Switzer | Higher Yield Fund

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# Investment Update

## 30 June 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 June, the Fund delivered a return of 0.05% net of fees, compared with 0.12% for the benchmark RBA Cash Rate + 1.5%. Since inception the Fund has delivered a return of 1.28% net of fees, out-performing the actual RBA Cash Rate (0.02%), the AusBond FRN Index (0.31%) and the benchmark RBA Overnight Cash Rate + 1.5% (0.81%).

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 and it has an average AA ESG bond rating from MSCI. The Fund currently has exposure to 52 different bonds/hybrids across the capital stack, including a 39.1% weighting in highly rated Australian state government bonds, and has a 2.2% weighting in cash.

### Market Commentary and Outlook

The end of the 2021 financial year was an unusual month for fixed-income market performance with some fairly large and conflicting cross-currents that have created historically attractive investment opportunities.

On the one hand, we observed strong returns in over-the-counter (OTC) cash credit markets, including robust performance in US dollar and Euro senior and Tier 2 bond trading, coupled with healthy appreciation in the value of Aussie dollar Tier 2 bonds and hybrids. Over the month, spreads* on 5-year Australian major bank Tier 2 bonds tightened in from 131 bps over the Bank Bill Swap Rate (BBSW) at the start of the month to 128 bps over BBSW by the end. Similarly, spreads on 5-year major bank hybrids tightened in from 260bps over BBSW to 243 bps over BBSW over the course of the month.

Juxtaposed with this was a very aggressive increase in spreads on semi-government bonds (aka "semis"), which was triggered by some unusual, and almost certainly unintended, NSW budget communications. This in turn pushed the cost of capital for all state governments, including NSW, dramatically higher. We "faded" this move, actively buying semis after taking profits on these assets in May, which we believe sets up the portfolio well for future performance.

Over June and early July, 10-year semi spreads increased to levels wider than those observed in the pre-Australian quantitative easing

**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 | 0.05% | 0.12% | -0.07% |
| 3 Months | 0.29% | 0.38% | -0.09% |
| 6 months | 1.10% | 0.76% | 0.34% |
| Inception[3] | 1.28% | 0.81% | 0.47% |

*__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 June 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 (CUM) | $33.2427 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 | $27.56m |
| Average Weighted Credit Rating[2] | A |
| Cash (Running) Yield[3] | 1.73% |

*1. As at 30 June 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.*

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(QE) world between 2015 and 2018, peaking broadly in line with where spreads were just prior to the onset of the COVID-19 crisis. This is remarkable insofar as the RBA has recently stated that, given the success of its QE program in helping manage the Australian dollar and public sector borrowing costs, QE is no longer an "unconventional" option but now rather a permanent part of its increasingly diverse and powerful counter-cyclical policy toolkit.

On the vaccine front we have attempted to forecast both the advent of "herd immunity" in Australia and when the Government will be comfortable opening our borders, subject to strict testing protocols at arrival and departure ports.

Based on vaccination trajectories of comparable countries around the world, we project that more than 90% of Australia's adult population should be vaccinated sometime between January and February 2022. This coincides with a potential Federal election in March 2022, following which we expect the Government could start to open travel bubbles with select nations around mid-2022.

This has significant ramifications for policymakers given that open borders are likely to eventually precipitate a substantial positive labour supply shock via much higher population growth. Ultimately, this should more than offset the negative labour supply shock from the combination of closed borders and around 334,000 foreign workers fleeing Australia after the advent of the COVID-19 crisis. Any increase in wage growth in 2021 and 2022 could be counterbalanced by this positive labour supply shock.

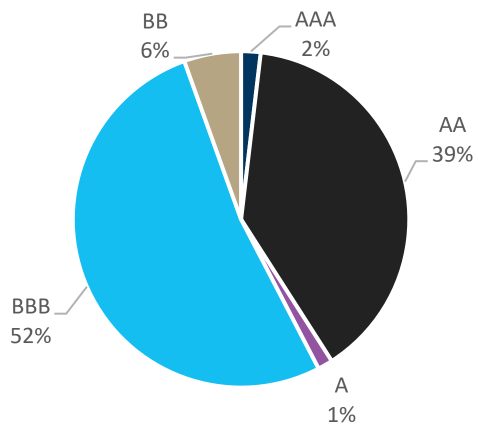
## Asset Allocation

| Top Holdings | Portfolio Weight (%) |
|---|---|
| Cash | 2.23 |
| Gov & SSA | 39.06 |
| Senior Weight | 3.27 |
| Tier 2 Securities | 37.54 |
| Hybrids | 18.26 |
| Derivatives | -0.36 |
| **Total** | **100%** |

*Note: Due to rounding values may not equal 100.*

| Top Investment Holdings | Portfolio Weight (%) |
|---|---|
| Macquarie Group Float 05/28/30 | 9.64 |
| ANZ Banking Group Float | 5.64 |
| Queensland Treasury Corp. 1.75% | 5.47 |
| NSW Treasury Corp. 1.5% | 5.27 |
| Queensland Treasury Corp. 1.5% | 5.26 |
| Queensland Treasury Corp. 3.5% | 4.26 |
| NSW Treasury Corp. 3.0% | 4.08 |
| Queensland Treasury Corp. 2.75% | 4.01 |
| National Australia Bank 11/18/30 | 3.72 |
| Macquarie Group Float 06/17/31 | 3.65 |
| **Total** | 51.00 |

## 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 | | |
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