

28 February 2021

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 2.42%, or 3.36% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 28 February 2021 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 1.29% higher over the month of February, marginally underperforming the S&P/ASX 200 Accumulation Index which returned 1.45%.

PORTFOLIO COMMENTARY

During February some volatility returned to markets due to both the Australian dollar and global bonds climbing higher. 'Value' sectors showed strength while 'growth' sectors were more subdued. This was encouraging for SWTZ as Financials and Materials are the largest sector allocation within the portfolio. 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.

The S&P/ASX 200 Index sectoral performance dispersion over the month widened. The best performing sectors over the month were: Materials (7.4%) as commodity prices moved higher over the month; Financials (5.2%) as the banks reported encouraging profit numbers and higher interest rates supported the sector; while a stronger oil price pushed Energy (2.4%) higher. The major laggard was Information Technology (IT) (-8.9%) which suffered as the NASDAQ struggled and local IT stock profit numbers disappointed. The sector has been one of the strongest performers in the market for some time. The key reasons for profit issues include: customers delaying spend due to the pandemic, the cost of innovation, as well as the higher Australian dollar.

Differential stock performance also widened over the month. The best performing stocks in the portfolio were Orora (16.3%), Tabcorp Holdings (13.4%), BHP Group (12.8%), Westpac Banking Corporation (12.7%), Fortescue Metals Group (10.7%) and Australia and New Zealand Banking Group (10.4%). The mix generally included the banks, after improved results and the recommencement of larger dividends, and commodity stocks due to copper and iron ore continuing to climb.

The laggards included Coles Group (-14.0%), Charter Hall Group (-12.9%), Atlas Arteria Group (-12.3%) and Evolution Mining (-11.2%). Most of these stocks have been strong performers over the year. Atlas Arteria Group, a global owner, operator and developer of toll roads, suffered as yields rose and France went into another lockdown causing traffic to fall.

KEY DETAILS

SWTZ Dividend Yield (net) ¹	2.42%
SWTZ Dividend Yield (gross) ¹	3.36%
Portfolio median market cap (\$m)	18,730
Portfolio price to earnings ratio ²	18.90
Portfolio price to book ratio ²	2.25
Portfolio beta ³	0.98

Notes: 1. Yield calculation based on distributions attributable to the 12 months ended 28 February 2021 relative to SWTZ's closing unit price of \$2.46 at the beginning of the period. 2. Trailing 12 months data. 3. Relative to the S&P/ASX 200 Index. Source: Bloomberg.

PERFORMANCE (AFTER MANAGEMENT FEES)

PERIOD	SWTZ (%)	ASX 200 ACCUM INDEX (%)
1 Month	1.29%	1.45%
3 Month	1.99%	3.00%
6 Month	10.52%	11.47%
1 Year	1.33%	6.48%
3 Year (annualised)	3.36%	7.39%
Inception ¹ (annualised)	3.83%	7.64%

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	28 February 2021
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)	\$2.4185
Performance fee	None
Management fee ¹	0.89%

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

The reporting season was fairly solid with market reaction much stronger than has been seen over the last couple of years. Generally, company results saw revenues returning to pre-pandemic levels with companies in control of costs and benefiting from Government support packages.

The Fund raised some cash by taking profits in BHP Group, Woodside Petroleum, Wesfarmers and REA Group. Coca Cola Amatil was exited as a higher bid for the company was offered. Holdings in National Australia Bank and Commonwealth Bank of Australia were modestly increased as the outlook for bank dividends improved.

MARKET COMMENTARY

Global equity markets were generally modestly higher over the month. The Dow Jones was 3.2% higher and the S&P 500 climbed 2.6%. The NASDAQ lagged in February being 0.9% higher. Asian markets were 1-2% higher except for China which was modestly lower. European markets were also 2-5% higher.

The equity markets were able to withstand a reasonable sell off (higher yields) in the global bond markets. While we have seen inflationary expectations rising for a couple of months, real yields rose over the last month. The benchmark US 10-year bond rose from 1.1% to 1.4% and the Australian bond moved from 1.1% to 1.7%.

The bond sell-off has been taken positively by markets as a sign of some growth returning with an acceptable level of inflation. This creates a sweet spot for equities in which growth occurs but inflation is not a threat. However this sweet spot could prove transitory and both bonds and inflation will have to be closely watched to determine if they become a threat to equity markets, leading to a potential period of volatility in the short to medium term.

PORTFOLIO OUTLOOK

The portfolio remains positioned across quality stocks with a yield bias and is spread across various sectors and factors to manage risk. SWTZ is exposed to high yield interest rate sensitive stocks, as well as cyclicals that will benefit from an increase in activity even if this leads to modestly higher interest rates.

The Fund is less exposed to the negative impacts of a higher Australian Dollar and is also underweight low-yield growth stocks which may suffer as yields increase. Therefore, the spread of stocks will give some protection to extreme outcomes in various macro factors.

SWTZ has a diversified exposure to what we believe to be the strongest companies in Australia. The portfolio is skewed towards Australia to take advantage of franking levels but also the economic performance of Australia looks more stable and less risky than other countries at this stage. There appears to be a growing consensus that the banks are past the high-risk phase of the pandemic and remain well provisioned even as the Government prepares to roll back support. The companies held in the portfolio 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 rate of recovery from the pandemic-induced slowdown. We are seeing a more positive outlook for dividends and expect that we are passed the worst of the dividend drought. The results season saw evidence of dividends returning and it is expected that more progress in this regard will be made throughout the year.

SECTOR ALLOCATION

GICS SECTOR	WEIGHT %
Financials	32.91
Materials	17.84
Consumer Discretionary	9.80
Industrials	7.95
Health Care	7.87
Communication Services	5.96
Energy	4.52
Real Estate	4.05
Consumer Staples	4.00
Utilities	3.50
Cash	1.60
Total	100.00

TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
BHP Group	11.98
Commonwealth Bank of Australia	9.14
CSL	7.21
Australia and New Zealand Banking Group	5.87
National Australia Bank	5.43
Westpac Banking Corporation	5.10
Macquarie Group	4.12
Wesfarmers	3.97
Telstra Corporation	3.21
Transurban Group	2.74
Total	58.77

SWITZER DIVIDEND GROWTH FUND

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