Ralton Dividend Builder

Portfolio Report | September 2020

Key facts

Income versus growth target

Income — Growth

Market cap bias

Large — Small

Investment strategy

A portfolio of ASX-listed equities designed to provide attractive tax-effective income

Investment objective

Outperform index by over 3% p.a.

Benchmark index

S&P/ASX 300 Accumulation Index

Portfolio Manager

Ralton Asset Management

Inception date

February 2008

Management fee

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

Number of stocks

25-35

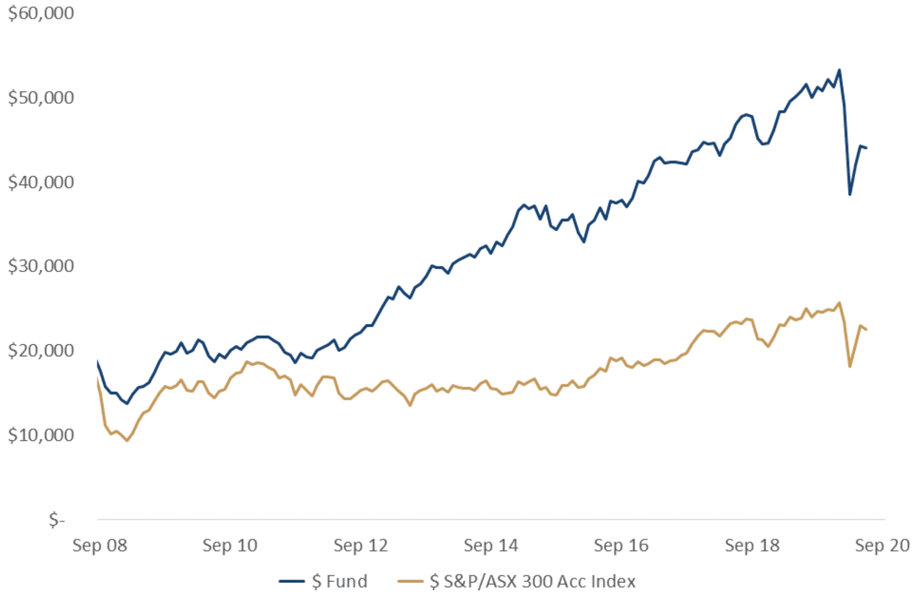
External ratings

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	**-1.92%**	**-1.68%**	**-15.50%**	**1.53%**	**4.73%**	**8.01%**	**6.16%**
Income	*0.82%*	*1.36%*	*4.22%*	*4.70%*	*4.70%*	*4.85%*	*4.99%*
Growth	*-2.73%*	*-3.04%*	*-19.72%*	*-3.17%*	*0.03%*	*3.16%*	*1.17%*
Index	**-3.59%**	**-0.06%**	**-9.96%**	**6.24%**	**7.42%**	**6.85%**	**4.67%**

Stock spotlight | Sonic Health Care (SHL)

Sonic Health Care (ASX: SHL) was added to the Dividend Builder Portfolio in early Aug-20. Sonic offers exposure to defensive growth evident within the health care sector and holds leading positions in Pathology across a global footprint, providing laboratory and imaging services in Australia, NZ, the UK, USA and Europe. Sonic has a strong track record of organic and inorganic growth through M&A. In addition, the company is a beneficiary of the current COVID environment with the need for testing expected to remain elevated well into 2021. With multiple drivers of growth, a strong management team, possibility for near term earnings surprise, we expect the current strong dividend yield to continue to grow along with our positive share price outlook.

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Sector allocation

Sector	Ralton	Index	+/-
Industrials	13.79	7.76	6.03
Containers & Packaging	6.88	0.97	5.91
Construction Materials	4.70	1.51	3.18
Metals & Mining	19.72	16.86	2.86
Consumer Staples	7.94	6.25	1.70
Utilities	2.38	1.65	0.73
Chemicals	0.00	0.68	-0.68
Energy	2.42	3.40	-0.98
Insurance	1.51	2.77	-1.25
Communication Services	2.70	4.10	-1.40
Banks	15.61	17.24	-1.63
Consumer Discretionary	6.00	7.85	-1.85
Diversified Financials	2.58	5.22	-2.64
Real Estate	4.61	7.30	-2.69
Information Technology	0.00	4.26	-4.26
Health Care	3.06	12.16	-9.10
TOTAL	**100**	**100**	

