Switzer | Higher Yield Fund

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Investment Update

31 March 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 March, the daily liquidity, zero-duration, A rated SHYF Fund delivered a return of 0.18% net of fees, compared with 0.13% for the benchmark RBA Cash Rate + 1.5%. Since inception the Fund has delivered a return of 0.98% net of fees, which exceeds the 0.45% for the benchmark RBA Cash Rate + 1.5%.

At the end of the month, the Fund had a weighted average interest rate of 1.68% compared with the actual RBA Cash Rate of sub-0.10%. The average credit rating of the Fund is A. The Fund has exposure to 54 different bonds/hybrids across the capital stack, including a 24.4% weight to highly rated Australian state government bonds, and has a 12.3% weight to cash.

Market Commentary and Outlook

After the unprecedented interest rate shock of February 2021, which saw the AusBond Composite Bond Index lose a record 3.6% in that month alone, March provided more normality for fixed-rate bonds which have been suffering under the weight of rising long-term interest rates. This recovery was driven by the expected consolidation in 10-year government bond yields which finished in March at 1.79%.

With the neutral nominal RBA cash rate likely to currently lie somewhere between 2.0% and 2.5%, there is a natural short-to-medium term ceiling on how far long-term interest rates can realistically climb. We believe 10-year interest rates are gradually set to creep higher as the global economy recovers, unemployment rates converge back to their non-accelerating inflation rate of unemployment in the 3% band and wage growth starts to reignite.

In the floating-rate bond world, which is relatively untroubled by interest rate increases, March brought more of the same. The AusBond Floating-Rate Note (FRN) Index recorded a tiny 0.01% return after its rare 0.02% loss in February.

Credit spreads* in March were relatively subdued. We saw five-year major bank senior bond spreads effectively unchanged at about 42 basis points (bps) above the quarterly bank bill swap rate (BBSW), up ever so slightly from 41bps at the end of February. In Tier 2 bonds, we saw 5-year major bank spreads compress slightly from 144bps to 133bps above BBSW in March, a touch below their previous post-GFC tights at 135bps in June 2018.

**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	0.18%	0.13%	0.05%
3 Months	0.80%	0.38%	0.42%
Inception[3]	0.98%	0.43%	0.55%

__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 March 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	$33.3611 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	$38.08 million
Average Weighted Credit Rating[2]	A
Cash (Running) Yield[3]	1.68%

1. As at 31 March 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.

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The ASX hybrid market was slightly weaker, with 5-year major bank hybrid spreads expanding from 274bps to 277bps as investors continued to digest the two new deals from Macquarie and CBA. Macquarie's expensively priced, $725m MQGPE hybrid has not performed, which is why we avoided it, trading around its reoffer price of $100. We have higher hopes for CBA's new $1.2 billion hybrid CBAPJ, which is priced with a decent 12bps concession and is due to list at the beginning of April. Importantly, CBAPJ is very small size-wise for a major bank deal, which should provide for a constructive technical tailwind.

March was a tale of two months in the semi-government bond market. For example, constant maturity indices for five-year Victorian government bond spreads over and above Commonwealth government bonds jumped from 12bps to 17bps (24bps to 29bps) between the end of February and 10 March. A short-squeeze helped normalise spreads back down to 12bps (22bps) by the end of the month. These levels are, however, still materially wide of the recent tights, implying that there is non-trivial runway left.

Finally, a quick comment on house prices. There is currently a lot of hysteria about Aussie housing, often from the same folks who were absolutely convinced home values would plummet 10% to 20% (if not by more) only nine months ago. In reality house prices started recovering six months after the COVID-19 crisis hit and since their trough in September last year, dwelling values across the five largest capital cities have climbed 6.2%. That puts prices around 3% above their pre-COVID-19 marks.

However if we examine the current cycle over a longer lens, the facts are sobering. Nationally across the five big capital cities, dwelling values have appreciated by less than 0.5% annually since 2017. Over the same period, Aussie wages growth has been running four times higher at 2%.

For 2021 we have pencilled in total capital growth of somewhere between 10% and 15% across all metro and non-metro regional areas, repeatedly flagging that the probabilities were skewed to the upper end of that range.

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Top Holdings	Portfolio Weight
Macquarie Group Float	6.94%
ANZ Banking Group Float	6.76%
Queensland Treasury Corp. 3.5%	4.52%
NSW Treasury Corp. 3%	4.34%
Queensland Treasury Corp. 1.75%	4.09%
National Australia Bank MTN	4.01%
Goldman Sachs 0.673%	3.45%
NSW Treasury Corp. 3%	2.91%
Commonwealth Bank Float	2.81%
National Australia Bank PERP	2.74%
Total	**42.57%**

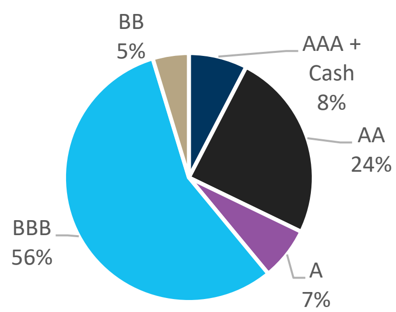
Note: Top Holdings table does not include cash and cash securities.

Asset Allocation

Asset Allocation	Net weight
Cash	12.30%
Gov & SSA	24.39%
Senior Weight	7.58%
Tier 2 Securities	31.31%
Hybrids	24.40%
Derivatives	0.02%
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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