

31 October 2019

INVESTMENT OBJECTIVE

The Switzer Dividend Growth Fund (SWTZ) 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 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 7.88%, or 11.25% including franking credits. Distribution yield is calculated as the distributions attributable to the 12-months ended 31 October 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. This was the case in October with the portfolio posting a small loss of 0.15% over the month, outperforming the benchmark S&P/ASX 200 Accumulation Index return which fell 0.35%. Similarly, for the three months ended 31 October 2019, the portfolio achieve a positive return of 1.05%, while the benchmark index fell 0.91%.

PORTFOLIO COMMENTARY

The SWTZ portfolio was active during October with profit taking in a number of holdings that have performed strongly having either hit or exceeded our target prices. Proceeds were invested into a number of the portfolio's existing, defensive positions including Amcor, Transurban Group, Spark Infrastructure Group, Dexus and AusNet Services. SWTZ also increased its position in ANZ Banking Group after the company reported earnings and just prior to the share price trading ex-dividend. The strategy of buying post-result often helps the investment team by allowing time to examine the result, thereby potentially avoiding any disappointment yet, when appropriate, retain the ability to invest and receive the dividend. Two of the strongest portfolio performers in recent times, James Hardie Industries and Aristocrat Leisure were exited.

The SWTZ cash weight rose slightly to 3.5% at month end, above the target of 1.5% - 2.0%.

MARKET COMMENTARY

Global markets were again stronger over the month with Japan (+5.0%), the US (NASDAQ +3.7%, S&P 500 +2.0%), Germany (+3.5%) and Hong Kong (+3.1%) leading the charge. The UK (-2.2%), Canada (-1.1%) and Australia (S&P/ASX 200 -0.4%) were the laggards. The uplift in markets in October came largely from the better than expected results from US companies reporting their third-quarter earnings.

Bonds continued to sell-off with the Australian 10-year government benchmark bond finishing 12 basis points higher at 1.14%. Its US 10-year counterpart finished at 1.69%, up 3 basis points. The bond sell-off in recent months appears to be driven by fading market expectations of any lasting economic downturn due to the US-China trade dispute.

In Australia, there was a large performance divergence amongst the sectors (within the ASX 200). The Information Technology and Financials sectors

KEY DETAILS

SWTZ Dividend Yield (net) ¹	7.88%
SWTZ Dividend Yield (gross) ¹	11.25%
Portfolio median market cap (\$m)	17,655
Portfolio price to earnings ratio ²	18.60
Portfolio price to book ratio ²	1.92
Portfolio beta ³	0.95

Source: Bloomberg. Notes: Yield calculation based on dividends attributable to the 12 months ended 31 October 2019 relative to SWTZ's closing unit price of \$2.38 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	-0.15%	-0.35%
3 Month	1.05%	-0.91%
6 Month	6.13%	7.59%
1 Year	14.85%	19.28%
2 Year	7.33%	10.81%
Inception ¹ (annualised)	6.42%	9.91%

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 October 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)	\$2.5626
Performance fee	None
Management fee ¹	0.89%

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

gave up considerable ground during the month, falling 3.9% and 2.8% respectively. Health Care (7.6%) and Industrials (+3.0%) were the best

performing sectors. Sector performance proved to be a slight headwind for SWTZ.

There was minimal divergence in the performance of the portfolio holdings in October. The largest contributors over the period were CSL (+9.6%) and Sydney Airport (9.3%). CSL is currently a modest weight in the portfolio given its current yield is only around 1%. However, the company has, and we think will continue to, provide SWTZ with capital growth over the medium-term. Bank of Queensland was the worst performer in the portfolio, falling 8.8% after reporting earnings below market expectations. SWTZ will continue to hold Bank of Queensland for its attractive 9.0% gross yield.

PORTFOLIO OUTLOOK

The US Federal Reserve cut interest rates towards the end of the month and indicated that rates were likely to be on hold for some time to come. Whilst economic data remains positive, it is slowing, and important trade issues remain unresolved. Global central banks remain committed to supporting economic activity and liquidity in financial markets whilst there is no threat from higher inflation. This environment is positive, in general, for the market. However, volatility will likely return at the first sign of poor economic data or tightening liquidity. SWTZ remains predominantly invested in quality companies that pay relatively high and sustainable dividends which underwrites the SWTZ income objective. In a world of sustained, low interest rates, these companies are becoming increasingly valuable.

We also invest a small portion of the portfolio in companies that we expected can deliver capital returns. Any volatility in the market may provide opportunities to both invest in companies we believe offer good risk adjusted returns and allow us to realise profits in those companies that become overvalued.

SWITZER DIVIDEND GROWTH FUND

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SECTOR ALLOCATION

GICS SECTOR	WEIGHT %*
Financials	35.05
Real Estate	11.34
Consumer Discretionary	9.88
Materials	8.93
Industrials	8.57
Energy	6.96
Utilities	6.12
Consumer Staples	3.69
Cash	3.54
Communication Services	2.46
Health Care	2.31
Information Technology	1.14

* Due to rounding values may not equal 100%.

TOP TEN HOLDINGS

STOCK	WEIGHT %
Commonwealth Bank	7.41
Westpac Banking Corp	6.57
Australia and New Zealand Banking Group	5.22
National Australia Bank	5.02
Macquarie Group	3.87
Woodside Petroleum	3.34
Wesfarmers	3.19
BHP Group	3.13
Suncorp Group	2.85
Aristocrat Leisure	2.81