Switzer DIVIDEND GROWTH FUND
Sensible Blue-Chip Investing

30 September 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 3.55%, or 4.83% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 30 September 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 -3.12% lower over the month of September, marginally outperforming the S&P/ASX 200 Accumulation Index which returned -3.66%.

PORTFOLIO COMMENTARY

Over September stock volatility was low, particularly in comparison to the turbulent markets seen earlier in the year. However, markets are now entering a period of uncertainty due to two leading factors:

1. The upcoming US Presidential election; and
2. Lack of firm data on the development of a COVID-19 vaccine.

Over the previous months we have positioned the SWTZ portfolio reasonably defensively should volatility return due to these factors. The Fund also has exposure to companies that will benefit from a pick-up in activity post COVID-19 and remains close to fully invested to maximise the gathering of dividend income.

Activity in the Fund over September was relatively low. Modest profit taking was made in several stocks including: BHP Group, Carsales.com, Charter Hall Group and Wesfarmers. Positions were increased, again modestly, in Transurban Group, Insurance Australia Group, CSL and Aurizon Holdings.

The S&P/ASX 200 Index sector performance saw Healthcare (0.9%), Industrials (-0.3%) and REIT's (-1.7%) do best. The laggards were Energy (-11.1%), Information Technology (-6.8%) and Consumer Staples (-6.6%). The weakness in the oil price impacted the Energy sector and Information Technology was lower as the NASDAQ Index slumped.

The best performing stocks in the portfolio were Orora (9.8%), Aristocrat Leisure (5.6%), Transurban Group (4.8%) and Star Entertainment Group (3.7%). These stocks, to a large extent, are recovery stocks and it was pleasing to see them higher despite a weak overall market. Poorer performers were energy stocks Origin Energy (-21.7%) and Woodside Petroleum (-10.2%) as well as insurers Suncorp Group (-9.1%) and Insurance Australia Group (-8.2%).

.

KEY DETAILS	
SWTZ Dividend Yield (net) [1]	3.55%
SWTZ Dividend Yield (gross) [1]	4.83%
Portfolio median market cap ($m)	15,114
Portfolio price to earnings ratio [2]	19.30
Portfolio price to book ratio [2]	2.06
Portfolio beta [3]	0.96

Source: Bloomberg. Notes: 1. Yield calculation based on dividends attributable to the 12 months ended 30 September 2020 relative to SWTZ's closing unit price of $2.61 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	-3.12%	-3.66%
3 Month	-0.67%	-0.44%
6 Month	13.46%	15.97%
1 Year	-14.09%	-10.21%
3 Year *(annualised)*	0.83%	4.80%
Inception [1] *(annualised)*	0.78%	4.24%

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	**30 September 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)	**$2.1415**
Performance fee	None
Management fee [1]	0.89%

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

Switzer DIVIDEND GROWTH FUND

Sensible Blue-Chip Investing

MARKET COMMENTARY

Markets experienced their first monthly decline since the March lows, influenced by Democrat candidate, Joe Biden, performing better in the polls. The Democrats are planning to increase corporate taxes in the US and this would lead to earnings declines for FY21, if implemented.

Almost all major markets were weaker over the month with the technology-heavy NASDAQ Index (-6.5%) giving up some of its strong gains this year. Other markets that fell markedly over the month included, Hong Kong (-6.9%) and China (-5.3%), while the UK was flat and Europe modestly lower. The S&P 500 Index was 4.6% lower and the Dow Jones 3.0% lower, with the S&P/ASX 200 down 3.6%.

Bond markets were relatively flat over the month with the US 10-year bond largely range bound between 60-70bp. The Australian bonds sold off but recovered towards the end of the month (lower yields). Interestingly, there was a mid-month sell-off in the high yield markets in the US, which unsettled markets, but they appeared to stabilise towards the end of the month.

PORTFOLIO OUTLOOK

The prospects of a vaccine for COVID-19 appears unclear at this stage, however with the second wave of the virus tightening its grip across Europe the race for a vaccine has intensified. A few companies are entering final phase trails and if any vaccine is approved for mass application, we are likely to see a rally in recovery stocks as uncertainty dissipates. We have identified those stocks that look attractive under this scenario and will look to increase the Fund's current exposure to these companies should a vaccine become available.

Markets continue to trade around fair value. There may be a period of volatility and uncertainty around the US election which will influence global markets. We have maintained a reasonably conservative stock mix and 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 with holdings which generally have very strong balance sheets and cashflows. The capital raising cycle for balance sheet strength purposes seems to have passed and initiatives for growth appear to be occurring now.

Most companies have foregone fiscal 2021 guidance at this stage, due to the difficulties in accurately forecasting the rate of recovery. The outlook for dividends is largely dependent on the rate of recovery from the pandemic-induced slowdown. However, while we are seeing the first signs of a better outlook for dividends, it is tentative at this stage, but is progressing in a positive fashion and there is a likelihood of much better payouts in fiscal 2022.

SECTOR ALLOCATION

GICS SECTOR	WEIGHT %
Financials	24.30
Materials	17.01
Consumer Discretionary	9.87
Industrials	9.78
Health Care	7.44
Utilities	7.18
Real Estate	6.70
Communication Services	6.42
Consumer Staples	4.87
Energy	4.27
Cash	2.16
Total	**100.00**

TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
BHP Group	9.03
CSL	7.44
Commonwealth Bank of Australia	7.38
Wesfarmers	3.96
Macquarie Group	3.68
Westpac Banking Corporation	3.56
Transurban Group	3.19
Telstra Corp	3.08
Amcor	3.07
Australia and New Zealand Banking Group	2.98
Total	**47.37**

SWITZER DIVIDEND GROWTH FUND

Level 6, 10 Spring Street, Sydney NSW 2000

T: 1300 052 054

E: invest@switzer.com.au

W: www.switzerassetmanagement.com.au