Switzer

DIVIDEND GROWTH FUND

Sensible Blue-Chip Investing

31 January 2020

INVESTMENT OBJECTIVE

The Switzer Dividend Growth Fund (SWTZ) is an income-focussed 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 7.51%, or 10.73% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 31 January 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 4.25% higher over the month of January, marginally lagging the S&P/ASX 200 Accumulation Index which returned 4.98%.

PORTFOLIO COMMENTARY

The SWTZ portfolio was little changed through January. However, with most companies set to report their first-half earnings in February, SWTZ investors should expect to see some increased trading activity in the coming month.

In the light of the increasing risks associated with the continuing spread of the Coronavirus and its potential negative economic impact, we reduced SWTZ's exposure to Sydney Airport. Whilst the virus is likely to negatively impact sentiment across several industries, the first order impacts are already being felt in the Tourism and Leisure sectors.

SWTZ's holding in BHP Group was increased during the month on the expectation that the company will likely report a strong first-half earnings report (due 18 February) accompanied by the potential for a larger than expected dividend payment. Having hit a 10-month low in November 2019, the 12% increase in the iron ore spot price since then has been surprising relative to analyst consensus forecasts and encouraging for BHP's future earnings prospects.

SWTZ's portfolio benefited from the strong share price performances of several growth companies held throughout January with eight names rising 10% or more. These were Woolworths Group, Link Administration Holdings, James Hardie Industries, CSL, Coles Group, Reliance Worldwide, Goodman Group and Challenger. Star Entertainment Group (-9.1%), Unibail-Rodamco-Westfield (-8.4%) and Insurance Australia Group (-7.6%) experienced the largest falls.

KEY DETAILS	
SWTZ Dividend Yield (net) [1]	**7.51%**
SWTZ Dividend Yield (gross) [1]	**10.73%**
Portfolio median market cap ($m)	16,362
Portfolio price to earnings ratio [2]	19.31
Portfolio price to book ratio [2]	1.89
Portfolio beta [3]	0.95

Source: *Bloomberg. Notes: Yield calculation based on dividends attributable to the 12 months ended 31 January 2020 relative to SWTZ's closing unit price of $2.36 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	4.25%	4.98%
3 Month	4.15%	6.08%
6 Month	5.19%	5.11%
1 Year	19.97%	24.72%
2 Year	8.48%	12.44%
Inception [1] (annualised)	6.96%	11.23%

Notes: 1. Inception date is 27 February 2017. SWTZ performance based on final net asset value per share.

KEY DETAILS	
Fund fact sheet date	**31 January 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)	**$2.6455**
Performance fee	None
Management fee [1]	0.89%

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

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MARKET COMMENTARY

There were several conflicting themes running through markets over January that led to disparate outcomes. On the plus side, the US led with a positive start to its reporting season and the release of strong housing data (housing starts in December 2019 rose a whopping 16.9% month on month). The S&P500 finished the month flat whilst the NASDAQ was up strongly. On the negative side, it was mostly about the Coronavirus. The spread of the virus impacted the confidence of the major Asian markets, particularly those in areas closest to the epicentre. The Hong Kong, China and South Korean markets all suffered large falls late in the month. Political tensions also captured the headlines, this time it was the US and Iran.

The major developed market bonds saw their benchmark yields dramatically decline (prices higher) in January as investors sought refuge in bonds from the potential financial fallout from the Coronavirus. The US 10-year benchmark treasury yield fell 40 basis points to 1.51% whilst the Australian 10-year equivalent was 42 basis points lower at 0.95%.

Overall, world equity markets were mixed in January. As mentioned, the major Asian bourses fell including Hong Kong (-6.7%), China (-2.3%), South Korea (-3.6%) and Japan (-2.1%). The UK (-3.4%) and more broadly, Europe (-2.8%) also fell. Australia (+5.0%) and the US (S&P 500 -0.16%, NASDAQ +2.0%) were outperformers with the Australian market's large exposure to interest rate sensitive companies buoyed by the large fall in bond yields.

S&P/ASX 200 benchmark sector performance saw Healthcare (+13.2%), and Information Technology (+11.1%) leading the market higher in the month. These two sectors have also been primary drivers of the market over the last year. Both are low yielding with low franking and, as such, their weights in CIE's portfolio are lower than the index. All sectors were positive with Materials (+1.8%), Energy (+0.7%) and Utilities (+0.6%) bringing up the rear

The Australian market saw a range of companies (15 in total) downgrade their earnings guidance over the period including Treasury Wine Estates, Insurance Australia Group, Nearmap, Kogan.com and Jumbo Interactive.

PORTFOLIO OUTLOOK

The SWTZ portfolio is heavily weighted towards the AREIT, Financials and Infrastructure sectors which provide secure and attractive dividend yields. Utilities, a smaller weighting in the portfolio, exhibits similar characteristics. These sectors are sensitive to the level of interest rates and continue to benefit from low or falling rates.

We remain cautious leading into the coming earnings reporting season due to factors such as the bushfires and the likely impact on the consumer before building activity begins to pick up. On a more positive note, the upcoming earnings season should see the initial impacts of lower interest rates (lower funding costs) shine through.

SWTZ invests in quality companies which payout relatively high and sustainable dividends and actively seeks out opportunities in companies that the manager believes can contribute capital returns.

SECTOR ALLOCATION

GICS SECTOR	WEIGHT %*
Financials	33.73
Real Estate	10.74
Materials	10.28
Consumer Discretionary	9.64
Industrials	9.04
Energy	7.20
Utilities	7.01
Consumer Staples	3.78
Communication Services	2.50
Cash	2.40
Health Care	2.05
Information Technology	1.63

** Due to rounding values may not equal 100%.*

TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
Commonwealth Bank	7.41
Westpac Banking Corp	5.83
National Australia Bank	5.28
Australia and New Zealand Banking Group	4.88
BHP Group	4.69
Macquarie Group	3.85
Wesfarmers	3.35
Woodside Petroleum	3.32
Aristocrat Leisure	2.97
Suncorp Group	2.74
Total	**44.33**

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