

30 APRIL 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 3.14%, or 4.42% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 30 April 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 3.13% higher over the month of March, compared with the S&P/ASX 200 Accumulation Index which returned 3.47%. Market rotation toward value-style stocks assisted the performance of the portfolio.

MARKET COMMENTARY

Global markets continued to move higher in April on the back of better-than-expected employment data and rising commodity prices. The ASX 200 rose 3.5%, driven by Technology (9.7%), Materials (6.8%) and Industrials (4.3%), lagging the 5.3% rise in the S&P 500. The lagging sectors included Energy (-4.9%), Consumer Staples (-2.6%) and Utilities (-1.2%). Growth stocks (3.7%) outperformed value stocks (3.3%) in April.

Global bond yields retraced, with the US 10-year government bond yield falling 10bps to 1.63%. The performance of Australian bonds followed the US trend and started to go sideways post spikes earlier in the year; 10-year yields dropped 10bps to 1.69%. The Federal Open Market Committee reaffirmed it wants to observe substantial progress toward its dual mandate on employment and price stability before scaling back monetary policy accommodation.

Global macro data remained strong near recent highs but softened a touch. Purchasing Managers Indices moderated after having reached new cycle highs in March and remained relatively strong. Demand and production remained robust, while supply chain constraints continue to affect global manufacturing activity as supplier delivery times are still not normalised and input prices are still accelerating.

Australia's economy and labour market continue to be materially stronger than expected. March unemployment rate showed a decline to 5.6%, which was only 0.4% higher than it was prior to the pandemic. Despite the end of Jobkeeper in March, unemployment recipients still surprisingly dropped ~46k in the fortnight to 16 April as job ads remain near a record high. The better-than-expected labour market outcomes has further driven talk on inflation, RBA tapering, and a potential increase in yields.

PORTFOLIO COMMENTARY

Optimism on Australia's economic recovery propelled equity markets higher in April. Equity returns have been further bolstered by earnings upgrades being the strongest in over 20 years. The strongest earnings per share momentum sectors are the Banks and Materials which are enjoying cyclical upswings. These sectors

KEY DETAILS

SWTZ Dividend Yield (net) ¹	3.14%
SWTZ Dividend Yield (gross) ¹	4.42%
Portfolio median market cap (\$m)	20,921
Portfolio price to earnings ratio ²	19.05
Portfolio price to book ratio ²	2.38
Portfolio beta ³	0.99

Source: Bloomberg. Notes: 1. Yield calculation based on distributions attributable to the 12 months ended 30 April 2021 relative to SWTZ's closing unit price of \$2.05 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	3.13%	3.47%
3 Month	8.07%	7.54%
6 Month	20.19%	20.33%
1 Year	27.89%	30.76%
3 Year (annualised)	6.22%	9.50%
Inception ¹ (annualised)	5.48%	8.83%

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 April 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)	\$2.5579
Distribution paid	\$0.022609
Performance fee	None
Management fee ¹	0.89%
Portfolio size	\$80.02m

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

are trading on price to earnings (PE) multiples below market averages and provide investors with above market dividend yields – a powerful combination for investors seeking attractive income returns.

The strength in share price performances of the banks has been underpinned by the magnitude of the recovery in earnings and dividends. The major banks are trading on 1-year forward dividend yields of ~4.5% which compares favourably with the broader Australian share market and with the 10-year bond yield.

The strong materials sector performance was supported by higher iron ore and copper prices. A positive 3Q 2021 result, led by recent BHP Group guidance, underpins material upside to earnings for FY21.

Industrial shares also benefited from an improved outlook with Amcor, Brambles and Cleanway Waste Management reaffirming the strength in their underlying businesses.

The healthcare sector was significantly disrupted in the early stages of the pandemic (reduction in elective surgery and clinical testing) but is now showing signs of normalisation in activity levels. Medibank Private has upgraded guidance for policy holder growth to 3.5% to 4% supporting an improved outlook and providing investors with an attractive dividend yield of ~4% fully franked.

Australia's 12-month forward dividend yield is 3.8% and ranks as the second highest in the world. The recovery in ASX listed dividends has been underpinned by an improved outlook for the banks, resource (iron ore producers), and leading industrial companies. Encouragingly, Australia has the strongest dividend momentum compared with its global peers.

Overall, positive contribution for the portfolio was driven by Cleanaway Waste Management, BHP Group and Medibank Private. Whereas Woolworths Group, Santos and Brambles weighed on attribution.

PORTFOLIO OUTLOOK

We are optimistic about the continued Australian economic recovery, but think it is largely reflected in the price of major equity indices, including the ASX 200. With the ASX 200 trading on a 12-month forward PE of 18.3 times, it has almost recovered to its pre-pandemic peak in February 2020. The strength in the economy and recovery in earnings is now widely recognised.

This markedly improved economic and business outlook also needs to be balanced by the ongoing threat of COVID-19 and the sharp rise in input costs evident in supply chains in recent months. Moreover, as we move closer to the peak in the momentum of growth, market returns will show signs of moderation.

Nonetheless, while we see limited upside at the ASX 200 index level, we still see good opportunities at a stock and sector level.

SWTZ continues to see attractiveness within Quality and Value supported by fair valuations and strong fundamentals. The historically high valuation spread between Value and Growth stocks further supports our thesis for tilting the portfolio toward sectors that offer a higher margin of safety. Hence, our preference for Quality and Value at this point of the cycle.

More broadly, we see good opportunities in companies that have underperformed the ASX 200 in the COVID-19 recovery rally but have continued to deliver solid earnings and dividend growth, namely: Amcor, Brambles, CSL, Medibank Private and Woolworths Group.

SECTOR ALLOCATION

GICS SECTOR	WEIGHT %
Financials	34.40
Materials	16.26
Consumer Discretionary	10.55
Industrials	8.16
Health Care	7.32
Communication Services	6.11
Energy	4.24
Real Estate	4.22
Consumer Staples	4.05
Utilities	3.20
Cash	1.49
Total	100.00

TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
BHP Group	10.58
Commonwealth Bank of Australia	9.74
CSL	7.32
Australia and New Zealand Banking Group	6.01
National Australia Bank	5.78
Westpac Banking Corporation	5.26
Macquarie Group	4.36
Wesfarmers	4.29
Telstra Corporation	3.42
Transurban Group	2.98
Total	59.74

SWITZER DIVIDEND GROWTH FUND

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