

31 March 2019

### 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 6.7%, or 8.7% including franking credits. Distribution yield is calculated as the distributions received over the 12 months to 31 March 2019 relative to the price of \$2.47 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 marginally higher over the month being up 0.05% against a market move of 0.73%. After a brief respite in February, the banks were the laggards in March.

### PORTFOLIO COMMENTARY

The targeted cash level in the fund is usually 1.5-2%. At 31 March, cash was above this target at around 2.9%. The fund is due to pay a distribution of 4.5 cents per unit (fully franked) on 16 April. The ex-date for this distribution was 1 April. Cash levels are comfortable given the dividend to be paid.

Fund activity over March included adding to existing positions in Reliance Worldwide (ASX:RWC), Coles Group (ASX:COL), Aristocrat Leisure (ASX:ALL) and Star Entertainment (ASX:SGR). The position in Coles was increased at an attractive price point and presents stable earnings for the fund. RWC and ALL are both considered strong growth companies with global earnings streams that we find attractive.

Star has been a laggard as the Queensland Government contemplates another Gold Coast casino, which would mean competition for the company. Interestingly however, brokers point out that SGR is now the cheapest quality casino globally.

We have exited our position in Rio Tinto (ASX:RIO) at a good profit. RIO is a quality miner with a strong balance sheet that has paid out extraordinary dividends which benefited the fund. The iron ore price, about 70% of RIO's earnings now sits some 30% above consensus forecasts. Any fall in the iron ore price from here will likely impact the share price.

We also reduced our position in one of our best performers, Charter Hall group (CHC) at a good profit. The property fund manager has done an excellent job gathering and investing funds. However, we now believe the valuation is quite stretched.

### MARKET COMMENTARY

Global markets mostly pushed higher over March led by the bellwether NASDAQ up 2.6%. The Chinese market (CSI 300) was 5.27% higher on the month as it became apparent that the economy has stabilised.

### KEY DETAILS

Portfolio Dividend Yield (net) <sup>1</sup>	6.70%
Portfolio Dividend Yield (gross)	8.71%
Median market cap (\$m)	14,964
Portfolio price to earnings ratio	15.60
Earnings growth (%)	3.87
Beta	0.99

Source: Bloomberg. 1) Yield calculation based on dividends paid during the 12-months to 31 March 2019 relative to closing unit price of \$2.47 at the beginning of the period

### PERFORMANCE (AFTER MANAGEMENT FEES)

PERIOD	SWTZ (%)	ASX 200 ACCUM INDEX (%)
1 Month	0.05%	0.73%
3 Month	9.24%	10.89%
6 Month	-0.72%	1.75%
12 Month	7.87%	12.06%
Inception <sup>1</sup> (annualised)	4.56%	7.77%

1) 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 March 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)	\$2.4458
Performance fee	None
Management fee:	0.89%

As many of the world's stock markets recovered over the March quarter to be close to all-time highs, the movements in the bond markets have been dramatic. The bond markets were stronger (lower yield) due to central banks becoming more dovish on rates (lower for longer). This was closely followed by weaker economic news which seemed to justify the central banks' caution. Bond markets have rallied hard since.

We have seen the US 10-year bond yield decline from 3.2% in November to 2.4% by the end of March. Likewise, the Australian 10-year bond has rallied from 2.76% in November to end March at 1.8%. For Australia this represents the lowest yield on Government 10-year bonds for at least 50 years.

Given the above, it's not surprising that the defensive sectors did well over the month. Telecommunications (+5.7%), REIT's (+5.6%), Food and Staples Retailing (+5.5%) were the best performers. The strong performance of materials throughout this period has been unusual. Strengthening iron ore prices appear to be ignoring the signals suggesting a moderating economic growth outlook.

### PORTFOLIO OUTLOOK

Given the strong rally from oversold levels in December, markets now look close to fair value in our view. The rally in bond markets implies that future growth is unlikely to be strong and low interest rates are likely to persist. The fund will focus on secure yield and growth companies where valuations appear reasonable.

The underlying earnings (and dividend) outlook for the companies in the fund remains solid. Moreover, their balance sheets remain very strong. These are both positive signs of the health of the portfolio. Also, two of the fund's holdings, Caltex and Woolworths, have both announced off-market buybacks (the fund intends to participate in these). The buybacks will help sustain the level of franking in the fund.

Interest rates remain low and economic activity, although slowing, appears to have stabilised and 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.**

### SWITZER DIVIDEND GROWTH FUND

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### SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %
Financials	41.96
Consumer Discretionary	9.31
Materials	9.25
Real Estate	7.23
Energy	6.27
Utilities	5.63
Industrials	5.56
Communication Services	3.89
Consumer Staples	3.35
Health Care	3.09
Information Technology	1.58
Cash	2.88

### TOP TEN HOLDINGS

CODE	STOCK	WEIGHT %
CBA	COMMONWEALTH BANK	8.42
WBC	WESTPAC	7.72
ANZ	ANZ BANKING GROUP	7.16
NAB	NATIONAL AUSTRALIA BANK	6.04
BHP	BHP GROUP	4.56
WPL	WOODSIDE PETROLEUM	4.40
WES	WESFARMERS	3.59
SUN	SUNCORP GROUP	3.58
MQG	MACQUARIE GROUP	3.37
CSL	CSL LTD	3.09

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)