Switzer DIVIDEND GROWTH FUND

Sensible Blue-Chip Investing

31 July 2019

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 7.87%, or 11.24% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 31 July 2019 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 1.87% higher over the month of July 2019.

PORTFOLIO COMMENTARY

The targeted cash level in the fund is usually 1.5-2%. At 31 July 2019, cash was marginally above this target at around 2.7%. We regard carrying a slightly elevated level of cash leading into the August reporting season as prudent.

Over July 2019, activity in the fund was muted as we entered a potentially volatile reporting period. The fund took profits in Wesfarmers and Woodside Petroleum. Woodside's share price strength was used as an opportunity to reduce holdings at what proved to be attractive exit levels.

Wesfarmers has been a strong share price performer over the month. We believe that, while a strong company, the current Wesfarmers share price is not incorporating some risks for Kmart, Target and Bunnings leading into results season.

MARKET COMMENTARY

Global markets were mixed over the month with the US, UK and Australia all higher. Continental Europe, Japan and China were all modestly lower. Although slowing, US earnings were still positive giving some impetus to the market.

The global bond markets largely held their recent gains. The US 10-year bond rate traded in a range of 2-2.1%, while the market awaited an anticipated reduction in interest rates by the Federal Reserve. The Fed delivered a 25bp cut on the last day of the month.

Australian bonds continued to rally. The 10-year Australian bond rate fell from a yield of 1.4% to 1.2% over the month. The low long bond rate points to prolonged period of low interest rates.

The Australian market as measured by the S&P ASX 200 index was 2.93% higher over the month, making it one of the best global performers. Despite ongoing earnings downgrades, share prices are being driven by lower interest rates and tax cuts. These factors should bring better conditions ahead.

KEY DETAILS	
SWTZ Dividend Yield (net) [1]	**7.87%**
SWTZ Dividend Yield (gross) [1]	**11.24%**
Portfolio median market cap ($m)	14,390
Portfolio price to earnings ratio	17.11
Portfolio price to book ratio	1.95
Portfolio Beta	0.97

Source: Bloomberg. 1) Yield calculation based on dividends paid during the 12-months to 31 July 2019 relative to closing unit price of $2.59 at the beginning of the period.

PERFORMANCE (AFTER MANAGEMENT FEES)

PERIOD	SWTZ (%)	ASX 200 ACCUM INDEX (%)
1 Month	1.87%	2.94%
3 Month	5.06%	8.58%
6 Month	14.29%	18.66%
12 Month	6.71%	13.26%
Inception [1] (annualised)	7.07%	11.41%

1) Inception date 27 February 2017. SWTZ performance based off final net asset value price as determined by the custodian.

KEY DETAILS	
Fund Fact Sheet Date:	31 July 2019
ASX Code:	SWTZ
Fund Manager:	Contango Funds Management Ltd
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)	$2.5699
Performance fee	None
Management fee:	0.89%

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PORTFOLIO OUTLOOK

We anticipate the upcoming results season to be volatile. Shares have rallied as interest rate cuts and upcoming tax cuts should help boost activity and profits in the future. The results season, however, covers a period in which economic activity slowed and corporate profits were pressured.

As a result, reporting season may see some weak operating results. The market will be looking closely at outlook commentary to gauge whether individual companies are showing any signs of recovery.

Close attention will be paid to the distinction between cyclical and structural concerns, with the market being more forgiving of cyclical issues. We will use any volatility to add to or establish positions in companies if we see opportunities through this period.

The ongoing decline in interest rates should be a positive for yield-focussed strategies like SWTZ. Although there may be a bounce higher in yield post any trade resolution, underlying world growth remains modest at best.

The fund remains significantly exposed to those high income generating securities. In our view, these investments will be increasingly valuable in a world of low rates.

Interest rates remain low and economic activity, although slowing, remains positive. While volatility in equity markets is expected to continue, indications of inflation remain largely benign giving confidence that the investment outlook remains favourable over the medium term.

SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %*
Financials	37.53
Real Estate	10.60
Consumer Discretionary	9.97
Materials	9.61
Utilities	6.47
Energy	5.86
Industrials	5.82
Communication Services	4.40
Consumer Staples	3.72
Health Care	2.20
Information Technology	1.10
Cash	2.70

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

TOP TEN HOLDINGS

STOCK	WEIGHT %
COMMONWEALTH BANK	8.22
WESTPAC BANKING CORP	6.56
NATIONAL AUSTRALIA BANK	5.83
AUST AND NZ BANK	5.24
BHP	4.88
MACQUARIE	3.94
WOODSIDE PETROLEUM	3.82
WESFARMERS	3.34
ARISTOCRAT LEISURE	3.15
SUNCORP	3.13

SWITZER DIVIDEND GROWTH FUND

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