

31 March 2020

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 7.09%, or 10.13% including franking credits. Distribution yield is calculated as the distributions received over the 12-months to 31 March 2020 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 21.56% lower over the month of March marginally underperforming the S&P/ASX 200 Accumulation Index which returned -20.65%.

PORTFOLIO COMMENTARY

Global markets were dealt a massive blow in March following on the dramatic falls in February as the devastating financial impact of the coronavirus became more evident. There were essentially only losers across SWTZ's listed companies' universe. Even defensive businesses with sound asset bases and strong balance sheets such as airports, casinos, shopping malls and toll roads found themselves in the firing line, alongside those considered higher risk and seemingly lower quality.

The market has now entered a recapitalisation phase. During this period of government directed slowdown, many companies have seen their revenues collapse and now require additional liquidity to keep their businesses alive. Several companies have already approached the market for funding. Though SWTZ is typically fully invested, a reasonable cash weighting in the portfolio has been maintained and will be used to minimise the dilution impact of capital raisings on our investments over the coming months.

All S&P/ASX 200 Index sectors finished significantly in the red led by Energy (-37.6%), Real Estate (-35.6%), Financials (-27.6%) and Consumer Discretionary (-25.9%). Sectors that fell the least included Consumer Staples (-3.9%), Health Care (-5.4%) and Utilities (-6.2%). SWTZ is typically more exposed to companies with defensive characteristics including a reliable yield and stable capital value. The performance of the usually defensive REIT sector to which SWTZ has exposure was disappointing with several companies now trading at around 20% to 50% of their net asset value. We believe, as a group, REIT's offer significant value at current prices.

SWTZ was active in the market throughout March. Buying was concentrated in companies that we believe to have the highest probability of holding their share price values and continuing to pay dividends. As such, we added to existing investments including BHP Group and CSL Limited. We also increased exposures to Coles Group, Treasury Wine Estates and established a position in the quality gold

KEY DETAILS	
SWTZ Dividend Yield (net) ¹	7.09%
SWTZ Dividend Yield (gross) ¹	10.13%
Portfolio median market cap (\$m)	12,369
Portfolio price to earnings ratio ²	14.22
Portfolio price to book ratio ²	1.48
Portfolio beta ³	0.93

Source: Bloomberg. Notes: 1. Yield calculation based on dividends attributable to the 12 months ended 31 March 2020 relative to SWTZ's closing unit price of \$2.50 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	-21.56%	-20.65%
3 Month	-24.16%	-23.10%
6 Month	-24.02%	-22.57%
1 Year	-15.88%	-14.42%
3 Year	-3.51%	-0.56%
Inception ¹ (annualised)	-2.69%	0.05%

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 March 2020
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)	\$1.9182
Performance fee	None
Management fee ¹	0.89%

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

miner, Evolution Mining. SWTZ switched from Perpetual Limited to Magellan Financial Group, preferring Magellan's future growth profile.

Best performers during the month were Fortescue Metals Group (+7.4%), Coles Group (+6.7%) and Ausnet Services (+0.9%). The worst performing companies included Challenger (-56.0%), Unbail-Rodmaco-Westfield (-48.4%) and Stockland (-46.3%). At current levels, the REIT' sector appears to be pricing in a large and sustained downturn in profitability. Any improvement in operating conditions in the next 12-months could trigger significant rises in the share prices of the major real estate companies.

MARKET COMMENTARY

Global markets continued to fall heavily in March with US and European markets declining between 10% and 20%. Asian markets fared better with China and Hong Kong falling by less than 10%. The Australian share market was amongst the worst performers with the S&P/ASX 200 Index falling more than 21% over the month. Volatility wasn't confined to equities. Bond markets were also caught up in the turmoil with the benchmark US 10-year treasury falling from 1.15% yield to 0.67%. The Australian 10-year bond yield fell to 0.76% from 0.82% in February.

Investors are now laser-focussed on COVID-19 growth rates. Market volatility is likely to continue as investors attempt to anticipate the long-term economic fall-out from the virus and any likely Government response. Whilst it is too early to determine the long term effectiveness of Government directives on social distancing and gatherings, there continues to be huge liquidity and fiscal support coming from central banks that have served to steady markets to date.

PORTFOLIO OUTLOOK

The investment outlook is clearly very uncertain. A small signal of a return to anything resembling "normal" will likely see markets rise rapidly. We suspect, however, that its more likely we will continue to read poor headlines highlighting collapsing growth and rising unemployment for at least another quarter or two. We believe that it remains critical to focus on the forward-looking data, the most important of which will be the rate of infection growth in the larger economies of the US and Europe along with the behaviour of global credit markets.

In recent times we have taken advantage of the market weakness to add some growth companies to the portfolio and will continue to do so in order to provide investors with a more balanced portfolio whilst always remaining true to SWTZ's income objective.

Longer term (and assuming an eventual return to more normal levels of economic activity) we believe the market represents good value. However, the dividend outlook for all companies, including several of SWTZ's investments, is expected to come under considerable pressure as businesses look to conserve their cash. SWTZ is focussed on holding and, where appropriate, adding to those investments that it believes can continue to pay dividends. At present SWTZ maintains the capacity to pay quarterly dividends for the remainder of FY20.

SECTOR ALLOCATION

GICS SECTOR	WEIGHT %*
Financials	29.45
Materials	14.47
Consumer Discretionary	8.12
Industrials	7.61
Utilities	7.76
Consumer Staples	6.32
Real Estate	6.00
Not Classified	5.86
Health Care	5.71
Energy	5.18
Communication Services	2.54
Information Technology	0.98
Total	100.00

* Due to rounding values may not equal 100%.

TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
BHP Group	8.01
Commonwealth Bank	6.83
CSL Limited	5.71
Westpac Banking Corporation	4.87
National Australia Bank	4.33
Australia and New Zealand Banking Group	4.09
Wesfarmers	3.23
Macquarie Group	2.90
Coles Group	2.85
APA Group	2.66
Total	45.48

SWITZER DIVIDEND GROWTH FUND

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