

30 November 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 7.97%, or 11.39% including franking credits. Distribution yield is calculated as the distributions attributable to the 12-months ended 30 November 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 and this was the case in November with SWTZ returning 2.5% relative to the broader market as measured by the S&P/ASX 300 Accumulation Index, which was 3.3% higher. For the three months ended 30 November 2019, however, the portfolio achieved a positive return of 5.0% relative to the benchmark index return of 4.8%.

### PORTFOLIO COMMENTARY

SWTZ was active during November with several existing portfolio holdings increased over the period. These included APA Group (APA), Spark Infrastructure Group (SKI) and Amcor Plc (AMC).

SWTZ also switched out of Charter Hall Group (CHC) and into Goodman Group (GMG). Both companies are property managers and developers. Goodman is considered the more defensive investment at this time. SWTZ profited considerably from the Charter Hall investment having banked a 106% return since the original purchase. We also reduced the holding CSL Ltd (CSL), recording a gain of 122% over the holding period. CSL remains a core holding in the SWTZ portfolio. We also took profits in James Hardie Industries (JHX).

A position in Atlas Arteria (ALX) was initiated late in the month. Atlas operates concessions for toll roads, with the major one being the Paris to Lyon toll road in France. The company acquired a greater share of its French toll roads and raised capital to help fund the acquisition. The share price weakened on the back of the placement, providing an attractive entry level for SWTZ.

The banking sector, being the highest yielding sector, remains the most attractive hunting ground for income investors including SWTZ, though this is not without increasing risk. SWTZ's current bank holdings offer a gross yield (yield after taking into account franking credits) of 8.9%. This compares to the S&P/ASX 200 Index benchmark estimated yield, excluding the banks, of 4.3%. Whilst we forecast further cuts to bank dividends, we continue to find these yields attractive compared to the rest of the market. The banks will continue to be an important part in the SWTZ portfolio, they are a part of a well-diversified portfolio and risk will continue to be actively managed.

### KEY DETAILS

SWTZ Dividend Yield (net) <sup>1</sup>	7.97%
SWTZ Dividend Yield (gross) <sup>1</sup>	11.39%
Portfolio median market cap (\$m)	18,234
Portfolio price to earnings ratio <sup>2</sup>	19.24
Portfolio price to book ratio <sup>2</sup>	1.93
Portfolio beta <sup>3</sup>	0.95

*Source:* Bloomberg. *Notes:* Yield calculation based on dividends attributable to the 12 months ended 30 November 2019 relative to SWTZ's closing unit price of \$2.36 at the beginning of the period. <sup>2</sup> Trailing 12 months data. <sup>3</sup> Relative to the S&P/ASX 200 Index.

### PERFORMANCE (AFTER MANAGEMENT FEES)

PERIOD	SWTZ (%)	ASX 200 ACCUM INDEX (%)
1 Month	2.46%	3.28%
3 Month	5.03%	4.80%
6 Month	7.58%	9.24%
1 Year	19.60%	25.98%
2 Year	7.76%	11.70%
Inception <sup>1</sup> (annualised)	7.13%	10.88%

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

### KEY DETAILS

Fund fact sheet date	30 November 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)	\$2.6256
Performance fee	None
Management fee <sup>1</sup>	0.89%

*Notes:* <sup>1</sup> Fees are inclusive of GST and less RITC.

## MARKET COMMENTARY

Global markets were strong during November. US markets led the way with the NASDAQ (+4.5%) and S&P 500 (+3.7%) rising sharply. European bourses were higher with France's CAC 40 Index (+3.1%) and Germany's DAX (+2.9%) atop the leader board. Asian markets were mixed with Australia's S&P/ASX 200 amongst the leaders (+2.7%) whilst Hong Kong and China equity markets fell 2.1% and 1.5% respectively on the back of continued protests in Hong Kong and slowing growth in China.

Key economic data released during the month was also mixed. Releases indicated a slight improvement in the US leading indicators, steady GDP growth in Europe, an uptick in Japanese growth and a decline in Indian growth rates. Inflation, however, continues to show no signs of picking up which, in turn, is keeping benchmark interest rates low and supporting financial markets..

Within the Australian equity market, there was a wide divergence in sector performance in November. With the ASX 200 universe, Information Technology was up 9.9% whilst Consumer Staples finished down 8.8%. Energy and Health Care were up strongly. Both sectors, along with Technology, are low yielding and high growth which typically perform well in strong markets. The Utilities (+1.1%), Materials (+1.4%) and Communication Services (+1.5%) sectors were the worst performing by comparison. In contrast, these stable, higher yielding sectors typically lag in a strong market.

The best performing stocks for the month were Caltex Australia Ltd (+26.7%), James Hardie Industries (+17.0%) and CSL Ltd (+10.7%). There were seven companies held by SWTZ whose shares returned over 10% for the month including Caltex, which attracted a takeover offer from a large Canadian company, James Hardie, CSL, Amcor, Origin Energy Telstra and Perpetual.. There were two stocks that fell 10% or more for the month, both were banks. Westpac Banking Corporation fell 10.5% and Bank of Queensland -10.4%. Both these companies raised capital over the month which putting some pressure on the share price and Westpac has some well publicised issues with the regulators over transaction reporting. Whilst we do see some share price recovery for both, the operating environment for all banks, in our view, will continue to remain challenging

## PORTFOLIO OUTLOOK

The status quo remains. Growth is subdued with leading indicators, though positive, are increasing a declining rate. Central banks continue to encourage growth with loose monetary policy which includes maintaining low interest rates and providing ongoing liquidity, both a positive backdrop for markets. SWTZ remains predominantly invested in quality yield companies which pay relatively high and sustainable dividends. This underwrites the portfolio yield. In a world of sustained, low interest rates, these companies become increasingly valuable.

SWTZ also seeks opportunities in companies that are expected to contribute capital growth. Volatility in the market is expected to continue and may increase, providing opportunities to invest in companies we believe offer good risk adjusted returns

## SECTOR ALLOCATION

GICS SECTOR	WEIGHT %*
Financials	33.75
Real Estate	11.19
Consumer Discretionary	9.85
Industrials	9.65
Materials	9.18
Energy	7.55
Utilities	6.51
Consumer Staples	3.79
Cash	2.86
Communication Services	2.60
Health Care	1.93
Information Technology	1.13

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

## TOP TEN HOLDINGS

STOCK	WEIGHT %
Commonwealth Bank	7.27
Westpac Banking Corp	5.89
National Australia Bank	5.22
Australia and New Zealand Banking Group	4.63
Macquarie Group	3.81
BHP Group	3.69
Woodside Petroleum	3.42
Wesfarmers	3.25
Suncorp Group	2.96
Aristocrat Leisure	2.88

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