

## 31 December 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 8.05%, or 11.49% including franking credits. Distribution yield is calculated as the distributions attributable to the 12-months ended 31 December 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 typically expect SWTZ to marginally underperform in rising markets and marginally outperform in falling markets. This was not the case in December, however, with SWTZ returning -2.5%, marginally less than the broader market as measured by the S&P/ASX 300 Accumulation Index, which fell 2.2%.

### PORTFOLIO COMMENTARY

Activity in the portfolio was light on in December relative to preceding months. After a stellar run up in its share price of more than 35% in the second half of 2019, we reduced SWTZ's position in Lendlease Group (LLC). The company announced the sale of its engineering division, though the terms of the sale were not as positive as we were expecting and we reduced the position.

Market weakness throughout the month provided the opportunity for SWTZ to top up positions in several existing of its company holdings including, BHP Group (BHP), APA Group (APA), GPT Group (GPT), Atlas Arteria (ALX), National Australia Bank (NAB) and ANZ Banking Group (ANZ). The position in Link Administration Holdings (LNK) was also increased post the UK election, which now provides a pathway to a Brexit resolution and is a positive for the company.

December proved a difficult month to pick individual winners. The weak domestic economy continued to see an increasing number of companies announce earnings downgrades whilst a substantial rise in the Australian 10-year benchmark bond over the month negatively impacted those companies that are sensitive to the level of interest rates. The largest detractors over the period were the defensive yield names including Woolworths Group (WOW, -9.1%) and Coles Group (COL, -8.7%). The portfolio's interest rate sensitive real estate exposures, also high yielding, declined led by Lendlease Group (LLC, -8.9%), Goodman Group (GPT, -6.8%) and Stockland (SGP, -5.9%)

The best performing companies in the portfolio were the materials names including Fortescue Metals Group (FMG, +9.9%), Amcor (AMC, +2.1%) and BHP Group (BHP, +1.8%). The SWTZ portfolio cash weighting at month-end was 3.0% relative to a target weight of 1.5% - 2.0%.

KEY DETAILS	
SWTZ Dividend Yield (net) <sup>1</sup>	8.05%
SWTZ Dividend Yield (gross) <sup>1</sup>	11.49%
Portfolio median market cap (\$m)	17,703
Portfolio price to earnings ratio <sup>2</sup>	18.62
Portfolio price to book ratio <sup>2</sup>	1.87
Portfolio beta <sup>3</sup>	0.95

*Source: Bloomberg. Notes: Yield calculation based on dividends attributable to the 12 months ended 31 December 2019 relative to SWTZ's closing unit price of \$2.33 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	-2.49%	-2.17%
3 Month	-0.24%	0.68%
6 Month	2.81%	3.06%
1 Year	18.87%	23.40%
2 Year	5.99%	9.49%
Inception <sup>1</sup> (annualised)	6.04%	9.70%

*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 December 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)	\$2.5602
Performance fee	None
Management fee <sup>1</sup>	0.89%

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

## MARKET COMMENTARY

The fall in the Australian equity market appeared to be the outlier in December given the majority of major developed global equity markets continued their moves higher. The Asian region performed strongest with the major Hong Kong and China indices rising 7.4% and 6.2% respectively. US and European share markets also enjoyed solid gains over the period driven by an improvement in the US-China trade relations and much needed clarity in the UK with respect to Brexit post the elections.

Some positives were also seen in US economic data for November (released in December), in particular labour, with strong payrolls growth for the month. Inflation data also ticked up, though not nearly enough to change the current loose monetary policy settings.

Bond markets were mixed with the US 10-year benchmark bond unchanged whilst the Australian 10-year equivalent rose 34 basis points to 1.37%, its highest level since July 2019. The rise in Australian rates was one reason for the sluggish overall local equity market with the interest sensitive sectors struggling most.

Australian equity market sector performance was mixed with those sectors exposed to growth and higher interest rates falling most. Included amongst these were the Information Technology, REIT's and Consumer (discretionary and staples) sectors. Utilities was the exception amongst the interest rate sensitive group, posting a positive return. The more cyclical sectors did better with Materials the standout.

The ongoing weakness (or lack of growth) in the Australian economy may well lead to further downgrades to those companies whose businesses are leveraged to the domestic economy. Whilst it is difficult to avoid investing in what is a large part of the overall market, we will continue to maintain a "high quality" portfolio, one that we believe to be most resilient in a struggling economic environment.

## PORTFOLIO OUTLOOK

The portfolio is heavily weighted towards the REIT, Financials and Infrastructure sectors which provide secure and attractive dividend yields. Utilities, which has a smaller weighting in the portfolio, also exhibits similar characteristics. These sectors are sensitive to the level of interest rates and benefit from low or falling rates. Although interest rates have climbed over the last month, we do not see a sustained increase in the near term.

SWTZ remains invested in quality yield companies which pay relatively high and sustainable dividends which underwrites the SWTZ yield. In a low interest rate world, these companies are becoming increasingly valuable. SWTZ also actively seeks out opportunities in companies that the manager believes can contribute capital returns.

## SECTOR ALLOCATION

GICS SECTOR	WEIGHT %*
Financials	33.80
Real Estate	10.25
Industrials	9.69
Materials	9.66
Consumer Discretionary	9.65
Energy	7.49
Utilities	6.73
Cash	3.50
Consumer Staples	3.48
Communication Services	2.40
Health Care	1.89
Information Technology	1.46

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

## TOP TEN HOLDINGS

STOCK	WEIGHT %
Commonwealth Bank	7.23
Westpac Banking Corp	5.85
National Australia Bank	5.24
Australia and New Zealand Banking Group	4.87
BHP Group	4.07
Macquarie Group	3.82
Woodside Petroleum	3.43
Wesfarmers	3.19
Suncorp Group	2.88
Aristocrat Leisure	2.88

## SWITZER DIVIDEND GROWTH FUND

Level 6, 10 Spring Street, Sydney NSW 2000

T: 1300 052 054

E: [invest@switzer.com.au](mailto:invest@switzer.com.au)

W: [www.switzerassetmanagement.com.au](http://www.switzerassetmanagement.com.au)