

31 May 2020

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 5.92%, or 8.46% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 31 May 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 3.8% higher over the month of May, marginally underperforming the S&P/ASX 200 Accumulation Index which returned 4.4%.

PORTFOLIO COMMENTARY

We remain focused on positioning the portfolio to generate as much income as possible over the next year without taking undue risk. Many stocks have deferred, reduced or passed their distributions so far this year. Generating income will be difficult throughout 2020 but should improve thereafter. We are aware that buying stocks for a short-term income gain may lead to less capital returns, outweighing the income benefit, and we would like to avoid this outcome. We will continue to pursue opportunities for income but will take risk into account when doing so.

The S&P/ASX 200 Index sector performance saw the Information Technology (14.6%), Communication Services (8.4%) and Materials (8.1%) sectors do best. Only two sectors were negative over May: Health Care (-5.3%), and Consumer Staples (-0.4%). This sectoral performance was similar to April. The progress Australia has made in containing the virus and its lifting of restrictions supported the rally in economically sensitive sectors.

The Fund was active during the month, although to a lesser degree than in April. The major changes included adding Carsales.Com (CAR), which effectively replaced Treasury Wine Estates (TWE) in the portfolio. The used car market is recovering strongly as public transport is being avoided and customers are trading down rather than purchasing new cars. CAR's large position in the Korean market is also a significant factor in the stock's strong performance. Wine sales are lagging in the recovery, especially in China, and trade issues continue to threaten TWE.

Property manager Charter Hall Group (CHC) was added in place of DEXUS Property Group (DXS). The outlook for the office market is a little uncertain where DXS is exposed. CHC reiterated its earnings forecast for FY20 over the period.

KEY DETAILS

SWTZ Dividend Yield (net) ¹	5.92%
SWTZ Dividend Yield (gross) ¹	8.46%
Portfolio median market cap (\$m)	13,910
Portfolio price to earnings ratio ²	17.93
Portfolio price to book ratio ²	1.84
Portfolio beta ³	0.98

Source: Bloomberg. Notes: 1. Yield calculation based on dividends attributable to the 12 months ended 31 May 2020 relative to SWTZ's closing unit price of \$2.53 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	3.81%	4.36%
3 Month	-12.23%	-9.92%
6 Month	-17.35%	-14.59%
1 Year	-10.35%	-6.70%
3 Year	0.56%	4.35%
Inception ¹ (annualised)	0.57%	4.00%

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 May 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)	\$2.1285
Performance fee	None
Management fee ¹	0.89%

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

There were four stocks that delivered over 15% returns for the portfolio over May. These included Stockland Corporation (24.0%), Evolution Mining (19.4%), Goodman Group (16.9%) and Fortescue Metals Group (16.2%). The worst performing stock was Unibail-Rodamco-Westfield (URW) which returned -14.3%. While URW is exposed to quality shopping centres, the Northern Hemisphere is taking longer to recover from COVID-19 which is impacting returns.

The Fund also participated in the Atlas Arteria Group capital raising. The business will use the funds for potential acquisitions, primarily in the French toll road system. Only two portfolio holdings have raised capital over the last few months. We view this as a sign of the quality of the Fund's stock holdings.

MARKET COMMENTARY

Global markets continued their rally over May. The NASDAQ again led markets higher, supported by its heavy technology weighting, while the Japanese and German markets also showed good strength. The Chinese and Hong Kong markets were down slightly, impacted by simmering political tensions. The Australian market lagged the rise as the large Bank sector struggled and the Health Care sector retreated after a strong run.

Bond markets were again unusually stable over the month. The US 10-year bond continues to trade around 0.65% and the Australian 10-year bond around 0.90%. Stability in the fixed income markets is giving equity markets confidence that debt funding remains available and cheap.

PORTFOLIO OUTLOOK

Progress in containing the virus continues to be made around the world at differing rates, and the likelihood of the 'worse-case' scenarios eventuating for world economies looks to be receding.

A positive sign for markets is that equities continue to take the publishing of significant negative economic data in their stride. While data remains very poor, there are signs the worst is behind us and these indicators may begin to improve. Underwriting this turnaround in economic data is continued containment of the virus, and ongoing significant support from Governments and central banks.

SWTZ has diversified exposure to the strongest companies in Australia. If any of the companies require capital, the Fund is positioned to support these without being diluted. There has been minimal call on funding so far, and equity markets look fair value given the current outlook.

The outlook for dividends this year, however, will be under some pressure as companies look to conserve cash. Investors should prepare for a period of lower yields. Those sectors which traditionally deliver high yields such as Banks and REITs have been severely impacted by the lockdowns, while those sectors least impacted such as Health Care and Technology are low yielding.

Predicting the extent of dividend reductions with any accuracy is difficult. We are aiming to hold and add to those companies that, we believe, can pay dividends over the course of this calendar year without adding undue risk.

SECTOR ALLOCATION

GICS SECTOR	WEIGHT %
Financials	26.71
Materials	16.75
Consumer Discretionary	9.84
Industrials	7.72
Real Estate	7.34
Utilities	7.25
Communication Services	6.20
Health Care	6.05
Energy	5.28
Consumer Staples	4.45
Not Classified	2.41
Total	100.00

TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
BHP Group	8.87
Commonwealth Bank of Australia	7.26
CSL	6.05
Wesfarmers	4.10
Westpac Banking Corporation	3.83
National Australia Bank	3.54
Australia and New Zealand Banking Group	3.35
Macquarie Group	3.32
Telstra Corp	3.08
Aristocrat Leisure	2.73
Total	46.13

SWITZER DIVIDEND GROWTH FUND

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