Switzer DIVIDEND GROWTH FUND

Sensible Blue-Chip Investing

30 June 2020

INVESTMENT OBJECTIVE

The Switzer Dividend Growth Fund (ASX:SWTZ) 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 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 5.78%, or 8.26% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 30 June 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 2.10% higher over the month of June, marginally underperforming the S&P/ASX 200 Accumulation Index which returned 2.61%.

PORTFOLIO COMMENTARY

It is no secret that the COVID-19 pandemic and related government-imposed restrictions have impacted dividend payout ratios for most companies in Australia. We continue to search for yield-paying companies in this environment with an acceptable level of risk. The Fund will remain relatively fully invested, but we will continue to move the portfolio towards a more defensive stance. This should prove to be more resilient in the event of a pullback.

The S&P/ASX 200 Index sector performance saw the Consumer Discretionary (5.4%), Consumer Staples (5.0%) and Information Technology (4.8%) sectors do best. The laggards were Energy (-2.1%), Industrials (-1.5%) and REITs (-1.3%). While sectoral performance was mixed over the month, those sectors that continue to best navigate the current economic environment were generally favoured.

Activity in the Fund slowed over June after the sizeable April and May rally. We increased defensive exposures including Amcor and Telstra Corporation, both of which are expected to pay dividends in August. A position was initiated in Aurizon Holdings (ASX:AZJ), a large Australian rail freight company. AZJ recently reaffirmed guidance for FY2020 Net Profit After Tax and is expected to pay an attractive dividend.

These purchases were funded from sales in several holdings whose share prices have recovered significantly over the past few months, but are not expected to pay large dividends in the near term.

Two stocks delivered over 10% returns for the portfolio over June. These were Coles Group (11.8%) and Wesfarmers (11.1%). Wesfarmers' performance has largely been driven by the success of Bunnings Group. Other stocks that performed well included Carsales.com (9.9%) and Macquarie Group (7.9%). There were no stocks that delivered less than -10% for the month, with Evolution Mining (-7%) and Brambles Limited (-7%) lower in June after their strong runs over previous months.

KEY DETAILS	
SWTZ Dividend Yield (net) [1]	5.78%
SWTZ Dividend Yield (gross) [1]	8.26%
Portfolio median market cap ($m)	13,335
Portfolio price to earnings ratio [2]	18.18
Portfolio price to book ratio [2]	1.94
Portfolio beta [3]	0.97

Source: Bloomberg. Notes: 1. Yield calculation based on dividends attributable to the 12 months ended 30 June 2020 relative to SWTZ's closing unit price of $2.59 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	2.10%	2.61%
3 Month	14.22%	16.48%
6 Month	-13.50%	-10.42%
1 Year	-10.50%	-7.68%
3 Year *(annualised)*	1.12%	5.19%
Inception [1] *(annualised)*	1.03%	4.70%

Notes: 1. Inception date is 27 February 2017. SWTZ performance based on final net asset value per share assuming reinvestment of all distributions.

KEY DETAILS	
Fund fact sheet date	**30 June 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)	**$2.1732**
Performance fee	None
Management fee [1]	0.89%

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

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MARKET COMMENTARY

Major global markets were higher over June, but with noticeable performance dispersion. The NASDAQ Index was very strong climbing 5.4%, mostly due to the success of large technology stocks. The Dow Jones was 1.3% higher and the UK's FTSE 100 Index broadly flat. The S&P/ASX 200 Accumulation Index (which includes dividends) was 2.6% higher with some of the larger stocks, such as the banks, having a reasonable bounce after a difficult period.

Bond markets experienced modest rallies (i.e. lower interest rates) over the month. The US 10-year bond continues to trade at around 0.66% and the Australian 10-year bond around 0.87%. Bond markets are holding firm at low interest rates despite the large increase in spending forecast by various governments. This forecast government spend is a positive for financial markets.

PORTFOLIO OUTLOOK

Although progress on COVID-19 containment is being made in some parts of the world, there are some worrying signs of deterioration in the southern states of the US. Some other countries – less important to world growth – are also struggling with containing the disease. Generally, markets are taking these issues in their stride.

Global markets are entering an interesting phase, as government economic support initiatives approach their expiry date. While equities have performed strongly and recovered much of the losses suffered earlier in the year, a large-scale withdrawal of support could result in increased volatility. Our investment team believe that, while some caution is warranted, equity markets continue to look fair value given the existing risks.

The SWTZ portfolio will remain close to fully invested to maximise the gathering of dividend income. We will continue to target those stocks that are expected to be most resilient if economic conditions deteriorate through to the end of the year.

SWTZ has a diversified exposure to what we believe to be the strongest companies in Australia. There has been minimal call on funding by our portfolio holdings during the pandemic, which we believe is indicative of their financial and business strength.

The REIT sector has largely announced their dividend payments for the last six months and there was a clear distinction between the weaker and stronger franchises. We expect to see a similar dispersion in the upcoming August results season. The Commonwealth Bank of Australia (ASX:CBA) result is likely to be the bellwether report for the Australian market and particularly the bank sector. We expect to see a smaller but still healthy dividend from the company. A positive result for CBA will likely encourage dividend payments across the market.

At this stage, while August results season will shed some light on the outlook for dividends, predicting the extent of dividend reductions with any accuracy is difficult. We are aiming to hold and add to those companies that, we believe, can pay dividends over the course of this financial year without adding undue risk to the SWTZ portfolio.

SECTOR ALLOCATION

GICS SECTOR	WEIGHT %
Financials	26.58
Materials	16.42
Consumer Discretionary	9.58
Industrials	8.65
Utilities	6.97
Real Estate	6.84
Communication Services	6.46
Health Care	6.19
Energy	5.20
Consumer Staples	4.78
Cash	2.32
Total	**100.00**

TOP TEN PORTFOLIO HOLDINGS

COMPANY	WEIGHT %
BHP Group	9.03
Commonwealth Bank of Australia	7.79
CSL	6.19
Wesfarmers	4.49
Westpac Banking Corporation	3.93
Macquarie Group	3.53
Australia and New Zealand Banking Group	3.44
National Australia Bank	3.27
Telstra Corp	3.13
Coles Group	2.84
Total	**47.64**

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