

Investment Update

31 May 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 0.09% net of fees, compared with 0.13% for the benchmark RBA Cash Rate + 1.5%. Since inception the Fund has delivered a return of 1.22% net of fees, compared with the actual RBA Cash Rate (0.01%), the AusBond FRN Index (0.24%) and the benchmark RBA Overnight Cash Rate + 1.5% (0.69).

At the end of the month, the Fund had a weighted average interest rate of 1.55% 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 36.4% weight to highly rated Australian state government bonds, and has a 9.7% weight to cash.

Market Commentary and Outlook

There is an investment aphorism that implores, “sell in May and stay away”, and that principle carried weight in some, but not all, of the bond markets in May 2021. Put differently, it was a month characterised by cross-currents in fixed-income performance.

On the negative side of the ledger, the ASX hybrids market was soggy as investors punted on the prospect of a new major bank deal, with the ensuing selling dragging down the index about 0.15% in May and causing 5-year major bank hybrid credit spreads to rise from 270 basis points (bps) above the quarterly Bank Bill Swap Rate (BBSW) to 274bps. As expected by Coolabah, ANZ launched a new 6.7 year hybrid (ASX: ANZPI) on the first day of June, priced at 300bps above BBSW in what Coolabah assessed was a decent, circa 14bps concession to our fair-value curve estimate around 286bps.

On a more positive note, the AusBond Floating-Rate Note Index ground-out a decent 0.07% return in May. Whereas the credit spread on Coolabah’s constant maturity index for 5-year major bank senior bonds moved wider from 46bps to 49bps over BBSW in May, one notch down the capital structure the major banks’ Tier 2 bond spreads tightened over the month from 135bps to 131bps over BBSW.

The weak performance in major bank senior bonds was partly influenced by Westpac printing the first monster senior deal since before the pandemic. Coolabah had repeatedly predicted that a major bank would come to market with a senior deal before 30 June, a view that was rejected by the majors themselves and the market. We expect major bank senior unsecured bond spreads to continue to

Performance ¹	Portfolio	Benchmark	Value Added ²
1 Month	0.09%	0.13%	-0.04%
3 Months	0.42%	0.38%	0.04%
Inception ³	1.22%	0.69%	0.53%

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	31 May 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	\$33.2256 Per Unit ¹		
Distribution Paid	NA		
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	\$35.35 million		
Average Weighted Credit Rating ²	A		
Cash (Running) Yield ³	1.55%		

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.

Switzer Asset Management Limited

ACN 123 611 978

AFSL 312 247

Level 6, 10 Spring Street Sydney NSW 2000

T 1300 052 054

W switzerassetmanagement.com.au

E invest@switzer.com.au

move wider once the supply-side eventually comes back online in the local market.

Another sector that experienced headwinds in May was the semi-government bond market where the constant-maturity, 10 year spread on AA+ rated NSW government securities jumped from 18bps above Commonwealth government bonds to 25bps in May as the market tried to price in an aggressive RBA tapering of its quantitative easing (QE) policy. Coolabah believes that the market’s hard tapering assumption is misplaced and that the RBA’s third tranche of QE (aka “QE3”) will in practice be larger than the first two stanzas as the RBA very slowly transitions out of this policy over the course of 2022.

Coolabah recently argued that the RBA has provided clear signalling that in July it will move to a new form of open-ended QE at the current run-rate of \$5 billion of bond purchases each week, which will be periodically reviewed. This will avoid the policy rigidity of static, five monthly QE programs of \$100 billion each, and allow the RBA to smoothly glide towards a tapering into 2022. If the data is very positive, the RBA can taper in 2022. If it is negative, the RBA can maintain the current bond purchase pace. It will also mean that the extended \$5 billion per week of purchases between mid-September and mid-December plus the eventual tapering into 2022 will involve the RBA likely acquiring substantially more than \$100 billion of additional bonds.

This is yet another case of the market, and many economists, underestimating the RBA’s commitment to restoring sustainable full employment and inflation within its target band. It demonstrates that the RBA is really sticking to its "nowcasting" paradigm and avoiding falling into the trap of overestimating wages and inflation based on rubbery forecasts.

Top Holdings	Portfolio Weight
ANZ Banking Group Float	10.35%
Macquarie Group Float	7.58%
Queensland Treasury Corp. 1.5%	6.82%
NSW Treasury Corp. 1.5%	5.50%
Queensland Treasury Corp. 1.75%	4.27%
Queensland Treasury Corp. 3.5%	3.34%
NSW Treasury Corp. 3.0%	3.21%
Queensland Treasury Corp. 2.75%	3.17%
National Australia Bank PERP	3.00%
ANZ Banking Group MTN	2.94%
Total	50.18%

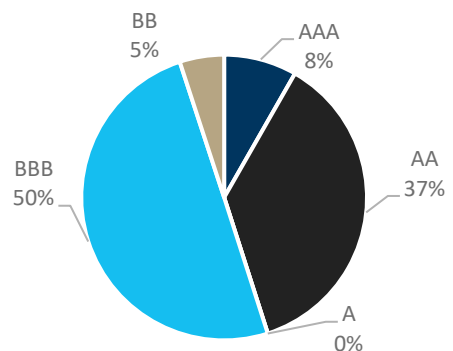
Note: Top Holdings table does not include cash and cash securities.

Asset Allocation

Top Holdings	Portfolio Weight
Cash	9.73%
Gov & SSA	36.41%
Senior Weight	1.45%
Tier 2 Securities	35.46%
Hybrids	17.29%
Derivatives	-0.34%
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.

Contacts		
Cameron Fitter	Senior Business Development Manager	0439 333 777
Tom Hickey	Business Development Manager	0415 818 037

Disclaimer: Switzer Asset Management Limited (SAML) (ACN 123 611 978 and Australian Financial Services Licence Number 312247) is the Responsible Entity of the Fund. SAML has prepared this Fact Sheet for information purposes only. It does not contain investment recommendations nor provide investment advice. Neither SAML, Contango Asset Management Limited, their respective related bodies corporate, directors, officers, employees, agents or advisers guarantees the performance of, or the timing or amount of any repayment of capital or income invested in the Fund or that the Fund will achieve its investment objectives. Past performance is not indicative of future performance. It is recommended that investors seek professional investment or financial or other advice to assist the investor determine the individual tolerance to risk and the investor’s need to attain a particular return on investment. In no way should the investor rely on information contained in this Fact Sheet. We strongly encourage you to obtain independent professional, financial, investment or legal advice and to read the Product Disclosure Statement (PDS) of the Fund before making a decision to invest in the Fund. Applications for an investment can be made by completing the application form accompanying a current PDS which can be obtained by contacting SAML, via the website www.switzerassetmanagement.com.au or by purchasing units via a share trading account. All numbers included in this document are sourced from Coolabah Capital Institutional Investments unless otherwise stated.

Switzer Asset Management Limited

ACN 123 611 978

AFSL 312 247

Level 6, 10 Spring Street Sydney NSW 2000

T 1300 052 054

W switzerassetmanagement.com.au

E invest@switzer.com.au