August from issuers including Westpac, Suncorp and Macquarie. The net result of this new supply was that it pushed 5-year major bank hybrid spreads up from 248 bps to ~253-254 bps.

The new ASIC regulations, known as "design and distribution obligations", require hybrid issuers to take responsibility for the types of investors to whom they sell hybrids Most banks are therefore switching to selling hybrids to wholesale investors rather than retail investors. This in turn will likely mean smaller ASX hybrid deals and more securities issued into the unlisted institutional market. We expect this to be a positive for listed hybrids as supply will be less than it has been in the past.

Finally, in the bank Tier 2 bond market, we had been materially de-risking our exposures in anticipation of new supply and August delivered, with the first local major bank Tier 2 bond issue since January 2020. Commonwealth Bank issued a large $1.5 billion, Tier 2 issue at 132 bps over the Bank Bill Swap Rate and it has since tightened slightly to around 127 bps on the bid side.

Credit Rating Exposure[1,2]



Note: 1. Source S&P Long Term 2. Due to rounding values may not equal 100. 'AAA + Cash' segment may include futures and FX holdings.

Top Investment Holdings

Holdings	Portfolio Weight (%)
Queensland Treasury Corp. 3.5%	6.28
NSW Treasury Corp. 3.0% 03/20/28	6.03
NSW Treasury Corp. 3.0% 02/20/30	6.02
Queensland Treasury Corp. 2.75%	5.87
Queensland Treasury Corp. 1.5%	5.25
NSW Treasury Corp. 1.5% 08/20/32	5.25
National Australia Bank	4.41
Queensland Treasury Corp. 1.75%	3.81
Commonwealth Bank of Australia	3.28
Westpac Banking Corp.	3.22
Total	**49.42**

Asset Allocation

Top Holdings	Portfolio Weight (%)
Cash	7.55
Gov & SSA	47.10
Senior Weight	2.16
Tier 2 Securities	24.48
Hybrids	20.20
Derivatives	-1.50
Total	**100**

Note: Due to rounding values may not equal 100.

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