Switzer DIVIDEND GROWTH FUND

Sensible Blue-Chip Investing

SWITZER DIVIDEND GROWTH FUND

28th September 2018

PERFORMANCE SUMMARY

The Switzer Dividend Growth Fund (SWTZ) went ex-distribution last week. The distribution payable will be 5.05 cents and is expected to be fully franked. We expect this to be paid on October 17.

As at September month-end, SWTZ continues to deliver on its income objective tracking a 12-month dividend yield of 5.1%, or 6.8% including franking credits. This compares to the ASX 200 Accumulation Index yield of 4.3% (5.8% including franking credits). From a capital perspective, the fund broadly moved in line with the market over the month, falling by 1.5%. The portfolio was helped by being underweight Healthcare, while the banks performance constrained returns.

The rolling 12-month return was 9.5% after fees and the fund has achieved a total return (excluding franking credits) since inception of 6.1% pa.

INVESTMENT OBJECTIVE

SWTZ is an income focused exchange traded fund, with a portfolio of yield and quality stocks. The objective of the fund is to generate an attractive and consistent income stream, while maximising franking where possible. The manager selects companies with the ability to pay dividends through market cycles. The fund is characterised by a strong and diverse portfolio of companies that exhibit good cashflows and business models.

FUND UPDATE

There was some modest activity over the month. Profit taking was undertaken in CSL, Rio Tinto, BHP, Macquarie Group and Iluka. In the case of Iluka, the position was exited entirely. The proceeds from these sales were reinvested in existing higher yield positions. A new position was initiated in Aristocrat, which we consider a quality growth company with global exposure and adequate yield.

PERFORMANCE COMMENTARY

Over September, global equity markets saw mixed results with an upward bias. Trade war concerns continue to fluctuate but overall the market isn't factoring in a significant negative outcome.

The US Federal Reserve raised rates as expected while the US bond market experienced a marked sell off (yields 20bp higher), as inflation edged higher. Various markets experienced volatility not seen for some time but appeared to settle by month end.

The Australian market was softer over the month, giving up most of the gains from the reporting season rally. The AUD was relatively volatile, ranging from 71 to 73 US cents. The dollar has been trending down over the past 6 months, which should be a positive for the Aussie economy. Also causing some uncertainty was the Royal Commission headed toward releasing its interim report, which came out earlier this week.

The market is also ex-dividend over the period and with many large, yield stocks going ex-dividend, the market lost some momentum.

PORTFOLIO CHARACTERISTICS

September 2018	SWTZ	ASX 200 ACCUM INDEX
Portfolio Dividend Yield (net) [1]	**5.1%**	**4.3**
Portfolio Dividend Yield (gross)	**6.8%**	**5.8**
Median market cap ($m)	14,901	3,711
Portfolio price to earnings ratio	15.7	17.1
Earnings growth (%)	7.4	11.2
Beta	1.0	1.0

Source: Bloomberg. 1) Yield calculation based on dividends paid during the previous 12-months

PERFORMANCE (after management fees)

	SWTZ (%)	ASX 200 ACCUM INDEX (%)
1 Month	-1.53	-1.26
3 Month	0.99	1.53
6 Month	8.19	10.13
12 Month	9.51	13.97
Inception [1] (annualised)	6.11	9.12

Inception date 22 February 2017

KEY DETAILS	
Fund Fact Sheet Date:	28th September 2018
ASX Code:	SWTZ
Fund Manager:	Contango Funds Management Ltd
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)	$2.594030
Performance fee	None
Management fee:	0.89%

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After a period of poor performance, the Materials index (+3.9%) rallied as commodities stabilised. Commodities are China-centric, so are exposed to a slowdown in trade. The market appeared relieved at the conciliatory tone coming from the Chinese leaders.

The Energy Index was the best performer (+4.3%) as the oil price continued to firm.

The poorest performing sectors were Health (-6.6%), which the fund is under weight and Utilities (-4.7%). Financials were also modestly lower (-2%).

For all the increased volatility over the month, share price changes were modest. Of the stocks held, the resource stocks RIO Tinto (+8%), BHP (+7%) and Iluka (+7%) were the best performers. The worst performers were CSL (-11%) and Suncorp (-7%).

PORTFOLIO OUTLOOK

The current portfolio offers a net return (pre-fees) of 5.1% and a gross yield of 6.7%, using Bloomberg estimates.

The Royal Commission is entering the final phase. The uncertainty over the ultimate outcomes have negatively impacted valuations. The market is currently pricing in a disruptive resolution, any other outcome should be good for the portfolio.

One of the objectives of the fund is to provide investors with a sustainable income stream throughout market cycles. We are confident in the portfolio's ability to continue to deliver an attractive, franked income stream.

Interest rates remain low and economic activity, although slowing, remains positive. Indications of inflation remain largely benign giving confidence that the investment outlook remains favourable.

SECTOR ALLOCATION	WEIGHT %
Consumer Discretionary	4.6
Consumer Staples	6.3
Energy	6.8
Financials	43.7
Health Care	4.4
Industrials	3.7
Information Technology	1.7
Materials	14.3
REITs	6.1
Communication Services	2.7
Utilities	4.0
[Cash]	1.7
[Futures]	0.0

TOP TEN HOLDINGS

CODE	STOCK	WEIGHT %
CBA	COMMONWEALTH BANK	8.6
WBC	WESTPAC BANKING CORP	8.4
ANZ	AUST AND NZ BANKING GROUP	7.6
BHP	BHP BILLITON LTD	7.1
NAB	NATIONAL AUSTRALIA BANK LTD	6.2
WES	WESFARMERS LTD	5.0
WPL	WOODSIDE PETROLEUM LTD	5.0
CSL	CSL LTD	4.4
MQG	MACQUARIE GROUP LTD	3.4
SUN	SUNCORP GROUP LTD	3.1

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