Switzer

DIVIDEND GROWTH FUND

Sensible Blue-Chip Investing

31 January 2021

INVESTMENT OBJECTIVE

The Switzer Dividend Growth Fund (SWTZ or the Fund) 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 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 2.25%, or 3.12% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 31 January 2021 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 0.16% higher over the month of January, marginally underperforming the S&P/ASX 200 Accumulation Index which returned 0.31%.

PORTFOLIO COMMENTARY

Starting the new year on a positive note, January 2021 saw subdued market volatility compared with what we have seen over the last year. Performance was mixed as the COVID-19 pandemic continues to bring challenges for countries and companies worldwide. In the US, UK and Europe vaccines are being rapidly deployed encouraging markets higher. However this was against a backdrop of the growing spread of a more contagious strain of the virus, forcing many countries to return to complete lockdown; consequently causing uncertainty for business and industries over the coming months. In Australia, while we have had minor tightening of restrictions in contained areas, this has not damped the positive projection of our economic recovery.

The S&P/ASX 200 Index sectoral performance dispersion over the month was relatively tight. Consumer Discretionary (4.7%) led the market higher on the back of strong retail sales as continued Government support payments are spent by recipients. Communication Services (2.7%) and Financials (2.2%) also finished stronger.

The laggards were REITs (-4.4%), Industrials (-3.0%) and Healthcare (-1.9%). REITs are negatively exposed to higher interest rates and property fund managers have been highly impacted.

After a strong November, value investing was briefly back in vogue and the higher growth companies slightly underperformed over the last couple of months. Moving into 2021 the market appears to be uncertain where market leadership will emerge at this stage.

Differential stock performance was also relatively tight over the month. The best performing stocks in the portfolio were Westpac Banking Corporation (9.1%), Wesfarmers (8.4%) and Woodside Petroleum (7.6%). While the underperformers were Sydney Airport Holdings (-10.8%), Ampol (-7.9%) and Charter Hall Group (-7.4%). Portfolio activity was muted with some cash being raised over January. The Fund raised cash by taking strong profits in BHP Group, Woodside Petroleum, Aristocrat Leisure, REA Group and Coca-Cola Amatil.

KEY DETAILS	
SWTZ Dividend Yield (net) [1]	2.25%
SWTZ Dividend Yield (gross) [1]	3.12%
Portfolio median market cap ($m)	19,379
Portfolio price to earnings ratio [2]	19.80
Portfolio price to book ratio [2]	2.25
Portfolio beta [3]	0.98

Source: Bloomberg. Notes: 1. Yield calculation based on distributions attributable to the 12 months ended 31 January 2021 relative to SWTZ's closing unit price of $2.65 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	0.16%	0.31%
3 Month	11.25%	11.89%
6 Month	11.79%	12.99%
1 Year	-7.49%	-3.11%
3 Year *(annualised)*	2.98%	7.00%
Inception [1] *(annualised)*	3.79%	7.40%

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 January 2021
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)	**$2.3878 per unit**
Performance fee	None
Management fee [1]	0.89%

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

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MARKET COMMENTARY

Global equity markets were mixed over the month after a largely flat December. The US markets saw the tech heavy NASDAQ modestly higher, while the S&P500 and Dow Jones were modestly lower. European markets were slightly lower, Asia was mixed and Australia largely flat.

The bond markets sold off over the month with the US 10-year bond climbing 15 bps to 1.07% and the Australian 10-year bond also rising 15bps to 1.17%. There is intense speculation over where bond yields will move over the next few months. The impacts of another large stimulus package, together with a successful rollout of the vaccine and consequent pick-up in growth, have given rise to concerns of inflation climbing. While it may appear that inflation will remain tepid, is likely to pick up cyclically from the pandemic lows.

There is little doubt that equity markets are pricing a benign outlook for interest rates, with a slow and steady rise being acceptable compared with a breakdown in the debt markets and much higher rates. On the other hand, there is also the possibility that growth again slows, the stimulus package proves ineffectual and interest rates decline. The actual trajectory of debt markets over the next few months remains critical for the performance of the equity market and the leadership within the market. At this stage the outlook is unclear.

PORTFOLIO OUTLOOK

The portfolio remains positioned across quality stocks with a yield bias and is invested across a variety of sectors and factors to manage the risk of various scenarios emerging over 2021. To this end the fund is exposed to high yield interest rate sensitive stocks, as well as cyclicals that will benefit from an increase in activity, even if this leads to modestly higher interest rates.

Banks are an important part of a yield portfolio, as they have historically delivered high franking levels and high yield. There appears to be a growing consensus that the banks are past the high-risk phase of the pandemic and remain well provisioned even with the Government preparing to roll back support.

SWTZ has a diversified exposure to what we believe to be the strongest companies in Australia. The portfolio is skewed towards Australia to take advantage of franking levels and the economic performance of Australia looks more stable and less risky than other countries at this stage. The portfolio holdings generally have very strong balance sheets and cashflows.

The SWTZ portfolio will remain close to fully invested to maximise the gathering of dividend income. The outlook for dividend growth remains largely dependent on the rate of recovery from the pandemic-induced slowdown. We are seeing a more positive outlook for dividends and expect that we are passed the worst of the dividend drought. There is a likelihood of significant dividend growth over the next couple of years and we look forward to the February result season for positive signs that dividend growth is commencing.

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SECTOR ALLOCATION

GICS SECTOR	WEIGHT %
Financials	30.61
Materials	16.40
Consumer Discretionary	10.04
Industrials	8.23
Health Care	8.10
Communication Services	6.35
Consumer Staples	5.93
Energy	5.24
Real Estate	4.33
Utilities	3.67
Cash	1.09
Total	100.00

TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
BHP Group	10.51
Commonwealth Bank of Australia	9.02
CSL	7.39
Australia and New Zealand Banking Group	5.26
National Australia Bank	4.90
Wesfarmers	4.53
Westpac Banking Corporation	4.48
Macquarie Group	3.76
Telstra Corporation	3.22
Transurban Group	2.97
Total	56.04

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