Switzer | Higher Yield Fund

Powered by COOLABAH CAPITAL INVESTMENTS™ THE INTELLECTUAL EDGE: MAKING EVERY BASIS POINT COUNT

Investment Update

31 July 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 July, the Fund delivered a return of 0.11% net of fees, compared to 0.13% for the benchmark RBA Cash Rate + 1.5%. Since inception the Fund has delivered a return of 4.83% p/a net of fees, outperforming the 3.87% p/a return for the benchmark RBA Cash Rate + 1.5%.

At the end of the month, the Fund had a weighted average interest rate of 1.75% 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 0.05 years. The Fund has exposure to 50 different bonds/hybrids across the capital stack, including a 43.1% weight to highly rated Australian State government bonds, and has a 5.2% weight to cash.

Market Commentary and Outlook

July was yet another month of cross-currents in fixed-income markets that furnished some attractive opportunities. The stand-out was the big rally in interest rate duration as long-term bond yields declined further. The fixed-rate (rather than floating-rate) benchmark AusBond Composite Bond Index appreciated by a strong 1.76% in July, outperforming even the Aussie share market's 1.06% return.

This rally was fuelled by a fall in the Australian 10-year government bond yield, which slumped from 1.53% to 1.18% over the month on the back of markets pricing-out the hysteria earlier in the year about the threat of a spike in inflation (or "reflation").

In Australia, the June inflation data remained incredibly benign notwithstanding the spike in the headline inflation numbers due simply to the payback from previous deflation during the COVID-19 shock last year. Over the year to June, core inflation in Australia remains at about 1.5% while on a six-month annualised basis core inflation has been running at 1.75%, both well-below the mid-point of the RBA's target 2%-3% band.

Across the rest of the local fixed-income markets, performance was more subdued in July. Our indices that track credit spreads (note that when bond spreads compress, their prices increase and they can then be sold to generate a capital gain) on a constant-maturity basis had 5-year major bank senior bond spreads tightening from 49 basis points (bps) to 46bps over the month, partly explained by banks looking for paper to put into their Committed Liquidity Facility books.

Performance[1]	Portfolio	Benchmark	Value Added[2]
1 Month	0.11%	0.13%	-0.02%
3 months	0.29%	0.40%	-0.11%
6 months	1.01%	0.80%	0.21%
1 year	3.29%	1.65%	1.64%
3 years	3.21%	2.24%	0.97%
5 years	3.32%	2.56%	0.76%
Inception[3]	4.83%	3.87%	0.96%

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 18 December 2020. Source: Contango Asset Management*

Key Details	
Report Date	31 July 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	18 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	$32.0120 Per Unit[1]
Distribution Paid	$1.26486573 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	$26.03m
Average Weighted Credit Rating[2]	A
Cash (Running) Yield[3]	1.73%

1. As at 31 July 2021. 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.

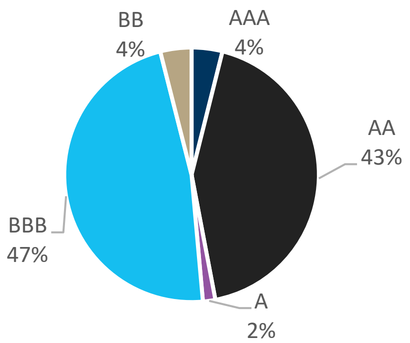
Switzer Asset Management Limited
ACN 123 611 978
AFSL 312 247
Level 6, 10 Spring Street Sydney NSW 2000
T 1300 052 054
W switzerassetmanagement.com.au
E invest@switzer.com.au

One step down the capital stack, 5-year major bank Tier 2 bond spreads also tightened slightly from 129bps to 127bps over the quarterly bank bill swap rate (BBSW). After a robust return in June, the ASX hybrid market was much more subdued in July with 5-year major bank AT1 hybrid spreads effectively moving sideways from 248bps to 249bps (although 3-year spreads tightened from 217bps to 212bps). After the end of the month, Macquarie Bank also announced a new $500 million hybrid issue, which should be well-received.

In the State government bond sector, there was greater consolidation in June after an increase in the States' cost of capital above the Commonwealth government bond curve. In July, for example, 10-year Victorian government bond spreads above the cost of Commonwealth government bonds were basically unchanged at 30.8bps. In contrast, NSW government bonds continued to be sold down as the market moved spreads wider on the back of the large debt funding surprise revealed by the NSW government following its otherwise impressive Budget in June.

One surprise after the end of the month was the RBA's decision at its August board meeting to stick to its previous plan of tapering its bond purchase program from $5 billion/week to $4 billion/week in September. The strong consensus was that the RBA would reverse this decision, which the RBA said had been a line-ball call made at its June meeting on the heroic assumption the Sydney lockdown would be short and sharp. In August, the RBA maintained the taper, although it did caution that it would carefully revisit this plan at its September (and subsequent) Board meetings, considering the impact of the pandemic on the economy. The RBA has also stressed that the $4 billion/week is flexible, open-ended, and can be dialled-up or dialled-down depending on the data.

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 (%)
Macquarie Group Float 05/28/30	6.20
Queensland Treasury Corp. 1.75%	6.04
Queensland Treasury Corp. 1.5%	5.82
Queensland Treasury Corp. 3.5%	4.67
NSW Treasury Corp. 3.0% 02/20/30	4.46
NSW Treasury Corp. 3.0% 03/20/28	4.42
Queensland Treasury Corp. 2.75%	4.37
ANZ Banking Group Float	4.01
National Australia Bank	3.99
Macquarie Group Float 06/17/31	3.92
Total	**47.90**

Asset Allocation

Top Holdings	Portfolio Weight (%)
Cash	5.20
Gov & SSA	43.09
Senior Weight	3.54
Tier 2 Securities	34.11
Hybrids	15.35
Derivatives	-1.28
Total	**100%**

Note: Due to rounding values may not equal 100.

Contact		
Cameron Fitter	Head of Retail Distribution	0439 333 777
Spencer White	Business Development Manager	0468 436 497

DISCLAIMER: Switzer Asset Management Limited (**SAML**) (ABN 26 123 611 978, AFSL 312247) is a wholly owned subsidiary of Contango Asset Management Limited, a financial services business listed on the ASX (**CGA**). SAML and CGA are authorised representatives of ST Funds Management Limited (AFSL 416778) to provide general advice. SAML is the Responsible Entity and Coolabah Capital Institutional Investments Pty Limited is the investment manager of Switzer Higher Yield Fund (Managed Fund) (ARSN 093 248 232) (the **Fund**). This material has been prepared for general information purposes only. It does not contain investment recommendations nor provide investment advice. It does not take into account the objectives, financial situation or needs of any particular individual. Investors should, before acting on this material, consider the appropriateness of the material. Neither SAML, CGA, 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. Any economic or market forecasts are not guaranteed. Any references to particular securities or sectors are for illustrative purposes only and are as at the date of publication of this material. This is not a recommendation in relation to any named securities or sectors and no warranty or guarantee is provided that the positions will remain within the portfolio of the Fund. 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 material. Investors should read the Fund's Product Disclosure Statement (**PDS**) and consider any relevant offer document in full before making a decision to invest in the Fund. Relevant information relating to the Fund can be obtained by visiting www.switzerassetmanagement.com.au. 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