Switzer | Higher Yield Fund

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Investment Update

30 April 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 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 April, the daily liquidity, zero-duration, average A rated SHYF Fund delivered a return of 0.15% net of fees, compared with 0.13% for the benchmark RBA Cash Rate + 1.5%. Since inception the Fund has delivered a return of 1.14% net of fees, compared with the actual RBA Cash Rate (0.01%), the AusBond FRN Index (0.17%), and 0.58% for the benchmark RBA Cash Rate + 1.5%.

At the end of the month, the Fund had a weighted average interest rate of 1.42% compared with the actual RBA Cash Rate of sub-0.10%. The average credit rating of the Fund is A and it has an average AA ESG bond rating from MSCI. The Fund has exposure to 55 different bonds/hybrids across the capital stack, including a 30.8% weight to highly rated Australian state government bonds, and has a 20.5% weight to cash.

Market Commentary and Outlook

April was another month replete with important macro and geo-political developments. In terms of fixed-income performance, the AusBond Composite Bond Index benefited from a further decline in 10-year government bond yields, which fell from 1.79% to 1.75% (after peaking around 1.92% in February 2021). We continue to argue that the 10-year government bond yield should range trade around the February highs given its proximity to the neutral nominal RBA cash rate, which we assess to sit somewhere between 1.5% and 2.5%.

Over the month, 5-year major bank senior bond spreads* underperformed, increasing from 42 basis points (bps) to 46bps. 5-year major bank Tier 2 bond spreads also underperformed, moving from 133bps to 135bps. The one stand-out was the ASX hybrid market, where 5-year major bank hybrid spreads contracted from 276bps to 270bps as the new Macquarie and CBA deals were finally digested by the market.

One significant event risk we are monitoring is a tsunami of senior bond issuance from Australia's banks as they gradually seek to repay the $180 billion they will have eventually borrowed under the RBA's 3-year term funding facility (TFF). In contrast to the consensus that is targeting the second half of 2021, we forecast that this wave of supply will start hitting before June 30 when the TFF expires.

A related development in April was Standard & Poor's banking analysts making a raft of changes to their credit rating assessments. S&P has upgraded the "negative" economic risk trend for Australia to "stable"

**Note that when bond spreads compress, their prices increase and they can then be sold to generate a capital gain.*

Performance[1]	Portfolio	Benchmark	Value Added[2]
1 Month	0.15%	0.13%	0.02%
3 Months	0.62%	0.37%	0.25%
Inception[3]	1.14%	0.58%	0.56%

***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. Inception date refers to 18 December 2020 when the Fund was relaunched.*

Source: Contango Asset Management

Key Details	
Report Date	30 April 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	$33.1969 Per Unit[1]
Distribution Paid	$0.214824 Per Unit
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	$38.04 million
Average Weighted Credit Rating[2]	A
Cash (Running) Yield[3]	1.68%

1. As at 30 April 2021. NTA is calculated after fees and expenses. 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.

while also upgrading the banking sector's industry risk score from "stable" to "positive", which was a welcome surprise.

On the housing front, we released a detailed research report on the RBA's housing model. The key finding in the report is a central case encompassing a 25% increase in nominal Australian house prices between December 2020 and December 2023, with a confidence interval spanning 14% through to 36%.

The housing boom, which has boosted consumer and business confidence and investment intentions, is a direct result of record fiscal and monetary stimulus. The aim of this stimulus is, of course, to ensure that the spike in excess labour market capacity wrought by COVID-19 can be fully utilised as quickly as possible - the longer folks remain unemployed, the harder it is for them to get a job.

Finally, in April we received more good news on Australia's fiscal position. The Commonwealth budget recorded a technical surplus in March, albeit it remained in clear deficit on a seasonally-adjusted basis. Along similar lines, the NSW budget deficit almost disappeared in March, underscoring the point that bond supply from both the Commonwealth and the States will be a lot less than investors had been expecting. Since late 2020 we have asserted that Commonwealth and state budget deficit projections were overly pessimistic and would surprise very materially on the upside, which would be a technical positive for semi-government bond spreads. The latest monthly data shows that the Commonwealth and NSW governments should announce substantial downward revisions to their forecast budget deficits for 2020-21. While the annual budget shortfalls are still enormous because they capture the brunt of the pandemic, the rapid turnaround in budget positions has been remarkable.

Top Holdings	Portfolio Weight
Macquarie Group Float	6.99%
ANZ Banking Group Float	6.77%
Queensland Treasury Corp. 1.75%	5.22%
NSW Treasury Corp. 1.5%	3.78%
Queensland Treasury Corp. 1.5%	3.74%
Queensland Treasury Corp. 3.5%	3.06%
NSW Treasury Corp. 3.0%	2.95%
Queensland Treasury Corp. 2.75%	2.91%
National Australia Bank PERP	2.75%
ANZ Banking Group MTN	2.71%
Total	**40.88%**

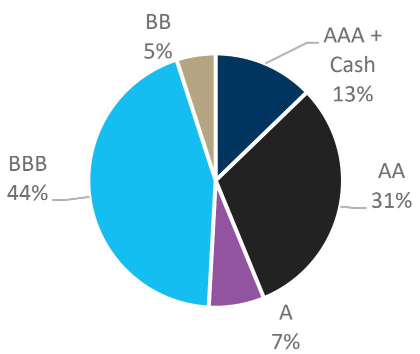
Note: Top Holdings table does not include cash and cash securities.

Asset Allocation

Asset Allocation	Net weight
Cash	20.49%
Gov & SSA	30.79%
Senior Weight	2.98%
Tier 2 Securities	29.48%
Hybrids	16.25%
Derivatives	0.00%
Total	**100%**

Note: Due to rounding values may not equal 100.

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.

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