

31 May 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 7.47%, or 9.83% including franking credits. Distribution yield is calculated as the distributions paid over the 12 months to 31 May 2019 relative to the unit 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 higher over the month being up 1.0% against a market move, as measured by the ASX 200 Accumulation Index, of 1.7%.

### PORTFOLIO COMMENTARY

The targeted cash level in the fund is usually 1.5-2%. At 31 May, cash was above this at around 3.6%. Major bank dividends are expected towards the end of this month and the funds will be opportunistically invested.

Activity was again modest over the month. We sold a portion of our holdings in CSL at a substantial profit. The fund also switched some exposure from Commonwealth Bank to National Australia Bank with a 1% pick-up in yield. The change came after analysing the NAB result, but before the payment of the dividend. We view the recent changes in management at NAB and dividend policy favourably. We also sold some AGL Energy as regulatory headwinds build.

### MARKET COMMENTARY

Global markets were buffeted over the month with all significant exchanges lower. The decline was led by the NASDAQ which was -8.4%. The Dow Jones was -6.7% while European and Asian exchanges were 6-8% lower.

The Australian market was marginally higher over the month, as the surprising Federal Election result helped the local index.

Bond markets around the world continue to rally (lower rates). The benchmark 10-year US government bond fell from 2.5% to 2.1% over the month, a significant move. The rally in bonds and sell off in equities reflect ongoing trade war concerns and a slowdown in world growth estimates, which, of course, may be related.

Sectoral performance was diverse over the month of May, with Communication Services (+7.3%), Healthcare (+3.3%) and Materials (+3.1%) being strongest. In contrast, Consumer Staples (-4.0%), Energy (-3.9%) and Information Technology (-4.1%) were the poorest. SWTZ is skewed away from the Healthcare and Materials sectors. Post the election the Financial sector, in which the portfolio is overweight, outperformed, assisting returns for the fund.

### KEY DETAILS

Portfolio Dividend Yield (net) <sup>1</sup>	7.47%
Portfolio Dividend Yield (gross)	9.83%
Median market cap (\$m)	16,607
Portfolio price to earnings ratio	16.39
Portfolio price to book ratio	1.86
Beta	0.98

Source: Bloomberg. 1) Yield calculation based on dividends paid during the 12-months to 31 May 2019 relative to closing unit price of \$2.53 at the beginning of the period.

### PERFORMANCE (AFTER MANAGEMENT FEES)

PERIOD	SWTZ (%)	ASX 200 ACCUM INDEX (%)
1 Month	0.97%	1.71%
3 Month	3.88%	4.88%
6 Month	11.41%	15.32%
12 Month	8.30%	11.08%
Inception <sup>1</sup> (annualised)	5.69%	9.11%

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 May 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)	\$2.5413
Performance fee	None
Management fee:	0.89%

## PORTFOLIO OUTLOOK

Over the month there were two significant events for the portfolio. Firstly, the unexpected election win for the Coalition and secondly, the significant move lower in interest rates, both worldwide and in Australia.

The election outcome is undoubtedly positive for SWTZ. Given the portfolio's yield and franked dividend focus, a change to franking legislation would have been a sub-optimal outcome for the portfolio. The ALP policy agenda brought significant uncertainty across many areas of the investment landscape, including housing, retail, banking and wealth management. These are large sectors of the economy and we would anticipate an increase in consumer confidence to occur which should assist the portfolio after a sustained period of pressure.

The ongoing decline in interest rates will focus investors on the worth of securing yield. Although there may be a bounce higher in yield post any trade resolution, underlying world growth remains modest at best.

The fund remains with a significant exposure to the bond sensitive sector and will likely remain so. These investments should be increasingly valuable in a world of low rates.

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 over the medium term.

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## SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %
Financials	41.18
Consumer Discretionary	10.07
Materials	9.34
Real Estate	8.81
Energy	6.11
Industrials	5.32
Utilities	4.87
Communication Services	4.23
Consumer Staples	3.22
Health Care	1.94
Information Technology	1.27
Cash	3.64

## TOP TEN HOLDINGS

STOCK	WEIGHT %
WESTPAC BANKING CORP	8.14
COMMONWEALTH BANK OF AUSTRALIA	7.73
AUST AND NZ BANKING GROUP	7.64
NATIONAL AUSTRALIA BANK LTD	6.82
WOODSIDE PETROLEUM LTD	4.49
BHP GROUP LTD	4.46
WESFARMERS LTD	3.83
SUNCORP GROUP LTD	3.37
MACQUARIE GROUP LTD	3.12
ARISTOCRAT LEISURE LTD	2.95

Yield calculation is based on the dividends paid 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)