

31 MAY 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

The Switzer investment committee is pleased with the recent performance of the Fund. The portfolio was 2.73% higher over the month of May, compared with the 2.34% rise in the S&P/ASX 200 Accumulation Index. SWTZ has also outperformed the benchmark over the past three months and the rolling 12-month return is now a very satisfactory 26.5%.

The improved performance of the Fund has coincided with the appointment of Blackmore Capital Pty Ltd as the investment manager. Market rotation towards value-style stocks typical of the portfolio also assisted with performance.

Over the past 12 months, SWTZ has paid a distribution yield of 3.00%, or 4.24% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 31 May 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.

MONTHLY COMMENTARY

The month of May saw the ASX 200 record its eighth successive monthly gain. Globally there was a strong rotation to 'ex-US' exposures with the S&P 500 lagging Europe, despite being the strongest performing region for the first four months of the year.

The gain for May was traced to the performance of the major banks, particularly Commonwealth Bank of Australia (CBA) which hit its all-time high in the last week of May. Contributing sectors included Health Care (3.51%), Consumer Discretionary (3.50%), and Consumer Staples (2.5%), with Technology (-9.9%), Utilities (-6.6%) and Energies (-1.8%) lagging the index.

Australia's economy and labour market continue to be materially stronger. Risk factors containing wages near term include potentially lower public sector wages, as the Victorian Government flagged that it would reduce future wages increases, as well as some lingering wage freezes. The Reserve Bank's (RBA) language was strong in suggesting a quantitative easing extension in July given Australia's unemployment rate is still well above the level consistent with 'full employment' (~4.0-4.5%).

The statement on Monetary Policy in May reiterated the Reserve Bank of Australia's (RBA) existing dovish guidance and economic forecasts. The cash rate would remain on hold "until 2024 at the earliest" and further bond purchases will be considered to assist with progress toward the RBA's goals of full employment and inflation. The RBA retained its 'watching brief' on the housing market and agreed on the importance of maintaining lending standards and monitoring trends in borrowing.

KEY DETAILS

SWTZ Dividend Yield (net) ¹	3.00%
SWTZ Dividend Yield (gross) ¹	4.24%
Portfolio median market cap (\$m)	15,086
Portfolio price to earnings ratio ²	19.24
Portfolio price to book ratio ²	2.47
Portfolio beta ³	0.91

Source: Bloomberg. Notes: 1. Yield calculation based on distributions attributable to the 12 months ended 31 May 2021 relative to SWTZ's closing unit price of \$2.14 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	2.73%	2.34%
3 Month	9.58%	8.48%
6 Month	11.73%	11.74%
1 Year	26.48%	28.23%
3 Year (annualised)	6.84%	9.95%
Inception ¹ (annualised)	5.99%	9.23%

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 May 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)	\$2.6278
Distribution paid	NA
Performance fee	None
Management fee ¹	0.89%
Portfolio size	\$81.55m

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

PORTFOLIO COMMENTARY

In May, the ASX 200 rallied to a new record high emboldened by a stimulatory Federal budget and continued accommodative central bank support. The highly supportive macroeconomic environment has nurtured an impressive recovery for corporate earnings and dividends, further propelling equity valuations to historically high levels.

A key beneficiary of Australia's economic restoration has been the retail banks which have delivered the strongest earnings and dividend upgrades. At a portfolio level both BA and Westpac Banking Corporation (WBC) (Australia's largest mortgage banks) are well placed to benefit from the momentum in housing loan growth. Moreover, CBA is enjoying the dual benefit of being leveraged to a stronger housing market and delivering above-system volume growth. Overall, the mortgage led banks (CBA, SunCorp Group and WBC) are in an earnings recovery phase that will restore their appeal to deliver an attractive dividend income stream for investors.

The SWTZ portfolio has a blend of three factor exposures with Quality being the strongest style, weighting more than 60% in the portfolio. Woolworths Group (WOW) – as one of the quality stocks in the Fund – has been demonstrating its ability to deliver consistently superior returns compared with industry peers. The business is highly cash generative, maintains a strong balance sheet and is the largest supermarket business in Australia. We view WOW as best-in-class with a strong supermarket and liquor footprint as well as a superior online offering to its domestic peers.

WOW's supermarket business has continued to out-trade materially Coles Group (COL). Notably, WOW's online grocery sales momentum of +90% contrasts COL's +49% growth in Q3 2021, highlighting the leverage in WOW's operating model. In our view, WOW's strategic priorities and better execution of online sales have contributed to its top line outperformance, consolidated its market leading position and reinforced our preference for WOW in the Consumer Staples space.

Positive contribution for the portfolio was driven by CBA, WBC and WOW. Whereas Ramsay Health Care, Macquarie Group and Cleanaway Waste Management weighed on attribution.

OUTLOOK

While Australia's corporate earnings have almost been restored to their pre-pandemic highs, we would contend that much of that good news is now fully reflected in current market valuations. It is becoming harder to unearth pockets of value in the market. Moreover, the combination of rising inflation pressures and higher bond yields could begin to act as a headwind for interest rate sensitive sectors. As such, we feel a more cautious approach is warranted and greater emphasis on earnings quality and balance sheet strength remains a core focus for the portfolio.

SECTOR ALLOCATION

GICS SECTOR	WEIGHT %
Financials	30.24
Materials	13.57
Industrials	11.47
Health Care	9.39
Communication Services	8.61
Consumer Staples	7.03
Energy	5.91
Real Estate	5.26
Consumer Discretionary	4.83
Cash	3.69
Total	100.00

TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
Commonwealth Bank of Australia	9.57
Westpac Banking Corporation	9.06
BHP Group	7.54
Macquarie Group	5.84
Woolworths Group	5.60
Wesfarmers	4.82
Cleanaway Waste Management	4.52
Spark New Zealand	4.06
Qube Holdings	3.97
Medibank Private	3.70
Total	58.68

SWITZER DIVIDEND GROWTH FUND

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