

31 July 2020

INVESTMENT OBJECTIVE

The Switzer Dividend Growth Fund (ASX: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 3.59%, or 4.89% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 31 July 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 0.09% higher over the month of July, marginally underperforming the S&P/ASX 200 Accumulation Index which returned 0.50%.

PORTFOLIO COMMENTARY

As Australia moves towards the August reporting season, uncertainty over the extent of dividend reductions remains elevated. The difficulty Victoria is having with containing COVID-19 is likely to delay a recovery and will lead company boards to be more conservative with any dividend payouts.

Insurance Australia Group (IAG) eliminated its final dividend – and it is unlikely to be the last company to do so. The Australian Prudential Regulation Authority updated its guidance on bank dividends indicating that up to 50% of 2020 earnings can be paid out as dividends. There remains some uncertainty regarding how the banks will interpret and react to the updated policy. We expect the August reporting season to be the low point in overall dividend payouts for the COVID-19-impacted period.

The S&P/ASX 200 Index sector performance saw Materials (5.8%), Information Technology (4.6%), Consumer Staples (3.5%) and Communication Services (3.4%) do best. The laggards were Energy (-6.6%), Health Care (-3.9%) and Industrials (-3.7%). Sectoral dispersion was broadly neutral for the Fund in July.

Activity in the SWTZ portfolio was low as we moved into reporting season. Positions were increased in Aurizon Holdings and Telstra Corporation as we hope to see attractive dividends announced in August from these two companies. These purchases were funded by profit taking in Magellan Financial Group and Wesfarmers. Positions in Westpac Banking Corporation, National Australia Bank and Stockland Corporation were also modestly reduced.

Although there was little movement in the stocks held over July, Fortescue Metals Group was significantly higher (25.7%) as the market anticipates a strong dividend due to the high iron ore price. Goodman Group also finished higher (14.0%).

A few stocks disappointed with IAG down (-11.8%) after it pre-announced a poor result and passed its dividend. The company remains strongly

KEY DETAILS

SWTZ Dividend Yield (net) ¹	3.59%
SWTZ Dividend Yield (gross) ¹	4.89%
Portfolio median market cap (\$m)	13,634
Portfolio price to earnings ratio ²	18.23
Portfolio price to book ratio ²	1.97
Portfolio beta ³	0.96

Source: Bloomberg. Notes: 1. Yield calculation based on dividends attributable to the 12 months ended 31 July 2020 relative to SWTZ's closing unit price of \$2.58 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	0.09%	0.50%
3 Month	6.08%	7.62%
6 Month	-17.11%	-14.25%
1 Year	-12.42%	-9.87%
3 Year (annualised)	1.23%	5.37%
Inception ¹ (annualised)	1.05%	4.74%

Notes: 1. Inception date is 27 February 2017. SWTZ performance based on final net asset value per share assuming reinvestment of all distributions.

KEY DETAILS

Fund fact sheet date	31 July 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)	\$2.1580
Performance fee	None
Management fee ¹	0.89%

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

capitalised and appears to be waiting for better clarity on the operating environment before recommending the payment of dividends.

MARKET COMMENTARY

Major global markets were mixed over July, with continuing noticeable performance dispersion. The NASDAQ Index was very strong climbing 5.3%, mostly due to the success of large technology stocks. The rally in these stocks has been a feature of global markets over the last several months and is influencing both returns and sectoral performance in other markets.

Outside of the US, China staged a recovery as retail investors flooded the market leaving the CSI 300 Index 6.2% higher. Other major markets struggled with Europe, Hong Kong and Japan all flat to lower. Locally, the S&P/ASX 200 Accumulation Index (which includes dividends) was 0.5% higher, benefitting from gains in large resource stocks like BHP and RIO.

Bond markets strengthened (i.e. lower interest rates) over the month. The US 10-year bond moved lower to a yield of around 0.53% and the Australian 10-year bond moved to around 0.81%. The reduction in yield was caused by a slight softening in the economic recovery and fears this is being caused by a resurgence in COVID-19 infections.

PORTFOLIO OUTLOOK

The issues Victoria is currently experiencing with containing the COVID-19 virus will likely stall the economic recovery in the short term, and the stock market rally with it. Dividends are also likely to remain lower as uncertainty drives companies to conserve liquidity and maintain strong balance sheets.

Another issue on which the Australian market will focus is the likely impact on the world economy as fiscal and monetary support is withdrawn by governments. A continuation of large-scale supportive measures by global governments would be well received by markets.

There is likely to be continuing global volatility as uncertainty around these issues takes time to resolve. Generally, we believe equity markets are trading at fair value, especially when compared with bond markets which are trading well below 1%.

The SWTZ portfolio will remain close to fully invested to maximise the gathering of dividend income. We will continue to target those stocks that are expected to be most resilient if economic conditions deteriorate through to the end of the year.

SWTZ has a diversified exposure to what we believe to be the strongest companies in Australia. There has been minimal call on funding by our portfolio holdings (only two companies out of 39 held) during the pandemic, which we believe is indicative of their financial and business strength.

At this stage, while August results season will shed some light on the outlook for dividends, 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 financial year without adding undue risk to the SWTZ portfolio.

SECTOR ALLOCATION

GICS SECTOR	WEIGHT %
Financials	25.56
Materials	17.06
Consumer Discretionary	9.63
Industrials	8.64
Utilities	7.26
Communication Services	7.06
Real Estate	6.49
Health Care	5.89
Consumer Staples	5.07
Energy	4.81
Cash	2.54
Total	100.00

TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
BHP Group	9.36
Commonwealth Bank of Australia	8.07
CSL	5.89
Wesfarmers	4.45
Macquarie Group	3.71
Telstra Corp	3.63
Westpac Banking Corporation	3.53
Australia and New Zealand Banking Group	3.34
Coles Group	3.03
National Australia Bank	2.95
Total	47.96

SWITZER DIVIDEND GROWTH FUND

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