

31 JULY 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 0.96% over the month of July, compared with the S&P/ASX 200 Accumulation Index return of 1.10%.

Over the past 12 months, SWTZ has paid a distribution yield of 2.67%, or 3.75% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 31 July 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.

MARKET COMMENTARY

So far this calendar year, the ASX 200 has been driven by the Big Four banks and iron ore stocks. The fiscal year started with a modest gain of +1.1% in July, lagging a 2.4% rise in the S&P 500. Mining (+8.1%) was the best performing sector in July on the back of higher base metal prices with BHP (+10%) leading the index gains. Information Technology and Energy fell 6.9% and 2.5% respectively, lagging the index.

The economic recovery in Australia has been stronger than expected. The recent outbreaks of COVID-19 are bringing more uncertainty for the economic outlook and GDP is expected to decline in the September quarter. Australia's largest city, Sydney, accounts for 25% of GDP and indicators of activity are already suggesting a slowdown. However, despite the ongoing spike in COVID cases, implying reduced effectiveness of lockdowns due to the greater transmission of Delta vs prior variants, the "net" impact of GDP has been partly offset by fiscal support lifting to \$1bn +/week (and potentially \$1.5bn) with up to ~\$1bn from the Commonwealth, and up to ~\$0.5bn from the NSW government.

The labour market in Australia has recovered with the unemployment rate declining further to 4.9% in June. Some increase in the unemployment rate is expected in the near term due to the current lockdowns, but most of the adjustment in the labour market is likely to take place through a reduction in hours worked and in participation. Housing markets have continued to strengthen with strong credit growth and demand from owner-occupiers, including first-home buyers. Home prices boomed 1.9% (seasonally adjusted) in July and the gains remain broad-based even in the lockdown capital of Sydney. The rising housing prices and low interest rates have also resulted in increased borrowing by investors.

The Reserve Bank Board has surprised the market by persisting with its planned tapering. This is set to begin in September when the RBA will reduce its pace of bond purchases from \$5bn to \$4bn per week until at least mid-November.

KEY DETAILS

SWTZ Distribution Yield (net) ¹	2.67%
SWTZ Distribution Yield (gross) ¹	3.75%
Portfolio median market cap (\$m)	15,789
Portfolio price to earnings ratio ²	18.47
Portfolio price to book ratio ²	2.51
Portfolio beta ³	0.88

Source: Bloomberg. Notes: 1. Yield calculation based on distributions attributable to the 12 months ended 31 July 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	0.96%	1.10%
3 Month	5.20%	5.80%
6 Month	13.65%	13.78%
1 Year	26.89%	28.56%
3 Year (annualised)	5.71%	9.48%
Inception ¹ (annualised)	6.24%	9.69%

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 July 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)	\$2.6808
Distribution paid	\$0.010254
Performance fee	None
Management fee ¹	0.89%
Portfolio size	\$79.43m

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

However, the Bank maintains optionality to reduce or increase its pace of bond purchases should health outcomes deteriorate further and lockdowns persist longer than expected.

PORTFOLIO COMMENTARY

The Australian equity market continues to be bolstered by a stronger than expected recovery in company profits, with the ASX 200 on track to deliver earnings growth of ~25% for the 2021 financial year. The profits recovery has been dominated by the banks and iron ore producers. At a portfolio perspective, we expect that the market leaders of BHP and Commonwealth Bank of Australia to deliver a meaningful uplift in earnings and dividends and further underpin ongoing capital management.

Nevertheless, the degree of uncertainty remains elevated due to the more virulent Delta strain and the ongoing persistence of lockdowns affecting much of eastern Australia. Undoubtedly the magnitude of the lockdowns, particularly in NSW (~25% of GDP) will slow economic and profit momentum in the September quarter.

The pathway to a re-acceleration of economic activity is dependent on Australia's success in vaccinating at least 70% of the eligible population by the end of the December quarter. To date, higher levels of vaccinated populations in the US and UK are illustrative of the importance of vaccines to restoring economic momentum.

However, the level of uncertainty posed by the pandemic has underlined the importance of owning stocks that are industry leaders in the defensive sectors of consumer and industrial staples and healthcare sectors. We firmly believe that the attributes of earnings resilience and strong balance sheets remain valuable characteristics of the portfolio in delivering high quality earnings and dividends to our investors.

OUTLOOK

While earnings momentum is expected to slow in the coming quarter, earnings growth is still expected to be in the vicinity of ~10% for the 2022 financial year, supported by accommodative policy settings and the expectation that higher vaccine rates will ultimately lead to profit momentum returning. As such, the portfolio also holds stocks that should benefit from a re-opening in the economy, namely in the energy sector and the industrials sector.

Overall, the continued expansion of earnings for the ASX 200 is a key factor in supporting dividend per share momentum. The ASX 200 remains an attractive destination for income seeking investors, with the 12-month forward dividend yield at ~3.9%, the third highest in the world, supported by a dividend pay-out ratio of ~70%. The 12-month forward dividend yield of the portfolio is 4.18%.

SECTOR ALLOCATION

GICS SECTOR	WEIGHT %
Financials	26.81
Materials	14.80
Industrials	10.90
Health Care	9.63
Consumer Staples	8.41
Communication Services	7.59
Energy	5.59
Real Estate	5.50
Consumer Discretionary	5.18
Cash	5.60
Total	100.00

TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
Commonwealth Bank of Australia	9.30
BHP Group	8.19
Westpac Banking Corporation	8.16
Wesfarmers	5.18
Woolworths Group	5.07
Spark New Zealand	4.15
Cleanaway Waste Management	4.05
Amcor	3.91
Medibank Private	3.81
Qube Holdings	3.74
Total	55.56

Note: Due to rounding values may not equal 100.

SWITZER DIVIDEND GROWTH FUND

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