

31 October 2020

INVESTMENT OBJECTIVE

The Switzer Dividend Growth Fund (SWTZ) is an income-focused exchange traded managed fund with a mix of yield and quality companies. The objective of the Fund is to generate an above-market yield while maximising franking where possible and to deliver capital growth over the long term. We select companies that, in aggregate, generate sustainable dividend income. The Fund is characterised by a strong and diverse portfolio of companies that exhibit good cash flows and strong business models.

PERFORMANCE SUMMARY

Over the past 12 months, SWTZ has paid a distribution yield of 2.81%, or 3.86% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 30 September 2020 relative to the price at the beginning of the period.

Given its focus on income and capital preservation, over the long term we expect SWTZ to marginally underperform in rising markets and marginally outperform in falling markets. The portfolio was 1.32% higher over the month of September, marginally underperforming the S&P/ASX 200 Accumulation Index which returned 1.93%.

PORTFOLIO COMMENTARY

Over October global markets continued their period of uncertainty due to three leading factors: 1) the US Presidential election; 2) the re-spread of COVID-19 thorough Europe; and 3) lack of firm data on the development of a vaccine.

Over previous months the SWTZ portfolio has been positioned reasonably defensively, to protect against volatility returning due to the factors noted above. Recently the investment team has commenced modestly increasing exposure to stocks expected to benefit from a broader recovery in the economy.

There was an uptick in Fund activity during October as some defensive positions were lightened. These included Ausnet Services, Spark Infrastructure Group, APA Group and Amcor. All these stocks performed relatively well during the virus inspired turbulence. Profit taking was also undertaken in Aristocrat Leisure, Fortescue Metals Group, carsales.com and Charter Hall Group with all of these stocks realising attractive returns.

Positions were increased in CSL, Aurizon, National Australia Bank, Australia and New Zealand Banking Group (ANZ) and Westpac Banking Corporation. Some of the major banks are due to report their full year results in November and are expected to recommence paying dividends. Whilst they still face a challenging operating environment, the worst appears to have passed for credit quality with loan losses far better than earlier feared.

SWTZ exited two positions being Brambles and Stockland Group. Brambles was replaced by Resmed (RMD), which is believed to offer a stronger growth trajectory. Stockland Group's share price recovered quite well, mainly due to the Government housing stimulus helping sales. A new position was established in Coca-Cola Amatil (CCL); subsequently CCL was bid for by Coca-Cola European Partners at a reasonable premium.

The S&P/ASX 200 Index sector performance saw Information Technology continue to climb (9.0%), despite a pullback in the NASDAQ. Financials (6.3%) improved after a long period of poor performance and Consumer Staples was 4.8% higher. The laggards were Industrials (-3.9%), Utilities (-1.5%) and Materials (-1.2%).

KEY DETAILS

SWTZ Dividend Yield (net) ¹	2.81%
SWTZ Dividend Yield (gross) ¹	3.86%
Portfolio median market cap (\$m)	15,143
Portfolio price to earnings ratio ²	19.09
Portfolio price to book ratio ²	2.08
Portfolio beta ³	0.97

Source: Bloomberg. Notes: 1. Yield calculation based on dividends attributable to the 12 months ended 31 October 2020 relative to SWTZ's closing unit price of \$2.58 at the beginning of the period. 2. Trailing 12 months data. 3. Relative to the S&P/ASX 200 Index.

