

29 February 2020

## INVESTMENT OBJECTIVE

The Switzer Dividend Growth Fund (SWTZ) is an income-focussed 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 to 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 7.15%, or 10.21% including franking credits. Distribution yield is calculated as the distributions received over the 12-months to 29 February 2020 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 7.57% lower over the month of February, marginally outperforming the S&P/ASX 200 Accumulation Index which returned -7.69%.

## PORTFOLIO COMMENTARY

February was a very busy month with the majority of listed companies reporting their half-year financial results. Despite the amount of new information released to the market over this period, only several modest changes were made to the SWTZ portfolio.

The reporting season overall was positive for the companies owned by SWTZ with almost all meeting or beating expectations. Particularly pleasing was Goodman Group, which upgraded full-year earnings guidance on the back of continued strength in their industry segments. There share price (+0.6%) was one of the few that finished the month higher. As always, there are exceptions and SWTZ had two, namely Link Administration Holdings (-31.0%) and Reliance Worldwide Group (-24.9%) which disappointed investors with both their respective earnings and outlooks.

All market sectors finished significantly in the red. The S&P/ASX 200 Index sector performance saw the Health Care (-3.7%), Real Estate (-4.6%), Utilities (-4.5%) and Financials (-5.7%) sectors do best relatively (though still negative) whilst Communication Services (-16.0%), Information Technology (-13.2%) and Materials (-12.9%) fared the worst. The Real Estate, Utilities and Financial sectors are well represented within the SWTZ portfolio given their defensive and income characteristics.

Amidst the recent market weakness, the investment strategy for SWTZ has been to look for opportunities to reduce defensive exposures which have held up in value throughout the recent market sell-off and add to those favoured investments whose share prices may have, in our view, become oversold. As such, during February, investments in several holdings were topped up including BHP Group, Sydney Airport and Star Entertainment Group. In addition, a new position in Treasury Wine Estates was initiated during the month. After its large share price fall, the

## KEY DETAILS

SWTZ Dividend Yield (net) <sup>1</sup>	7.15%
SWTZ Dividend Yield (gross) <sup>1</sup>	10.21%
Portfolio median market cap (\$m)	14,299
Portfolio price to earnings ratio <sup>2</sup>	17.87
Portfolio price to book ratio <sup>2</sup>	1.78
Portfolio beta <sup>3</sup>	0.95

*Source: Bloomberg. Notes: Yield calculation based on dividends attributable to the 12 months ended 29 February 2020 relative to SWTZ's closing unit price of \$2.48 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	-7.57%	-7.69%
3 Month	-5.97%	-5.18%
6 Month	-1.16%	-0.63%
1 Year	5.33%	8.64%
3 Year	4.89%	8.59%
Inception <sup>1</sup> (annualised)	4.67%	8.02%

*Notes: 1. Inception date is 27 February 2017. SWTZ performance based on final net asset value per share.*

## KEY DETAILS

Fund fact sheet date	29 February 2020
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)	\$2.4453
Performance fee	None
Management fee <sup>1</sup>	0.89%

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

company, in our view, now offers reasonable long-term value driven by the ongoing premiumisation of its wine portfolio and growth in Asia.

The defensive companies performed best over the month, albeit on a relative basis. This group included in the SWTZ portfolio included names such as Challenger (+3.4%), Goodman Group (+0.6%) and CSL Ltd (-0.8%).

Joining Link Administration Holdings and Reliance Worldwide Group in the worst performing group was Woodside Petroleum (-17.5%) which lost ground on the back of a retreating oil price.

## MARKET COMMENTARY

Global markets suffered significant falls in February, ending a long run of solid gains. Major equities indices were 8% - 10% lower on average as investors' fears of the increasing spread of the Coronavirus to more countries took hold. Hong Kong (-0.7%) and China (-1.6%) were only marginally down in February but suffered huge falls in the previous month. Other markets were playing catch up this month.

Whilst the effect of the virus on world growth remains difficult to estimate, it is clear that global supply chains are being severely impacted across major industries. Many companies across a broad range of industries have already flagged the increasing likelihood of a negative earnings impact and now consumer confidence is being impacted, as evidenced by the recent emptying of supermarket shelves.

Bond markets reacted predictably given their "safe haven" status, rallying strongly (yields lower). The US 10-year benchmark bond yield fell 33 basis points to 1.26% whilst the Australian 10-year government bond also fell to 0.82% at the end of February from the January close of 0.95%.

## PORTFOLIO OUTLOOK

Whilst there can be no doubt that the current market volatility is the result of the unknown impact from the Coronavirus, we can't forget that up until the beginning of the month, markets were at or near all-time highs with investors building in aggressive expectations. That said, this pullback in the market is presenting investment opportunities (assuming the virus can be contained).

SWTZ has typically been more exposed to the defensive sectors for their reliable yields and stable capital values, the flip side being that they offer lower growth. Recent market weakness has cheapened valuations for a number of companies. We intend to initiate new positions in companies that we know and like and have become cheap as well as continuing to add to those existing positions in which we maintain conviction.

SWTZ invests in quality companies which payout relatively high and sustainable dividends and actively seeks out opportunities in companies that the manager believes can contribute capital returns.

## SECTOR ALLOCATION

GICS SECTOR	WEIGHT %*
Financials	34.12
Real Estate	10.40
Materials	9.84
Consumer Discretionary	9.40
Industrials	9.03
Utilities	7.16
Energy	6.63
Consumer Staples	4.58
Not Classified	3.07
Communication Services	2.39
Health Care	2.18
Information Technology	1.20
<b>Total</b>	<b>100.00</b>

\* Due to rounding values may not equal 100%.

## TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
Commonwealth Bank	7.60
Westpac Banking Corp	5.86
National Australia Bank	5.48
Australia and New Zealand Banking Group	5.04
BHP Group	4.55
Macquarie Group	3.84
Wesfarmers	3.22
Aristocrat Leisure	2.91
Woodside Petroleum	2.86
Suncorp Group	2.59
<b>Total</b>	<b>43.95</b>

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