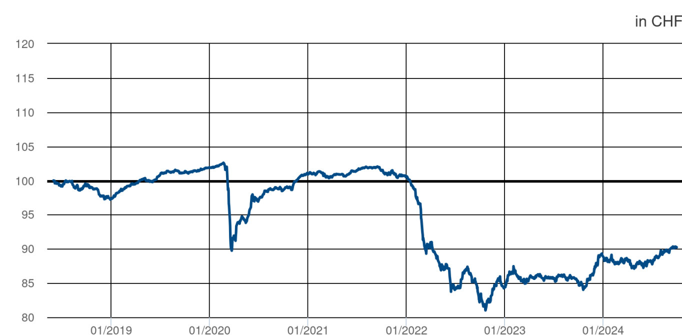
Zugerberg Funds - ZF Income Fund A

ZUGERBERG FINANZ

Investment Objective

The investment objective of the ZF - Income Fund is to achieve long-term capital and value growth in the reference currency, the Swiss franc, through investments in the credit market.
The fund aims to filter out investment opportunities on the global credit markets. It concentrates on a large variety of bonds from solid companies with an average investment grade rating. Corporate bonds can generate stable returns over the business cycle as a whole. In good times, additional credit risk premiums can be earned over government bonds. In addition, the typical interest rate sensitivity is significantly lower thanks to the lower average maturity. In bad times, companies reduce their debt much faster, while governments are often forced to borrow more to support the economy.

Total Return



1 month	0.78%
3 months	2.45%
2024 (YTD)	1.36%
1 year	5.74%
3 years (annualized)	-3.82%
Since Inception (annualized)	-1.61%
Since Inception	-9.77%
Lowest NAV	79.73
Highest NAV	102.45
Months with Positive Returns	52%
Sharpe Ratio (last 3 years)	-0.50
Max. Drawdown (last 3 years)	-20.22%
Max. Drawdown Length (days for last 3 years)	274
Max. Drawdown Recovery (days for last 3 years)	-

Modified Duration

< 1 year	10%
1 - 3 years	14%
3 - 5 years	28%
5 - 7 years	26%
> 7 years	22%

Fund Facts

Fund Name	Zugerberg Funds - ZF Income Fund - A
Valor	41512237
ISIN	CH0415122370
Bloomberg	ZFZIFAC SW
Fund Domicile	Switzerland
Fund Class	A
Currency	CHF
Cut-Off Time	Daily, until 5pm (CET)
Settlement	T+2
Launch Date	May 31st, 2018
Fiscal Year End	December 31st
Distribution Policy	Accumulation
Legal Registration	Switzerland

Fund Information*

NAV Total (CHF Mio.)	651.19
NAV Fund Class A (CHF Mio.)	7.41
NAV per Unit (CHF)	87.45
Modified Duration (Years)	5.2
Yield to Worst (%, local currency)	3.5
Yield to Worst (%, hedged CHF)	1.7
ø Credit Rating	A
Cash Position (%)	4.9
No. of Sectors	19
No. of Issuers / Issues	200 / 310
Top 10 Positions (%)	7.1

* Securities portfolio, including cash.

Expenses

Management Fee (% p.a.)	1.00
Total Expense Ratio (TER) as of 30.06.2024 (%)	1.16

Investment Amounts

Minimal Initial Investment (CHF)	1'000

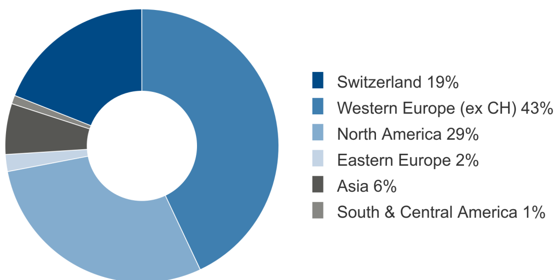
Rating Breakdown

Rating	Weight
AAA	13%
AA+	2%
AA	6%
AA-	5%
A+	8%
A	11%
A-	13%
BBB+	16%
BBB	15%
BBB-	9%
BB+	1%
BB	1%
<BB	0%

