Ralton Leaders

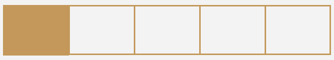
Portfolio Report | September 2020

Key facts

Income versus growth target

Income Growth

Market cap bias



Large Small

Investment strategy

A portfolio of ASX-listed equities designed for long-term capital growth and some tax-effective income

Investment objective

Outperform index by over 3% p.a.

Benchmark index

S&P/ASX 100 Accumulation Index

Portfolio Manager

Ralton Asset Management

Inception date

February 2008

Management fee

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

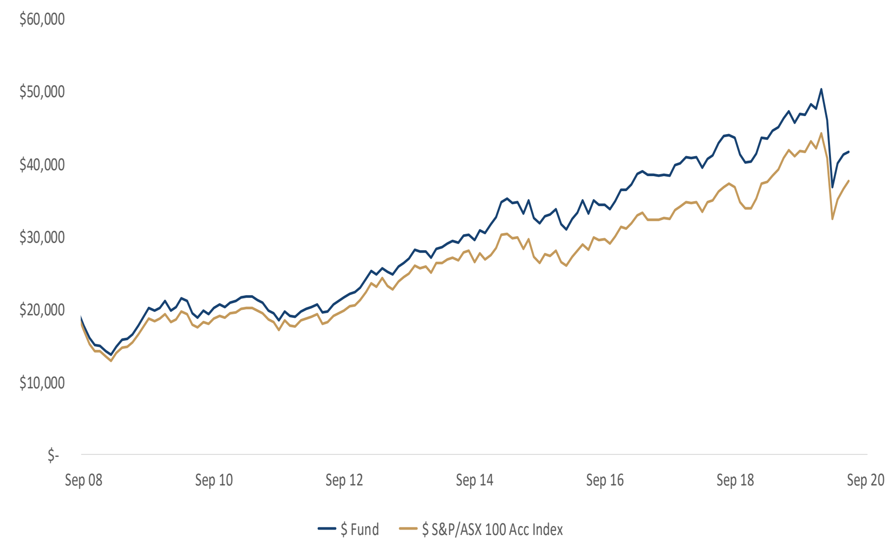
Number of stocks

25-35

Key platforms

Brightday, Linear, OneVue, 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	**-1.76%**	**0.85%**	**-10.27%**	**3.58%**	**5.76%**	**7.61%**	**5.90%**
Income	*0.50%*	*0.93%*	*2.83%*	*4.03%*	*4.04%*	*4.25%*	*4.45%*
Growth	*-2.25%*	*-0.08%*	*-13.09%*	*-0.46%*	*1.72%*	*3.37%*	*1.45%*
Index	**-3.70%**	**-0.79%**	**-10.79%**	**6.03%**	**7.15%**	**7.13%**	**4.95%**

Stock spotlight | ALS Limited (ALQ)

ALS Limited (ALQ.ASX) performed strongly in July, appreciating 30%+ since acquisition mid July. ALQ provides global laboratory testing services, holding strong market positions in its key verticals of Commodities as and Life Sciences, wit the latter the provision of sampling services for environmental, consumer and pharmaceutical products. We see an improving backdrop as global economic re-opening drives increased testing in both segments with mines and economies open up post shutdowns. More specifically, strong commodity prices are beginning to drive junior miner capital raising which historically has led to increased exploration and testing volumes. The catalyst for the sharp appreciation was a positive update at the company's AGM in July, confirming the a pick up in commodity testing volumes and the non-cyclical life sciences division continues to deliver structural growth. Post the move, ALQ continues to trade at discount to its intrinsic value with near term revenue and margin well below peak cycle. Strong management, a well-capitalised balance sheet and expected earnings upgrades set a strong foundation for further outperformance.

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Sector allocation

Sector	Ralton	Index	+/-
Communication Services	8.30	3.86	4.45
Containers & Packaging	3.91	1.08	2.84
Metals & Mining	19.00	16.81	2.19
Health Care	14.90	12.85	2.05
Construction Materials	3.14	1.32	1.82
Chemicals	2.02	0.70	1.32
Industrials	7.39	7.61	-0.22
Consumer Staples	5.86	6.17	-0.31
Energy	2.63	3.55	-0.92
Utilities	0.00	1.89	-1.89
Banks	17.48	19.58	-2.10
Consumer Discretionary	4.35	6.51	-2.16
Information Technology	1.61	3.84	-2.22
Diversified Financials	2.31	4.86	-2.55
Insurance	0.00	2.90	-2.90
Real Estate	2.19	6.48	-4.30
TOTAL	**100**	**100**	

Top 10 holdings

BHP Group Ltd
CSL Limited
National Australia Bank Limited
Telstra Corporation Limited
Woolworths Group Ltd
Westpac Banking Corporation
Commonwealth Bank of Australia
Northern Star Resources Ltd
Aristocrat Leisure Limited
Amcor PLC Shs Chess Depository Interests

Portfolio metrics

	Ralton
PE	18.90
EPS Growth (%)	9.30%
Dividend Yield (%)	3.37%

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 pulling back, returning -0.79%. The Ralton Concentrated Equity Portfolio performed strongly in what was a volatile period, marked by a broadly positive reporting season, delivered +1.64% ahead of the index including a strong income return. In a reversal of what we saw as unsustainable share price moves during August, September portfolio returns were +1.94% ahead of a weakening market.

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

Key drivers of the strong performance over the quarter were the portfolios strong overweight positions in the Materials sector driven by key exposure James Hardie (+20.4%) that continue to benefit from a positive US Housing thematic, as well as key copper exposure, OZ Minerals (+28.5%) which is benefiting from a tight global supply and strong operational execution driving production growth. Given the concentrated nature of Ralton portfolio construction, conviction positions; ALS Limited (+40%), Aristocrat Leisure (+17.5%) and Nine Entertainment (+28%) benefited respectively from strong mining activity, opening of US casinos and increased investor appreciation of the quality of its digital assets.

Conversely, sectors that detracted from performance during the month included the trending IT sector, led by Afterpay (+31%) and the portfolio underweight in the REIT sector led by Goodman Group (+20%). Following the broader weak performance in the Financials sector, Challenger (-13%) underperformed, given the heavy discount to book value, we see material upside should the company deploy its large capital reserves and deliver on its strong track record of ROE. While underweight the Energy sector assisted outperformance, the holding in Beach (-12.5%) held back performance. We remain attracted to the company's track record of value creation and see the under geared balance sheet as likely to be utilised for near term accretive M&A.

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