

31 December 2020

INVESTMENT OBJECTIVE

The Switzer Dividend Growth Fund (SWTZ or the Fund) 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 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 2.88%, or 3.88% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 31 December 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. The portfolio was 0.54% higher over the month of December, underperforming the S&P/ASX 200 Accumulation Index which returned 1.21%.

PORTFOLIO COMMENTARY

Global markets continued to move modestly higher during December after the strong November returns. Technology and iron ore were market leaders, while stocks that would benefit from a recovery in the local economy gave up some recent strong gains.

2020 brought a year of intense news driven by the COVID-19 pandemic and the US presidential election. In comparison, December was relatively quiet. While some companies announced earnings warnings for the upcoming first half results, the portfolio is largely immune to these announcements.

The S&P/ASX 200 Index sectoral performance was led by Technology (9.5%) continuing its prominent theme throughout 2020. Materials (8.8%) was also higher due to the surging iron ore price. Laggards were Utilities (-5.4%) and Health Care (-4.9%), both of which are exposed to higher bond yields.

Differential stock performance was relatively tight. The portfolio's best performing stocks were Fortescue Metals Group (28.5%) and BHP Group (11.5%). Both stocks are highly exposed to iron ore which rallied strongly over December. This was due to Brazilian supplier Vale S.A. encountering continued difficulties in delivering expected tonnages. Additional strong returns stemmed from property fund manager Charter Hall Group (8.5%) and Woolworths Group (6.3%).

Laggards included Insurance Australia Group (IAG) (-8.7%) and Aurizon Holdings (-8.2%). IAG received an unexpected legal ruling from the Supreme Court of New South Wales Court of Appeal which deemed its incorrectly worded COVID-19 claims to be void. Consequently, IAG raised A\$650 million in capital to strengthen its balance sheet. IAG's response appears conservative and it is now well funded to meet any further claims. The Fund did not participate in the raising. Aurizon Holdings' profits continue to be impacted by the threat of the Chinese authorities to limit Australian coal.

SWTZ exited fund manager Magellan Financial Group, after strong price movements over the year and recent poor performance from some of its funds. Ampol Limited and DEXUS Property Group were lightened after a good performance over the month, while BHP Group, Evolution Mining and CSL Limited were modestly added to at the start of the month.

KEY DETAILS

SWTZ Dividend Yield (net) ¹	2.88%
SWTZ Dividend Yield (gross) ¹	3.88%
Portfolio median market cap (\$m)	18,483
Portfolio price to earnings ratio ²	20.40
Portfolio price to book ratio ²	2.27
Portfolio beta ³	0.97

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	0.54%	1.21%
3 Month	12.46%	13.70%
6 Month	11.61%	13.20%
1 Year	-3.64%	1.40%
3 Year (annualised)	2.73%	6.73%
Inception ¹ (annualised)	3.87%	7.48%

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 December 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)	\$2.3945 per unit
Performance fee	None
Management fee ¹	0.89%

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

MARKET COMMENTARY

Joe Biden's victory in the US election and multiple successful vaccine developments influenced the modestly positive global equity markets over December. However the ongoing COVID-19 issues around the world, especially in the US and Europe, and the ongoing delays in the delivery of the next US stimulus package dampened returns.

Sectoral performance exhibited a change in market leadership from the value-based rally of November to growth companies leading once again. After selling off markedly after the vaccine news (higher yields), the bond market started to trade in a range, capping yields. The performance of the bond market in the face of impending recovery and large stimulus will be paramount to both the performance of the equity market and the leadership within the market.

After a solid rally in November, the 'Value' style stalled in December. Value needs increased economic activity and commensurate higher yields in order to continue to outperform the 'Growth' style.

Bonds moved higher over the month in the US and in Australia and global markets were generally 1-3% higher.

PORTFOLIO OUTLOOK

The SWTZ portfolio remains positioned across high-quality stocks with a yield bias. During December favourable announcements regarding bank dividends were released with APRA removing the 50% payout ratio cap on dividends. The removal is likely to see bank dividends increase over 2021.

Banks are an important part of a yield portfolio, delivering both high franking levels and high yield. The banks initiated large COVID-19 related provisions in 2020 which remain largely unutilised. The provisions provided a buffer and allow the banks flexibility to increase dividends, despite the reduction of Government stimulus.

While the earnings outlook for the banks is challenged over the medium term, the later part of 2021 should see earnings return to a pre-COVID environment. Over the longer-term, expectations signal low earnings growth as interest rates remain low and competition is intense. Although SWTZ holds a large bank weight (to account for their high yield), the portfolio is significantly diversified across other sectors to manage this risk.

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 dividend growth remains largely dependent on the recovery rate from the pandemic-induced slowdown. We are seeing a positive outlook for dividends and expect that Australia is passed the worst of the dividend drought. There is a likelihood of significant dividend growth over the next couple of years and we look forward to the February result season for continued positive signs that dividend growth is re-commencing.

SECTOR ALLOCATION

GICS SECTOR	WEIGHT %
Financials	29.11
Materials	16.93
Consumer Discretionary	9.78
Industrials	8.52
Health Care	8.23
Communication Services	6.37
Consumer Staples	5.91
Energy	5.27
Real Estate	4.52
Utilities	3.54
Cash	1.82
Total	100.00

TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
BHP Group	10.24
Commonwealth Bank of Australia	8.67
CSL	7.53
Australia and New Zealand Banking Group	4.92
National Australia Bank	4.60
Wesfarmers	4.09
Westpac Banking Corporation	4.01
Macquarie Group	3.88
Telstra Corporation	3.00
Transurban Group	3.00
Total	53.94

SWITZER DIVIDEND GROWTH FUND

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