

30 JUNE 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

The portfolio delivered a positive return of 1.43% over the month of June, under the S&P/ASX 200 Accumulation Index return of 2.26%.

Over the past 12 months, SWTZ has paid a distribution yield of 2.99%, or 4.22% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 30 June 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.

MONTHLY COMMENTARY

The rapid economic recovery from the pandemic has supported momentum in equity prices and earnings have continued to rebound strongly. Currently the phase of earnings expansion, coupled with the ongoing liquidity boost by policymakers, is enough to justify the ASX 200 trading at a premium to its long-term average.

A gain of 2.3% in June recorded the ninth successive monthly gain for the ASX 200 and culminated in a 27.8% total return for the financial year – the strongest since the 1980s. The gain for June can be traced to the performance of Technology stocks (13.4%), after concerns about rising interest rates tempered. Other contributing sectors included Communications (5.6%) and Consumer Staples (5.3%). Health Care (2.1%), Materials (0.3%) and Financials (-0.2%) lagged the index.

US inflation data released this month showed a core inflation rate year-on-year of 3.8% – the highest number since 1992. The latest Federal Open Market Committee signalled a marginally more hawkish tone, which triggered a robust flattening of the US yield curve. The US 10-year bond yield fell by 13 basis points in June to 1.45%, and the 30-year bond yield also retraced 17 basis points to 2.08%.

Australia's manufacturing sector continued to expand in June. The manufacturing Purchasing Managers' Index slowed slightly from 60.4 in May to record a score of 58.4 in June. The unemployment rate dropped very sharply again to 5.1%, being only 0.2% above the lowest point since 2008. Overall, the labour market is far stronger than expected by the Reserve Bank of Australia (RBA), but the RBA remains dovish and made only small upward revisions to its wage and Consumer Price Index forecasts. Rates remained at 0.1% as expected and the RBA announced no changes to its QE program or yield curve control policy. While an earlier hawkish shift is possible, it seems too early for a big change at the July meeting.

KEY DETAILS

SWTZ Dividend Yield (net) ¹	2.99%
SWTZ Dividend Yield (gross) ¹	4.22%
Portfolio median market cap (\$m)	16,576
Portfolio price to earnings ratio ²	18.77
Portfolio price to book ratio ²	2.49
Portfolio beta ³	0.92

Source: Bloomberg. Notes: 1. Yield calculation based on distributions attributable to the 12 months ended 30 June 2021 relative to SWTZ's closing unit price 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	1.43%	2.26%
3 Month	7.43%	8.29%
6 Month	12.69%	12.90%
1 Year	25.61%	27.80%
3 Year (annualised)	5.93%	9.59%
Inception ¹ (annualised)	6.10%	9.61%

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 June 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)	\$2.6654
Distribution paid	N/A
Performance fee	None
Management fee ¹	0.89%
Portfolio size	\$81.87m

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

PORTFOLIO COMMENTARY

The SWTZ portfolio has benefited from its holdings in Commonwealth Bank of Australia, Goodman Group, Wesfarmers, and Woolworths Group (WOW). All are trading near record highs, reflecting their strengthening market positions and ability to deliver earnings growth through the cycle. Indeed, a key feature of the portfolio has been its preference to hold companies that have delivered resilient earnings throughout pandemic, namely in Consumer Staples and Health Care sectors.

In June 2021, WOW successfully demerged its retail liquor and hotel business Endeavour Group (EDV) as a separate entity on the ASX 200. The demerger of EDV provides the catalyst for WOW to deliver a capital return of \$1.6-\$2.0bn to shareholders, with WOW holding \$2bn of franking credits.

Post-demerger, WOW remains the largest supermarket across Australia and New Zealand with \$53 billion of revenue and an even more robust balance sheet with net cash of \$75m. EDV will become the largest Australian pure-play exposure to both retail drinks and hotels with a portfolio of 250 Dan Murphy's stores, 1,392 BWS outlets and 293 hotels. Woolworths Group and Bruce Mathieson Group will each hold a 14.6% interest in Endeavour Group after the demerger.

Post its market debut, we have increased the portfolio weighting in EDV as both retail drinks and hotel operations are well placed to increase their competitive position in businesses that have historically delivered strong cash generation, thereby providing shareholders with an attractive stream of dependable earnings and dividends.

A rise in COVID-19 cases in Australia has led to a substantial rise in daily PCR testing (COVID-19 diagnostic testing). Recent COVID testing volumes have been 200% higher than the March Quarter daily averages. With the persistence of COVID-19 outbreaks and Australian governments' preference for an elimination strategy, PCR testing will be part of the healthcare response for the foreseeable future.

One of the portfolio's holdings is Healius', Australia's 2nd largest pathology provider, whose earnings are being supported by COVID-19 PCR testing volumes, as well as improving underlying business trends. Our investment thesis on Healius is supported by near-term positive earnings trends and the longer-term structural uplift of rising diagnostic testing in an ageing population.

OUTLOOK

Policymakers' efforts to successfully inoculate the global economy have helped to deliver a V-shape recovery in corporate earnings. The ASX 200 is poised to deliver 20% gains for the upcoming FY21 earnings season and double-digit gains for the following 12 months based on consensus forecasts.

Against a backdrop of rising earnings, the 12-month forward dividend yield for the ASX 200 is now 3.9%, supported by strong dividend momentum in Bank and Material stocks.

While we remain positive on the outlook for earnings and dividends for the ASX 200, much of the good news is now captured in market valuations. A period of consolidation in the near term is warranted particularly given the two-steps-forward-one-step-back process of dealing with the pandemic.

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SECTOR ALLOCATION

GICS SECTOR	WEIGHT %
Financials	29.97
Materials	14.04
Industrials	11.54
Health Care	9.51
Consumer Staples	8.34
Communication Services	7.69
Energy	5.95
Real Estate	5.42
Consumer Discretionary	5.09
Cash	2.45
Total	100.00

TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
Commonwealth Bank of Australia	9.49
Westpac Banking Corporation	8.75
BHP Group	7.57
Macquarie Group	5.96
Wesfarmers	5.09
Woolworths Group	5.06
Cleanaway Waste Management	4.28
Spark New Zealand	4.21
Qube Holdings	4.15
Amcor	3.84
Total	58.40

SWITZER DIVIDEND GROWTH FUND

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