

31 January 2019

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 cash flows and strong business models.

PERFORMANCE SUMMARY

Over the 2018 calendar year, the Switzer Dividend Growth Fund (SWTZ) paid a distribution yield of 6.4%, or 8.3% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 31 January 2019 relative to the price of \$2.58 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 banks continued to lag over January, as we approached the release of the findings of the Banking Royal Commission. The fund returned 1.8% over the month against a market return of 3.9%.

PORTFOLIO COMMENTARY

The targeted cash level in the fund is usually 1.5 - 2.0%. At 31 January, cash was above this target at around 3.2%. This higher than targeted cash level will enable us to make the most of opportunities as companies report their results throughout the month. The fund went ex-distribution of 3.37 cents per unit (fully franked) on the 2nd of January 2019, which reduced cash by about 1.5%.

The composition of the portfolio did not change materially over January, following the activity last month and before results season. The fund added to positions in Aristocrat (ALL) and Reliance Worldwide (RWC). Both these companies are considered strong growth stories and blend well with the yield heavy bias of the fund. They also provide good geographical diversification having the vast majority of their earnings offshore.

The fund continued to sell its holding in RIO Tinto. The iron ore price spiked after Brazilian iron ore miner Vale's tailings dam failure, halting some production. The iron ore price continues to surprise with its strength and we use this opportunity to take profits.

MARKET COMMENTARY

Over the month world equity markets rallied, especially in the US where the NASDAQ was 9.7% higher and both the Dow Jones and S&P500 were 7-8% higher. Other markets were not as strong with the Nikkei, UK market and Australia only 3-4% higher. Although earnings revisions continue to be on the downside around the world, **earnings still appear positive** overall. As this became apparent, markets stabilised, volatility fell, and markets rallied.

The Federal Reserve also made more market-supporting comments, tempering its views on reducing its balance sheet. Any comments by the Fed will continue to be watched closely by the markets and periodic

PORTFOLIO CHARACTERISTICS

January 2019	SWTZ
Portfolio Dividend Yield (net) ¹	6.41%
Portfolio Dividend Yield (gross)	8.34%
Median market cap (\$m)	15,260
Portfolio price to earnings ratio	14.46
Earnings growth (%)	5.03
Beta	0.98

Source: Bloomberg.

Note: 1) Yield calculation based on dividends paid during the previous 12-months relative to closing unit price of \$2.58 at 31 January 2018

PERFORMANCE (AFTER MANAGEMENT FEES)

PERIOD	SWTZ (%)	ASX 200 ACCUM INDEX (%)
1 Month	3.26	3.87
3 Month	-0.31	1.45
6 Month	-6.24	-4.55
12 Month	-1.94	1.37
Inception ¹ (annualised)	1.96	4.85

Inception date 27 February 2017. SWTZ performance based off final net asset value price as determined by the custodian.

KEY DETAILS

Fund Fact Sheet Date:	31 January 2019
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)	\$2.353134
Performance fee	None
Management fee:	0.89%

volatility can be expected over 2019. **We move forward with the view that these periodic falls are buying opportunities**, and we will continue to add to the strong yield and quality bias in the portfolio.

Sector performance was mixed with the best sectors being Materials, Telecoms and Energy. The fund has modest holdings in these sectors. The worst performing sectors included Banks (again), Health and Transport. The fund has a significant stake in the bank sector which has been a drag on performance over the last year. The banks have amongst the highest yields in the market, some double-digit including franking.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industries has released its findings. The long running saga has been particularly negative for the share prices of stocks in the financial sectors, including the banks, as noted above. However, the recommendations appear towards the benign end of market expectations, so there is a chance that the risk premium in these stocks will now decline. This could assist the performance of this sector over this rest of this year.

PORTFOLIO OUTLOOK

Despite the January rally, equity market valuations appear reasonable and many stocks are still at attractive levels. The Royal Commission has had a negative influence over the last year and with the final recommendations released, some certainty over the outlook for these sectors – which compose a large part of the portfolio – should begin to form.

The underlying earnings (and dividend) outlook for the companies in the fund remains positive. Moreover, their balance sheets remain very good. These are both positive signs of the health of the portfolio. However, given the recent volatility there is a good chance that corporate Australia will be conservative with dividend payments, and dividend growth could lag earnings growth in this results season.

Interest rates remain low and economic activity, although slowing, remains positive. While volatility in equity markets is expected to continue, indications of inflation remain largely benign giving confidence that **the investment outlook remains favourable**.

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SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %
Financials	41.53
Materials	10.06
Consumer Discretionary	8.76
Real Estate	6.90
Energy	6.53
Utilities	5.71
Industrials	4.87
Health Care	4.24
Communication Services	3.87
Consumer Staples	2.79
Information Technology	1.59
Cash	3.15

TOP TEN HOLDINGS

CODE	STOCK	WEIGHT %
CBA	COMMONWEALTH BANK	8.68
WBC	WESTPAC	7.61
ANZ	ANZ	7.17
NAB	NATIONAL AUSTRALIA BANK	5.94
WPL	WOODSIDE PETROLEUM LTD	4.54
BHP	BHP GROUP LTD	4.30
CSL	CSL LTD	4.24
WES	WESFARMERS LTD	3.35
SUN	SUNCORP GROUP LTD	3.30
MQG	MACQUARIE GROUP LTD	3.16

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