

Investment Update

31 December 2020

Performance Summary

The Switzer Higher Yield Fund (SHYF) relaunched on 18 December 2020, delivering a return over that period of 0.18% net of fees, compared with 0.06% for the benchmark RBA Cash Rate + 1.5%.

At the end of the month, the portfolio had a weighted average interest rate of 2.21% compared with the actual RBA Cash Rate of sub-0.10%, and the RBA's Average Retail Term Deposit Rate of 0.35%.

During December the portfolio had exposure to 44 different bonds/hybrids across the capital stack, including a 24.4% weight to highly rated Australian state government bonds, and an 11.4% weight to cash.

Market Commentary and Outlook

December was another healthy month of alpha generation (market outperformance) for the Fund as valuations continued to mean-revert towards our fair-value targets.

At the start of 2020, five-year major bank senior bond spreads were at 0.71% above the quarterly bank bill swap rate. The arrival of the RBA's \$200 billion Term Funding Facility in December reduced the need for most banks to issue senior bonds. This contributed to spreads contracting to just 0.31% at 31 December. This is well inside the post-Global Financial Crisis (GFC) tightness of around 0.60%, and as such we do not see much upside left in senior bank paper.

In 2020, five-year major bank Tier 2 bond spreads declined modestly from 1.75% to 1.57% above the quarterly bank bill swap rate, punctuated by a record blow-out to around 4.0% in March. Post-GFC tightness is around 1.35%, and, subject to the prevailing supply-side technicals, we believe major bank paper could test this level before too long. In the pre-GFC period, major bank Tier 2 traded at circa 0.35%, so it could continue to compress significantly yet.

Perhaps the best value in the banks' capital structure right now is in the Additional Tier One (AT1) hybrid space, where five-year major bank spreads today remain wide of where they were at the start of 2020. In January 2020, five-year major bank hybrid spreads were sitting at 2.81% above the quarterly bank bill swap rate. As at 31 December they are at about 2.98%. Of course, they blew-out to around 8.4% in March, yet the post-GFC tightness is much lower at around 2.35% with pre-GFC levels sitting tighter again at 1.25%.

Although we expect 2021 to be bumpy, this does lay the foundations for a secular rebound in global growth, which is our central case. We believe that the dominant narrative in 2021 will be the newly intensified "search-for-yield dynamic", which is particularly acute locally.

Performance ¹	Portfolio	Benchmark	Value Added ²
Inception ³	0.18%	0.06%	0.12%

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.

Key Details	
Report date	31 December 2020
Fund Name	Switzer Higher Yield Fund (Managed Fund)
Exchange Code	SHYF
ASRN	093 248 232
APIR Code	SWI0001AU
Investment Manager	Coolabah Capital 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	\$33.0952 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	\$37.26 million
Average Weighted Credit Rating	A
Cash (Running) Yield ²	2.21%

1. As at 31 December 2020. NTA is calculated after fees and expenses. 2. Cash or Running Yield refers to the annual dollar interest income/coupon divided by the market value.

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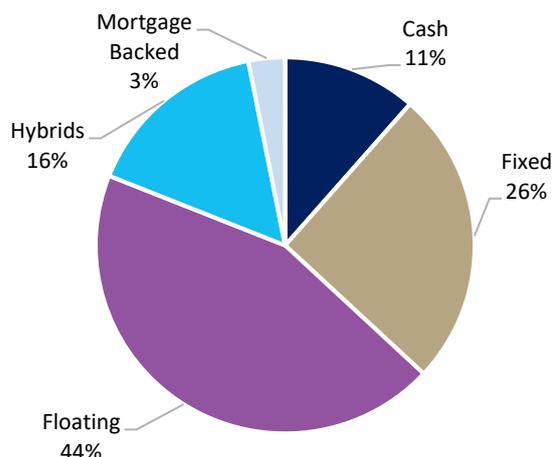
Investment Objective

The Switzer Higher Yield Fund is a floating-rate 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 Investments (CCI). 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.

How to invest

Investors can access the fund by purchasing units via their share trading account in the same way they would buy ordinary shares, or by completing an application form and making payment via bank transfer. The application form and PDS can be accessed on our website at switzerassetmanagement.com.au. Please read the PDS carefully before investing.

Asset Allocation



Portfolio Characteristics

Credit rating	Weight
AAA	2.82%
AA+	14.42%
AA	11.07%
BBB+	24.14%
BBB-	7.39%
Not Rated/ Other	40.16%
Total	100.00%

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Top Issuers	Weight
Aust 10 Yr Bond Futures	23.69%
Aust Dollar	11.46%
Macquarie Group Float	7.39%
Queensland Treasury Corp.	6.94%
NSW Treasury Corp.	6.64%
ANZ Banking Group Float	5.78%
Westpac Banking Corp. Float	5.14%
Aust 3 Yr Bond Futures	4.64%
National Australia Bank Float	3.73%
Commonwealth Bank Float	3.35%
Total	78.76%

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