Top 10 holdings

BHP Group Ltd
National Australia Bank Limited
Evolution Mining Limited
James Hardie Industries PLC
Westpac Banking Corporation
Amcor PLC Shs Chess Depository Interests
Woolworths Group Ltd
Aurizon Holdings Ltd.
Commonwealth Bank of Australia
Seven Group Holdings Limited

Portfolio metrics

PE	15.90
EPS Growth (%)	7.20%
Dividend Yield (%)	4.42%

September Quarterly Commentary

Performance

Post a strong recovery in the June quarter, the September quarter saw a consolidation of gains with the ASX300 Accumulated Index largely flat, returning -0.06%. The Ralton Dividend Builder Portfolio underperformed over the quarter by -1.62% however delivered to its mandate for capital preservation in weaker markets, outperforming the market by +1.62% as the ASX sold off during September. During the quarter the portfolio generated 1.36% in income with portfolio gross dividend yield for the year ahead forecast to deliver 4.14%, ahead of the market gross yield of 3.38%.

Market Drivers

The September quarter was marked by a reporting season that illustrated government support for the consumer had been successful in boosting consumption, driving retail stocks (Discretionary + 9.1%) to new highs. More broadly, investor demand for long dated growth saw already expensive parts of the market including Information Technology (+13.1%) surge again, driving continued shift away from value style to growth, most clearly seen in August reporting season. However later in the quarter, supported by a Budget designed to drive an economic recovery, domestic industrials and resource stocks started what we see as a longer term rotation away from last years market darlings to more appropriately valued part of the market. While Resources were strong across the board, led by the Gold sector, Energy (-13.7%) and Financials (-5.7%) held the market back as economic demand concern remain outside of segments of the economy buoyed by targeted programs.

September Quarterly Commentary

Portfolio Drivers

Multinational firms James Hardie (ASX: JHX) and Amcor (ASX: AMC) made positive contributions to the Dividend Builder Portfolio in the Sep-20 quarter, along with not having exposure to some key underperforming companies, notably a2 Milk (ASX: A2M), ANZ Bank (ASX: ANZ) and AGL Energy (ASX: AGL). Positive contributions were also made by gold miner Evolution Mining (ASX: EVN), Spark New Zealand (ASX: SPK) and new investment Seven Group Holdings (ASX: SVW).

The three investments that detracted the most from performance in the Sep-20 quarter were Challenger (ASX: CGF), Origin Energy (ASX:ORG) and Insurance Australia Group (ASX: IAG). IAG released a disappointing FY20 result. The holding is under review, however it is noted that the current share price is broadly considered to undervalue the company. Challenger's FY21 outlook, provided at the FY20 results release, disappointed the market. However, Challenger is well capitalised, trading at a discount to NTA, and is now pivoting for future growth. Annuity sales are expected to rebound as Covid-19 restrictions ease. Origin Energy's FY21 guidance also disappointed the market, and the company's H2FY20 dividend payout was lower than expected. We assess the short term gas price outlook, as well as the risks around the wholesale electricity price, are more than priced into the share price. Additionally, a rebound of dividends is expected in FY21 (based on FCF).

Outlook

Looking forward we are of the view that the market will continue to remain range bound as significant global and domestic stimulus support elevated valuations, balanced by emerging risks to markets from the upcoming US election, increasing COVID cases in the US and Europe and the roll off of emergency stimulus as economies open. Given fiscal support, we see an increased likelihood that cyclical sectors will take the lead from last years winners in Tech and Healthcare driving a rotation in style that would benefit the teams focus on quality and value. The portfolio continues to hold a range of quality companies that are able to deliver growth, independent of the recovery trajectory while retaining the valuation discipline at the core of the Ralton process. Were we to see the Fed remove its aggressive stimulus measures we would change our current investment positioning. In any case, the portfolios long held mission to protect capital while delivering above market returns will place the portfolio well to deliver consistent returns in any environment.




Will Riggall	Dennison Hambling	Fleur Graves	Andrew Garside
17 years	22 years	12 Years	7 years
Portfolio management	Portfolio management	Portfolio management	Analyst
Broad Cap/Sector coverage	Broad Cap/Sector coverage	Broad Cap/Sector coverage	Broad Cap/Sector/Dealer