

31 October 2018

### INVESTMENT OBJECTIVE

SWTZ is an income focussed exchange traded managed fund, with a mix of yield and quality stocks. 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 cashflows and strong business models.

### PERFORMANCE SUMMARY

The market sold off indiscriminately in October. The Switzer Dividend Growth Fund (SWTZ) managed to outperform over the month, returning -5.8%, against a market return of -6.1%. As always, the flip side of a market selloff is an increased portfolio yield. **Based on the closing October month-end net asset value (NAV) of \$2.40, the portfolio's trailing yield is 5.4% or 7.3% when you include franking credits.**

Given its focus on income and capital preservation, we expect the SWTZ portfolio to marginally underperform in rising markets and marginally outperform in falling markets. This was demonstrated in October.

The targeted cash levels in the fund are usually run at 1.5-2%. At the end of the month cash was slightly higher than that at 2.7%, due to fund inflows. Cash will be invested as opportunities arise.

Over the month the fund exited its position in Alumina at over \$3 a share. The returns on this position were about +30% (based on cost). Several positions were added to over the month, including the two insurers, Suncorp and Insurance Group of Australia. The insurance industry appears to largely have avoided the significant negative outcomes from the Royal Commission and the industry backdrop continues to be positive. In the REIT space we switched Vicinity Centres for Unibail-Rodamco-Westfield (URW). URW is the merged company from the old Westfield group. It offers an attractive international exposure at an **unusually high yield of over 7%**. The yield is high given the quality of the asset base.

We also took profits in the strongly performing Goodman Group and switched to Reliance Worldwide. Goodman was sold realising profits of about 22% (based on cost). The Reliance share price has retraced about 20% as the initial enthusiasm over its UK acquisition waned. We used the opportunity to take a position in the stock.

### PORTFOLIO COMMENTARY

October saw a severe sell off in global equity markets with the ASX 200 down 6.1%. Globally, most markets were weak as well, with the tech heavy NASDAQ in the US and the NIKKEI in Japan both down around 9%. As often happens, the stocks and sectors that lead the market up were sold down the heaviest.

Issues that have worried the market for most of the year, such as trade wars, the Italian budget, oil markets and other macro issues, appeared

### PORTFOLIO CHARACTERISTICS

October 2018	SWTZ	ASX 200 ACCUM INDEX
Portfolio Dividend Yield (net) <sup>1</sup>	5.4%	4.6%
Portfolio Dividend Yield (gross)	7.3%	6.0%
Median market cap (\$m)	14,963	3,362
Portfolio price to earnings ratio	15.1	16.1
Earnings growth (%)	9.6	11.7
Beta	1.0	1.0

Source: Bloomberg.

Note: 1) Yield calculation based on dividends paid during the previous 12-months

### PERFORMANCE (AFTER MANAGEMENT FEES)

PERIOD	SWTZ (%)	ASX 200 ACCUM INDEX (%)
1 Month	-5.85	-6.05
3 Month	-6.06	-5.92
6 Month	-0.79	-0.42
12 Month	0.71	2.94
Inception <sup>1</sup> (annualised)	2.08	4.70

Inception date 22 February 2017

### KEY DETAILS

Fund Fact Sheet Date:	31 October 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)	\$2.3956
Performance fee	None
Management fee:	0.89%

to come to the fore. There also seemed to be a delayed reaction to last month's bond market sell off.

While we have seen a correction, it should be kept in mind that the market has had a very strong run, and pullbacks are a normal part of the market cycle. **Recent underlying economic data appears slightly softer but remains firm overall.** Commodities appear relatively firm as well, **giving some confidence that we are no closer to the start of a recession.**

Measures of global liquidity that have given asset markets (like shares and property) ongoing support for the last six years, are slowly falling. This can be an indication of more volatile markets going forward.

As mentioned earlier, last month's selling was indiscriminate with most sectors falling between 3-6%. Within the ASX 200 Accumulation Index, utilities, typically a strong defensive sector in pullbacks, was off 4% while energy fell 10.5% on a weaker oil price after performing strongly for most of the year.

Of the stocks held, Alumina was best performing with +11.5% (now exited), followed by gold stock Newcrest (6.2%) and new holding, Reliance Worldwide (5.9%). Our poorest performers were the fund managers AMP, Perpetual and IOOF Holdings down between 16% and 23%. These are three of our four smallest positions, with the combined holding just 1.7% of the portfolio. We are confident in these stocks performing better given a reasonable outcome in the Royal Commission.

#### PORTFOLIO OUTLOOK

The current portfolio offers a net yield (pre-fees) of 5.4% and a gross yield of 7.3%, based on historical dividends. The decline in the market over the last month has offered up relatively attractive investment opportunities for SWTZ, in our view.

The bank results are upon us and a reasonable showing will be taken well by the market. We are expecting flat dividends and flat to modest growth in earnings before client remediation charged. The fund has significant exposure to these high yielders.

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

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#### SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %
Communication Services	2.6
Consumer Discretionary	4.7
Consumer Staples	6.1
Energy	6.5
Financials	43.0
Health Care	4.2
Industrials	5.0
Information Technology	1.7
Materials	13.8
REITs	5.0
Utilities	4.0
[Cash]	3.5

#### TOP TEN HOLDINGS

CODE	STOCK	WEIGHT %
CBA	COMMONWEALTH BANK	8.7
WBC	WESTPAC BANKING CORP	8.4
ANZ	AUST AND NZ BANKING GROUP	7.3
BHP	BHP BILLITON LTD	7.1
NAB	NATIONAL AUSTRALIA BANK	5.9
WES	WESFARMERS LTD	4.8
WPL	WOODSIDE PETROLEUM LTD	4.6
CSL	CSL LTD	4.2
SUN	SUNCORP GROUP LTD	3.4
MQG	MACQUARIE GROUP	3.2

Yield calculation is based on the dividends received over the last 12 months. Switzer Asset Management Limited ("Switzer") (ABN 26 123 611 978 and Australian Financial Services Licence Number 312247) is the Responsible Entity of the Fund. Switzer has prepared this Fact Sheet for information purposes only. It does not contain investment recommendations nor provide investment advice. Neither Switzer, Contango Asset Management Limited, their related bodies corporate, entities, directors or officers guarantees the performance of, or the timing or amount of repayment of capital or income invested in the Fund or that the Fund will achieve its investment objectives. Past performance is not necessarily indicative of future performance. It is recommended that investors seek professional investment and/or financial or other relevant and/or applicable advice to assist investors determine the individual tolerance to risk and the investors need to attain a particular return on your investment. In no way should the investor rely on the information contained in this Fact Sheet. We strongly encourage you to obtain independent professional, financial, investment, or legal advice and to read the Funds Product Disclosure Statement ("PDS") before making a decision to invest in the Fund. Applications for an investment can only be made by way of completing the application form accompanying a current Product Disclosure Statement which can be obtained by contacting on the Switzer or via the website [www.switzerassetmanagement.com.au](http://www.switzerassetmanagement.com.au)