Ralton Australian Equity Ex 50

Portfolio Report | August 2020

RALTON ASSET MANAGEMENT

Key facts

Income versus growth target

Income — Growth

Market cap bias

Large — Small

Investment strategy

A portfolio of ASX-listed equities designed to provide high capital growth

Investment objective

Outperform index by over 4% p.a.

Benchmark index

S&P/ASX Small Ordinaries Accumulation Index

Portfolio Manager

Ralton Asset Management

Inception date

February 2008

Management fee

0.75% p.a. (may vary across platforms)

Number of stocks

20-35

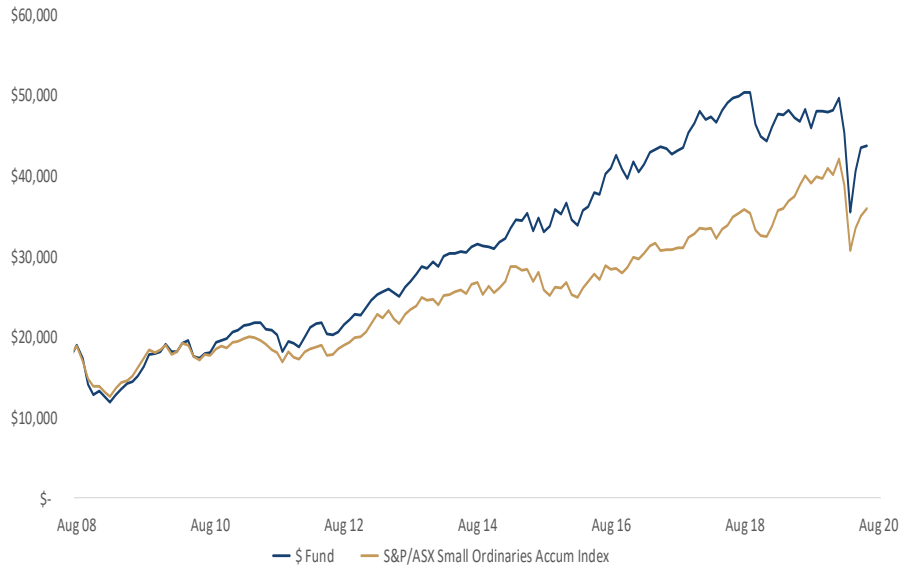
External ratings

Zenith "Approved"

Key platforms

CFS First Wrap, HUB24, Linear, NetWealth, OneVue, Powerwrap, Praemium

Growth of $20,000 since inception



Performance (%, returns greater than one year are per annum p.a.)

At month end	1 mth	3 mth	1 yr	3 yr	5 yr	10 yr	Inception
Ralton	2.93	8.03	2.39	2.89	7.29	10.07	6.87
Income	0.14	0.23	2.23	2.51	2.72	3.31	3.51
Growth	2.79	7.79	0.16	0.38	4.57	6.76	3.36
Index	7.24	6.61	2.07	8.02	10.48	4.73	1.94

Stock spotlight | Reliance Worldwide (RWC)

The portfolio added to its Reliance Worldwide (RWC) position during the month as the result clearly showed an improving US housing outlook is being captured by a reinvigorated management team. Reliance which rose +42.5% in the month holds the no.1 position in Australia and the US in behind the wall, push-to-connect (PTC) plumbing accessories. The company has exhibited strong growth driven by market penetration and innovation, with growth accelerating post its acquisition of the UK based John Guest. Investor concern relating to an elongated lower level of activity post COVID impacts appears to be overly cautious given strong key indicators in the US housing market as well as improving peer results. The FY20 result indicates a resurgence in growth at the start of FY21 and the better than expected balance sheet position indicates the company has strong controls over operational execution. While risk remains of a broader economic slowdown, we believe government stimulus will continue to concentrate on housing related sectors, supporting activity. Given the attractive valuation, we increase the stocks weight back to target, reflective of the attractive outlook

Sector allocation

Sector	Ralton	Index	+/-
Financials	5.85	10.89	-5.04
Real Estate	2.75	12.73	-9.98
Industrials	12.35	6.49	5.86
Materials	25.59	21.33	4.27
Energy	0.00	2.67	-2.67
Telecommunication	2.40	4.42	-2.02
Consumer Discretionary	10.93	15.25	-4.32
Utilities	0.00	0.28	-0.28
Consumer Staples	7.13	7.28	-0.15
Health Care	12.35	9.58	2.77
Information Technology	13.83	9.09	4.74
TOTAL	**100.0**	**100.0**	

Top 10 holdings

Bapcor Ord Shs
Nextdc Ord Shs
Northern Star Resources Ord Shs
Fisher And Paykel Healthcare Corporation Ord Shs
Healius Ord Shs
Reliance Worldwide Corporation Ord Shs
Saracen Mineral Holdings Ord Shs
OZ Minerals Ord Shs
Incitec Pivot Ord Shs
Seven Group Holdings Ord Shs

Portfolio metrics

	Ralton
PE	16.70
EPS Growth (%)	13.82%
Dividend Yield (%)	2.81%

August Monthly Commentary

The Ralton X50 portfolio returned +2.93% for the month, underperforming an exceptionally strong performance from the ASX Small Ordinaries Index (+7.24%) by -4.31%. Given the portfolios X50 mandate, absolute performance did capture some of the lower returns seen by the broader ASX, rising a still robust but lower +3.05%. Taking a longer term perspective, taking into consideration the strong performance leading into results the portfolio remains ahead of the Index by +1.41% over rolling quarter.

The reporting season that took place in August was always going to provide volatility as companies did their best to make sense of the uncertain backdrop while analysts attempted to gather insight into an unclear earnings outlook. Counterintuitively, companies most impacted by COVID faired the best as government stimulus and aggressive cost out measures delivered strong operational execution and results. Reporting season was broadly better than feared with more companies beating expectations than missing. Continuing on from recent performance trends Technology (+7.1%) and Consumer Discretionary (+22.5%) sectors performed best. Conversely, Energy (-6.7%) and Materials (0.5%) lagged. Despite the positive investor sentiment the market saw forecast growth decline by a further 2% with FY21 to see yet another year of EPS declines. Bucking this trend were upgraded outlooks in Resources and the Staples industries.

Turning to the portfolio, key stock positions in the Industrial sector, Reliance Worldwide (RWC), increasing 42% and Downer EDI (DOW), increasing +9.3% benefited returns after strong returns. As previously indicated consumer stock benefited strongly from stimulus measures with the boost driving consumption of homewares amid a general retail boom. We have remained cautious with key consumer holding Burson (BAP) and Kathmandu (KMD) benefiting but unable to offset the sector underweight. We view the sales boom as a pull forward in demand expect strong share prices to normalise as stimulus measures roll off. Moreover, the portfolio is positioned to benefit from increasing commodity prices as central bank stimulus finds it way to asset prices. In August, the gold price took a breather after a strong run. Collectively, gold positioning detracted over half of the difference to the benchmark return. We see a strong outlook for gold and commodity related companies and look forward to shining light on some key ideas in the communications ahead.