

31 August 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 3.66%, or 4.97% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 31 August 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 2.4% higher over the month of August, marginally under the S&P/ASX 200 Accumulation Index which returned 2.8%.

PORTFOLIO COMMENTARY

The August 2020 company result season was surprisingly benign. Many companies met the low expectations which they had predicted over the previous few months. However, very few businesses were confident enough to give earnings guidance for fiscal 2021. As expected, there was a theme of maintaining liquidity and preserving capital which saw dividends reduced or cut completely. Investment specialists predict dividends are likely to move higher next year, or when the economic uncertainty dissipates.

The S&P/ASX 200 Index sector performance saw Information Technology (15.5%), Consumer Discretionary (8.7%) and REITs (7.5%) do best. The laggards were Utilities (-4.8%), Commercial Services (-3.8%) and Consumer Staples (-0.4%). The Australian market continues to follow the US – marking technology stocks significantly higher – while higher bond yields negatively impacted the domestic defensive sectors.

Over August the best performing stocks were: Stockland Corporation (24.1%), Charter Hall Group (19.0%), The Star Entertainment Group (15.7%), carsales.com (13.0%), and Sydney Airport Holdings (12.2%). One laggard was Telstra Corporation (-11.4%), despite reporting generally in-line with expectations and paying a dividend, it raised concerns around future returns.

Over the month SWTZ participated in two capital raisings – Sydney Airport Holdings and Tabcorp Holdings.

KEY DETAILS

SWTZ Dividend Yield (net) ¹	3.66%
SWTZ Dividend Yield (gross) ¹	4.97%
Portfolio median market cap (\$m)	14,833
Portfolio price to earnings ratio ²	20.28
Portfolio price to book ratio ²	2.21
Portfolio beta ³	0.97

Source: Bloomberg. Notes: 1. Yield calculation based on dividends attributable to the 12 months ended 31 August 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	2.43%	2.83%
3 Month	4.65%	6.04%
6 Month	-8.18%	-4.48%
1 Year	-9.06%	-5.08%
3 Year (annualised)	1.86%	6.10%
Inception ¹ (annualised)	1.66%	5.45%

Notes: 1. Inception date is 27 February 2017. SWTZ performance is calculated based on net asset value per unit, which is after management fees and expenses and assumes that all distributions are reinvested into the fund

KEY DETAILS

Fund fact sheet date	31 August 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)	\$2.2104
Performance fee	None
Management fee ¹	0.89%

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

MARKET COMMENTARY

Global markets continued their rally over August 2020. The US markets led, with the technology-heavy NASDAQ Index up 9.6%. The Dow Jones Index (7.6%) and S&P 500 Index (7.0%) also climbed higher. Other markets also rose, however Australia was a relative laggard (2.8%) as the larger stocks struggled through results season.

Economic indicators continue to improve slowly and government stimulus remains supportive. While markets have been buoyed by reports that a COVID-19 vaccine is in train, the rate of infections remains within tolerance levels for markets.

Bond markets weakened (i.e. higher interest rates) over the month. The US 10-year bond moved to a yield of around 0.8%, and the Australian 10-year bond moved to around 1.0%. The Federal Reserve chair Jerome Powell's announcement that monetary policy will remain supportive even if inflation starts to nudge higher was positive for equity markets.

PORTFOLIO OUTLOOK

The markets are generally trading around fair value. Markets appear prepared to accept a level of virus infection growth, while government support remains effective – at this stage.

While the risk that government support is withdrawn too soon would negatively impact markets, the indication that a vaccine may be on the horizon would support markets.

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. Due to the difficulties in accurately forecasting the rate of recovery, most companies have foregone fiscal 2021 guidance at this stage. However, the Fund's holdings generally have very strong balance sheets and the SWTZ investment team has prepared for ongoing difficult times.

The outlook for dividends is largely dependent on the rate of recovery from the pandemic-induced slowdown. At this stage, fiscal 2021 is predicted to be the trough for dividends in the Australian equities market. There is a likelihood of much better payouts in fiscal 2022.

SECTOR ALLOCATION

GICS SECTOR	WEIGHT %
Financials	24.58
Materials	17.10
Consumer Discretionary	10.12
Industrials	8.95
Real Estate	7.28
Utilities	7.06
Communication Services	6.77
Health Care	6.14
Consumer Staples	4.99
Energy	4.73
Cash	2.29
Total	100.00

TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
BHP Group	9.52
Commonwealth Bank of Australia	7.63
CSL	6.14
Wesfarmers	4.48
Macquarie Group	3.79
Westpac Banking Corporation	3.57
Telstra Corp	3.08
Australia and New Zealand Banking Group	3.05
Coles Group	2.92
Amcor	2.92
Total	47.10

SWITZER DIVIDEND GROWTH FUND

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