Switzer

DIVIDEND GROWTH FUND

Sensible Blue-Chip Investing

30 November 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 2.75%, or 3.77% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 30 November 2020 relative to the unit 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. Pleasingly, the portfolio was 10.47% higher over the month of November, outperforming the S&P/ASX 200 Accumulation Index which returned 10.21%. The strong rally in value stocks drove the outperformance. Value stocks are well held by the Fund as they are amongst the biggest dividend payers.

PORTFOLIO COMMENTARY

November saw a sharp rebound in markets around the globe as the US election passed without disrupting financial markets. More importantly, a successful vaccine was trailed by three separate manufacturers.

During the month the Fund continued to increase its position in stocks that will benefit from an economic rebound. Existing positions in National Australia Bank (NAB), Australia and New Zealand Banking Group (ANZ), the Star Entertainment Group, Ampol, Transurban Group, Woodside Petroleum and Origin Energy were all increased. These were funded by sales of stocks that have performed fairly well over the COVID-19 period, but have less upside into an economic recovery. These included: APA Group, Amcor, Spark Infrastructure Group, Orora, AusNet Services and Coles Group. Some profit taking was undertaken in Tabcorp as a suggestion of a takeover sent the stock higher.

Broadly, the sectors added to the Fund included Financials and Energy, both of which have been harshly treated during the COVID-19 period. Banks were impacted by fears that bad loans would escalate as the economy lurched into recession, and energy stocks saw oil consumption fall as driving declined over the pandemic period. The recovery should aid the recovery in both sectors.

During the month Westpac Banking Corporation, ANZ and NAB delivered full-year results. The highlight during the full reporting season was the lack of any meaningful losses sustained by the banks over the pandemic, despite the significant provisions taken earlier in the year. Dividends were also reinstated by the banks; they appear to be willing to pay the maximum allowable amount, which bodes well for future dividend growth. Banks represent a large part of the market's dividend returns and have a high franking level, providing a positive outcome.

During November the S&P/ASX 200 Index sector performance saw an indicative change in comparison to sector performance during the COVID-19 period. Energy (28.5%), Financials (16.1%) and Communication Services (13.7%) led the market higher; with the laggards being Consumer Staples (0.7%), Utilities (1.5%) and Health Care (2.7%). November saw sectoral performance rankings largely

KEY DETAILS	
SWTZ Dividend Yield (net) [1]	2.75%
SWTZ Dividend Yield (gross) [1]	3.77%
Portfolio median market cap ($m)	18,619
Portfolio price to earnings ratio [2]	20.80
Portfolio price to book ratio [2]	2.25
Portfolio beta [3]	0.98

Source: Bloomberg. Notes: 1. Yield calculation based on distributions attributable to the 12 months ended 30 November 2020 relative to SWTZ's closing unit price of $2.64 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	10.47%	10.21%
3 Month	8.38%	8.22%
6 Month	13.35%	14.76%
1 Year	-6.53%	-1.98%
3 Year *(annualised)*	2.86%	6.94%
Inception [1] *(annualised)*	3.78%	7.31%

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 November 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)	**$2.3816**
Performance fee	None
Management fee [1]	0.89%

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

reversed from what has occurred over 2020.

There was an uptick in stock volatility as the market saw a significant rotation from defensive and growth-oriented companies to those expected to recover from the pandemic induced slowdown. Higher yield stocks to which SWTZ is significantly exposed, as they provide a good flow of dividends, are typically value style stocks. These saw increased activity as buying emerged after a lengthy period of relatively poor performance. Several stocks in the portfolio moved significantly higher, being Origin Energy (29.5%), Woodside Petroleum (27.7%), NAB (24.8%), Sydney Airport (23.1%), Suncorp Group (22.9%), Realestate.com.au (22.8%) and ANZ (22.6%). All of these were 20% higher over the month. There was only one stock that fell by more than 10%, Evolution Gold (-10.3%), due to the gold sector retreating with the receding threat of the pandemic.

MARKET COMMENTARY

Global equity markets responded very positively to the US election result. The election largely went by without large disruption and the split of power in Congress will likely see a more moderate legislative outcome.

Most importantly, the announcement of successful trials for three COVID-19 vaccines encouraged markets. While normal activities may be slow to fully recommence, markets can now realistically consider a recovery timetable.

Markets around the world were generally higher by over 10% with the US markets and Europe both amongst the strongest. Japan and Australia faired higher and while China and Hong Kong lagged the recovery, they were still positive.

The bond markets were quite volatile over the month as they absorbed the release of a potential vaccine. Yields shot higher as the likelihood of a resumption of world growth was anticipated. However, as the speed of the likely recovery was assessed, bonds rallied (lower yields) and settled higher over the month. The ability for the bond markets to remain stable, despite significant stimulus and likely recovery, is a positive for equity markets.

Economic data over the month also showed recovery as expected; China remained reasonably strong with other countries varying depending on restrictions on activity due to COVID-19. Overall continual improvement is expected.

PORTFOLIO OUTLOOK

The moves to reposition the portfolio towards stocks most likely to benefit from a recovery proved timely. Overall the SWTZ portfolio remains with a quality and yield bias. The Fund has rebuilt a reasonable overweighting in the bank sector as the worse-case economic scenario from the pandemic appears unlikely, and their resumption of dividend payments is significantly positive.

SWTZ has a diversified exposure to what we believe to be the strongest companies in Australia. The portfolio is skewed towards Australia to 1) take advantage of franking levels and 2) because the economic performance of Australia currently looks more stable and less risky than most countries. The portfolio holdings generally have very strong balance sheets and cash flows.

The SWTZ portfolio will remain close to fully invested to maximise the gathering of dividend income. The outlook for dividends remains largely dependent on the rate of recovery from the pandemic-induced slowdown. We are seeing a more positive outlook for dividends and expect that Australia has passed the worst of the dividend drought.

SECTOR ALLOCATION

GICS SECTOR	WEIGHT %
Financials	29.98
Materials	14.77
Consumer Discretionary	9.76
Industrials	8.80
Health Care	8.19
Communication Services	6.40
Energy	5.80
Consumer Staples	5.69
Real Estate	4.82
Utilities	3.65
Cash	2.15
Total	**100.00**

TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
BHP Group	8.75
Commonwealth Bank of Australia	8.31
CSL	7.46
Australia and New Zealand Banking Group	4.89
National Australia Bank	4.63
Westpac Banking Corporation	4.15
Wesfarmers	3.99
Macquarie Group	3.86
Telstra Corporation	3.08
Transurban Group	3.06
Total	**52.18**

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