

Wednesday, 14 April 2021

The Manager
ASX Market Announcements
Australian Securities Exchange Limited

By electronic lodgement

Dear Sir/Madam,

Switzer Dividend Growth Fund (Quoted Managed Fund) – Investment update and NTA 31 March 2021 (Revised)

A report titled *Investment update and NTA 31 March 2021 (Revised)* relating to the Switzer Dividend Growth Fund (Quoted Managed Fund) (ASX: SWTZ) has been uploaded this morning to the ASX Announcements Platform.

This replaces the previous upload on 13 April 2021 titled *Investment update and NTA 31 March 2021*. The previous report relates to another Switzer Asset Management fund and was inadvertently uploaded under the SWTZ ticker.

Sincerely,



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Director

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31 March 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 of 3.13%, or 4.35% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 31 March 2021 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 3.45% higher over the month of March, outperforming the S&P/ASX 200 Accumulation Index which returned 2.44%. Market rotation toward value-style stocks assisted the performance of the portfolio.

PORTFOLIO COMMENTARY

March saw value stocks back in favour across global markets and consequently value outpaced growth for the first time this year. During the month markets climbed due to: 1) the COVID-19 stimulus bill passing Congress, as well as other possible fiscal measures moving bond yields higher; and 2) there were no visible signs of inflation, giving equity markets confidence to move higher.

The S&P/ASX 200 Index sectoral performance was mixed over the month. The best performing sectors were Consumer Discretionary (7.0%), Utilities (6.8%) and Communication Services (6.3%). The laggards included Materials (-3.0%), the Information Technology sector (-3.0%) which continues to suffer as the NASDAQ struggles in the US, and Energy which was flat. The rotation and dispersion amongst sectors indicate that the market is moving towards the recovery trades but is still cautious with overall dispersion closing over the month.

Differential stock performance was positive but narrowed during March. The best performing stocks in the portfolio were Aristocrat Leisure (13.1%), Ausnet Services (10.9%) and Telstra Corporation (10.4%). The mix of stocks as the best performers indicates the market being eclectic, and a little uncertain in its preferences.

The only stock that recorded a return below -10% was Fortescue Metals Group (FMG) (-11.7%). Portfolio holdings BHP Group and FMG have previously delivered large dividends and the iron ore price has continued to rise due to high demand. However, during March the iron ore price and dividends in the Material sector showed signs of peaking which impacted returns on stocks such as FMG.

SWTZ has a conscious bias to yield which is closely correlated to value stocks as they offer higher cash flow yields from which larger dividends are derived. The market move to higher yields and possibly more economic growth overall helped the portfolio in March.

The fund raised cash by taking good profits in BHP Group, Aristocrat Leisure, Macquarie Group and REA Group.

KEY DETAILS

SWTZ Dividend Yield (net) ¹	3.13%
SWTZ Dividend Yield (gross) ¹	4.35%
Portfolio median market cap (\$m)	20,041
Portfolio price to earnings ratio ²	18.92
Portfolio price to book ratio ²	2.30
Portfolio beta ³	0.99

Source: Bloomberg. Notes: 1. Yield calculation based on distributions attributable to the 12 months ended 31 March 2021 relative to SWTZ's closing unit price of \$1.90 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	3.45%	2.44%
3 Month	4.93%	4.26%
6 Month	17.98%	18.54%
1 Year	33.53%	37.47%
3 Year (annualised)	6.16%	9.65%
Inception ¹ (annualised)	4.92%	8.11%

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 March 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)	\$2.5020
Performance fee	None
Management fee ¹	0.89%

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

MARKET COMMENTARY

Global equity markets continued to move higher in March. The Dow Jones was 6.6% higher and the S&P 500 climbed 4.3%. The NASDAQ was the laggard this month being 0.4% higher. Other global markets were also higher but largely lagged the US. China fell modestly over the month.

The equity markets were able to withstand another reasonable sell off (higher yields) in the global bond markets. The benchmark US 10-year bond rose 32bps to around 1.7%, while Australian bonds were 17bps higher at around 1.8%.

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.

The move in equity markets also masked a rotation away from higher growth stocks, as seen by the fall in the technology sectors around the world and the underperformance of the tech-heavy NASDAQ. Higher worldwide economic growth means more companies should be able to post better earnings growth, making the secular growth stocks not as differentiated and popular as they were when economic growth was poor.

PORTFOLIO OUTLOOK

The portfolio remains positioned across quality stocks with a yield bias and is invested across a variety of sectors, taking into account factors to manage the risk of various scenarios emerging over 2021. To this end the fund 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 major determinant of equity markets over the short to medium term will be the increase in the inflation rate and the consequent reaction of bond markets. The US Federal Reserve governors see no threat from inflation at this stage and appear determined to leave supportive monetary settings in place, which is positive for equity markets.

Banks are an important part of a yield portfolio, as they have historically delivered high franking levels and high yield. There appears to be a growing consensus that the banks are past the high-risk phase of the pandemic and remain well provisioned even with the Government preparing to roll back support.

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 and the economic performance of Australia looks more stable and less risky than other countries at this stage. 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 rate of recovery from the pandemic-induced slowdown. We are seeing a more positive outlook for dividends and expect that we are past 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.

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SECTOR ALLOCATION

GICS SECTOR	WEIGHT %
Financials	33.95
Materials	15.97
Consumer Discretionary	10.25
Industrials	8.09
Health Care	7.88
Communication Services	6.03
Energy	4.48
Real Estate	4.39
Consumer Staples	4.13
Utilities	3.54
Cash	1.29
Total	100.00

TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
BHP Group	10.31
Commonwealth Bank of Australia	9.56
CSL	7.21
Australia and New Zealand Banking Group	6.02
National Australia Bank	5.68
Westpac Banking Corporation	5.18
Macquarie Group	4.39
Wesfarmers	4.21
Telstra Corporation	3.51
Transurban Group	2.83
Total	58.90

SWITZER DIVIDEND GROWTH FUND

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