Top 10 Industry Sectors

Sector	Weight
Banking	14%
Consumer Non-Cyclical	13%
Consumer Cyclical	7%
Basic Industry	7%
Insurance	7%
Other Financial Services	6%
Capital Goods	6%
Technology	5%
Communications	5%
Electric	4%

Geographic Diversification



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Monthly Commentary

In September markets did largely follow a post-growth scare pattern of restoring growth expectations supported by an easier (growth-friendly) policy tilt from major DM central banks and as a consequence a move towards steeper yield curves. The FOMCs dovish pivot with a larger than consensus 50bp cut in the Fed policy rate, against a backdrop of resilient US consumer spending and real GDP growth jointly with still above target inflation, brings up the question whether US Treasury (UST) bond yields already embed enough compensation for risk. Term premia (the compensation investors require for holding long-term bonds versus rolling over a series of short-term bonds) provide an answer to this question. Unfortunately, term premia must be inferred either by term-structure models or surveys and both are prone to errors. Nonetheless, current 10y USTs term premia estimates are well below their pre-QE average of about 100bp (the Fed is still in QT-mode). Rising US government deficits imply further upside to these figures if not countered by a QE restart and a reduction in inflation uncertainty. These observations imply that the longer-end USTs rates look like having mostly exhausted their downward potential except in a hard landing scenario, which at present is not our base case. In Europe conversely, while policy support for China growth is welcome, incoming data remains concerning, as both PMIs and inflation readings (Eurozone inflation at 1.8% which should be sufficient for the ECB to cut again in October after a 25bp cut in September) point to ongoing downside risks thus clearly favoring holding duration exposure.

HG credit spreads are near their tight end of their 3m range, but beneath the surface sector dispersion is increasing, albeit from a very low level (some sectors spreads are near their tights, other sectors near their wides). Euro HG corporate bonds yields decreased to 3.18% (-0.25%) with credit spreads staying patt at 117bp. The clear underperformer was the automotive sector which experienced widening across the board given guidance cuts by several high quality OEMs (and their suppliers) which currently face an inventory glut, increased competition, pressure on pricing and consumer softness, notably in China and the US. The yield for the US HG corporate bonds segment declined to 4.72% (-0.22%) and spreads were slightly tighter at 89bp (-4bp). Looking at details, automotive sector bonds also suffered but the effect to the overall index was more muted given the lower index weight of 3% vs. 7% for their Euro HG peers. Both HG segments showed positive total and excess returns vs. duration-matched US Treasuries. In the HY space, Euro HY corporate yields decreased to 5.70% (-0.27%) with spreads flattish at 345bp (-1bp). Yields for their US HY peers declined by a similar magnitude to 6.99% (-0.31%) and spreads trended also southwards to 295bp (-10bp). Total returns for both Euro and US HY were comfortably positive. Excess returns were positive for US HY but nil for Euro HY. The strong performance of the US HY index was driven by the CCC bucket which notably compressed and outweighed the widening of BB and B buckets. Notably, US CCC issuers have around half of their debt in floating rate loans which quickly becomes more affordable after Fed easing. In case of Euro HY, the outlier was the automotive sector for the same reasons as for the Euro HG peers (mostly BB and with 11% the 2nd biggest sector).

The ZIF had a positive month (+0.78%) and outperformed by 0.10% the broad Swiss Bond Index (SBI). September's performance was propelled by positive rates effects (a reflection of lower benchmark rates and bull-steepening of yield curves) and a carry of 0.33% (in local currency). Minimally tighter spreads had a neutral effect on performance. The Yield-to-worst of the fund was lower at 3.5% (-0.3%) in local currency. On a Swiss Franc-hedged basis the Yield-to-Worst was unchanged at 1.7%, given a reduction in currency hedging costs. The average coupon was at 3.2% (-0.1%). The average price of the bonds increased to 98.7% (+0.9%), the OAS spread was slightly tighter at 107bp (-3bp) and the Modified Duration lower at 5.2 (-0.2).

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