Ralton Australian Equity Ex 50

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 high capital growth

Investment objective

Outperform index by over 4% p.a.

Benchmark index

S&P/ASX Small Ordinaries Accumulation

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	**-3.16%**	**3.89%**	**-5.31%**	**2.89%**	**6.18%**	**8.96%**	**6.55%**
Income	*0.57%*	*0.76%*	*1.97%*	*2.51%*	*2.65%*	*3.32%*	*3.53%*
Growth	*-3.73%*	*3.13%*	*-7.28%*	*0.38%*	*3.53%*	*5.65%*	*3.02%*
Index	**-2.82%**	**5.67%**	**-3.33%**	**8.02%**	**9.97%**	**3.53%**	**1.70%**

Stock spotlight | Bapcor (BAP)

Bapcor (BAP.ASX) performed strongly in the September quarter (+17%) as investors continued to back companies benefiting from the dual positives of fiscal stimulus as well as exposure to the opening of the economy. Ralton has long been attracted to the company's strong competitive position in the after market auto parts supply chain within an industry delivering defensive growth, backing our conviction in March and topping up at $3.55. Bapcor remains the no.1 distributor of after market parts to a fragmented car service industry. Moreover, through acquisition is has gained a strong presence in the retail market as well as back along its supply chain into parts and wholesale. The combination of structural growth in the number of cars in circulation, a strong store rollout strategy and a margin expansion story through private label penetration will allow the company to sustainably deliver 7-8% EPS growth over the next few years. We have a strong regard for management, and remain confident the company will deliver strong share price performance ongoing.

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Sector allocation

Sector	Ralton	Index	+/-
Industrials	16.72	8.80	7.93
Chemicals	4.41	0.58	3.83
Information Technology	12.67	7.22	5.45
Containers & Packaging	2.33	0.21	2.12
Insurance	3.53	1.89	1.64
Metals & Mining	18.29	17.22	1.07
Health Care	6.85	7.43	-0.57
Banks	0.00	1.05	-1.05
Consumer Staples	5.13	6.75	-1.62
Energy	0.00	2.39	-2.39
Construction Materials	0.00	2.83	-2.83
Communication Services	2.42	5.78	-3.36
Consumer Discretionary	13.53	17.13	-3.60
Diversified Financials	2.24	7.76	-5.52
Real Estate	3.28	12.96	-9.68
TOTAL	**100**	**100**	

Top 10 holdings

Bapcor Ltd
Appen Ltd.
Healius Limited
Northern Star Resources Ltd
Seven Group Holdings Limited
Steadfast Group Limited
Nextdc Limited
Centuria Industrial REIT
Reliance Worldwide Corp. Ltd.
Saracen Mineral Holdings Limited

Portfolio metrics

	Ralton
PE	15. 80
EPS Growth (%)	17. 70%
Dividend Yield (%)	2. 93%

September Quarterly Commentary

Performance

Post a strong recovery in the June quarter, the September quarter exhibited further gains with the ASX Small Ordinaries Accumulated Index delivering +5.67%, materially outperforming broad market. Post a very strong June quarter, the Ralton X50 Portfolio gave back some of its relative outperformance, delivering +3.13% absolute returns, -1.78% weaker than the XSO benchmark. Given the significant difference in returns between the large and small components of the market, the portfolios exposure to mid cap names did impact quarterly performance. However we remain convinced of the strength of the strategy with a total return for the portfolio of +28.36% well ahead of the broader ASX300 return of +18.55%.

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 to 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

Key positive contributors to the X50 portfolio in the September quarter were key sector overweight's in Information Technology and Healthcare as well as avoiding the Energy sector as weak Oil prices impacted share price performance. Within the IT sector, Next DC increased 25% as the FY20 result indicated an acceleration of demand for space in their Tier1 data centres, in addition key holding Life 360 (+18%) continued its strong run as more members joined the mobility/safety app. Healius (+18%) performed strongly post the sale of the medical centres allowed investors to focus on the strong Pathology testing backdrop. At a stock specific level key holding Bapcor (+17%) contributed strongly given its top 5 position, and the portfolio moved quickly to add to Reliance Worldwide (RWC) post a strong result as the share price ended up 30% for the quarter.

Despite strong absolute returns, relative performance was impacted by the portfolios underweight to the Consumer Discretionary sector, as stimulus cheques and Superannuation withdrawals have driven an aggregate increase in spending compared to a non-COCID impacted prior year. Given the expectation that the next year holds a high level of uncertainty we are reticent to chase what we see as a short term thematic.

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