

30 SEPTEMBER 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 7.85%, or 11.22% including franking credits. Distribution yield is calculated as the distributions attributable to the 12 months ended 30 September 2019 relative to the SWTZ unit 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. Pleasingly, this was not the case in September with the portfolio rising 2.69% over the month, outperforming the S&P/ASX 200 Accumulation Index return which returned 1.84%.

PORTFOLIO COMMENTARY

Activity in the SWTZ portfolio was lower in September after a busy August, post the peak in the number of companies announcing their full-year results for the year ended 30 June 2019. The fund did put some cash to work during September, topping up several of its defensive positions including Tabcorp Holdings, Orora, Transurban Group and AusNet Services. The cash weight finished the month at 3.06%, a little above the target weight of a 1.50% - 2.00%.

MARKET COMMENTARY

Global markets were stronger over the month, recovering some of last month's falls. The Dow Jones was 2.0% higher, outpacing a 0.50% rise in the NASDAQ. Japan's TOPIX rose 5.0% whilst China's CSI 300 Index fell 1.0%.

Markets during the month were, again, driven primarily by US and China trade frictions, which appear to be no closer to a resolution of any kind. Political risk for investors continues to rise with more evidence forthcoming with the attack on Saudi oil installations, which sent the oil price skyrocketing to US\$63bbl.

After a significant rally throughout July and August, bond markets gave up some ground in September. The yield on the Australian 10-year benchmark bond closed 13 basis points higher (lower in capital value) month on month at 1.02% whilst its US counterpart finished at 1.66%, up 16 basis points. This sell-off in bonds appeared to drive a change in market leadership during the month with "value" outperforming "growth". This is the first time that this switch has occurred for a number of years and, given its investment objective, was beneficial to SWTZ's portfolio performance.

Sectors were mixed over the month. Within the S&P/ASX 200 Index Energy (+4.7%), Financials (+4.1%), Materials (+3.1%) and Consumer Discretionary (+3.0%) were the best performers whilst Communication Services (-2.9%), Health Care (-2.5%) and REITs (-2.3%) were the worst. Overall, the mix was positive for SWTZ.

KEY DETAILS

SWTZ Dividend Yield (net) ¹	7.85%
SWTZ Dividend Yield (gross) ¹	11.22%
Portfolio median market cap (\$m)	17,553
Portfolio price to earnings ratio ²	18.44
Portfolio price to book ratio ²	1.94
Portfolio beta ³	0.96

Source: Bloomberg. Notes: Yield calculation based on dividends attributable to the 12 months ended 30 September 2019 relative to SWTZ's closing unit price of \$2.59 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	2.69%	1.84%
3 Month	3.06%	2.37%
6 Month	9.19%	10.53%
1 Year	8.10%	12.47%
2 Year	9.04%	13.21%
Inception ¹ (annualised)	7.06%	10.40%

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

KEY DETAILS

Fund fact sheet date	30 September 2019
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)	\$2.6006
Performance fee	None
Management fee ¹	0.89%

1. Fees are inclusive of GST and less RITC.

The best performing companies in the portfolio for the month were Caltex Australia (+11.3%), Coles Group (+11.3%) and James Hardie Industries (+10.2%). There were no companies in the portfolio that fell more than 10% over the period. The worst performer was Charter Hall Group (-7.9%).

PORTFOLIO OUTLOOK

Growth indicators continued to trend lower during the period, suggesting that economic activity remains subdued. Central banks around the world remain at-the-ready to support economic activity with increased liquidity and lower interest rates. Movements in bond markets are often a good predictor of growth and inflation. Late in the month the sell-off in bonds stabilised and reversed, suggesting that growth and inflation challenges may be far from over. The combination of slow growth and low interest rates remains a positive backdrop for equities.

The portfolio remains predominantly invested in those quality yield companies which pay relatively high and sustainable dividends. This underwrites the SWTZ dividend yield. In a world of sustained, low interest rates, these companies are becoming more and more valuable.

SWTZ also continues to look for companies that can contribute a capital return. Ongoing market volatility may provide an opportunity to invest in businesses that offer attractive, risk-adjusted returns and sell those that have become overvalued.

SWITZER DIVIDEND GROWTH FUND

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SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %*
Financials	36.51
Real Estate	10.85
Consumer Discretionary	10.15
Materials	9.44
Industrials	7.86
Energy	7.11
Utilities	5.29
Consumer Staples	3.84
Cash	3.06
Communication Services	2.54
Health Care	2.16
Information Technology	1.19

* Due to rounding values may not equal 100%.

TOP TEN HOLDINGS

STOCK	WEIGHT %
Commonwealth Bank	7.80
Westpac Banking Corp	6.56
National Australia Bank	5.86
Australia and New Zealand Banking Group	5.17
Macquarie Group	3.88
Woodside Petroleum	3.44
BHP Group	3.28
Wesfarmers	3.28
Aristocrat Leisure	3.04
Suncorp Group	2.96