PERFORMANCE (AFTER MANAGEMENT FEES)

PERIOD	SWTZ (%)	ASX 200 ACCUM INDEX (%)
1 Month	1.32%	1.93%
3 Month	0.55%	0.98%
6 Month	6.66%	8.67%
1 Year	-13.04%	-8.15%
3 Year (annualised)	0.20%	4.09%
Inception ¹ (annualised)	1.24%	4.68%

Notes: 1. Inception date is 27 February 2017. SWTZ performance is calculated based on net asset value per unit, which is after management fees and expenses and assumes that all distributions are reinvested into the fund

KEY DETAILS

Fund fact sheet date	31 October 2020
ASX code	SWTZ
Fund manager	Switzer Asset Management Limited
Stock universe	ASX 200
Number of stocks	30 – 50
Benchmark	ASX 200 Accumulation Index
Target/Max cash position	1% / 20%
Shorting / Borrowing	No
Net asset value (NAV)	\$2.1558
Performance fee	None
Management fee ¹	0.89%

Notes: 1. Fees are inclusive of GST and less RITC.

Stock volatility continues to be relatively low. The best performing stocks in the portfolio were CCL (20.7%) and RMD (10.3%). Other stocks of note were ANZ (9.2%) and Stockland Group (9.0%) which was exited into this strength. The poorest performer was Aurizon Holdings (-11.3%), which suffered from rumours China would restrict Australian coal imports. However, the Australian coal industry remains well positioned on the world cost curve and should continue to export coal even if China's threats materialise.

MARKET COMMENTARY

Most global markets fell during October. The combination of political uncertainty caused by the presidential election and a large resurgence of COVID-19 cases in the northern hemisphere undermined some confidence. There was a correlation with the performance of national equity markets and their respective countries' success in restraining the virus.

The Dow Jones was 4.3% lower, with the S&P 500 Index down 2.3% and the NASDAQ Index holding to a 1.5% decline. European markets were down between 5-9% as various countries entered or contemplated another stage of lockdown.

The Australian market bucked the global trend and was higher over the month as the country continues to be a leader in fighting the virus. Other markets that fared better were China and Hong Kong.

After a period of stability, world bond markets mainly weakened (higher rates). The benchmark US 10-year rate rose from around 0.69% to 0.88%. The rise came despite an uptick in US COVID-19 infection rates and reflects the expectations that more US government stimulus will likely be delivered post-election. Although increasing rates are to be expected it is important that the rise is orderly and steady so that confidence in markets is not undermined.

PORTFOLIO OUTLOOK

The SWTZ portfolio has concentrated on the most defensive sectors for several months. The reason for this was two-fold: 1) These stocks were the only secure source of dividends as the economic outlook was clouded through the COVID-19 pandemic; 2) Many of the other dividend paying sectors were overly exposed to significant downside if the government economic stimulus proved ineffective or the virus proved too difficult to restrain.

The portfolio is now modestly increasing its exposure to companies that will benefit from a return to more normal economic conditions. The progress of this strategy is dependent on several factors, the most important being continued economic support by the Australian Government and a reasonable containment of the virus in the country. Steady progress towards a vaccine is strong with a few in final trials.

SWTZ has a diversified exposure to what the investment team believes to be the strongest companies in Australia. The portfolio holdings generally have very strong balance sheets and cash flows. The SWTZ portfolio will remain close to fully invested to maximise the gathering of dividend income. The outlook for dividends is largely dependent on the rate of recovery from the pandemic-induced slowdown. Australia is seeing the first signs of a more positive outlook for dividends, while it is tentative at this stage, it is progressing in a promising manner and there is a likelihood of much better payouts in fiscal 2022.

SECTOR ALLOCATION

GICS SECTOR	WEIGHT %
Financials	27.93
Materials	16.11
Consumer Discretionary	9.72
Health Care	8.79
Industrials	8.46
Consumer Staples	6.63
Communication Services	6.22
Utilities	5.05
Real Estate	4.97
Energy	4.32
Cash	1.81
Total	100.00

TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
BHP Group	8.60
Commonwealth Bank of Australia	8.03
CSL	7.99
Wesfarmers	4.11
Westpac Banking Corporation	4.09
Australia and New Zealand Banking Group	4.08
Macquarie Group	3.91
National Australia Bank	3.77
Transurban Group	3.06
Coles Group	3.04
Total	50.68

SWITZER DIVIDEND GROWTH FUND

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