Ralton Dividend Builder

Portfolio Report | October 2020

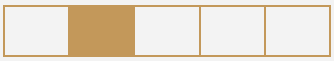
RALTON ASSET MANAGEMENT

Key facts

Income versus growth target

Income — Growth

Market cap bias



Large — Small

Investment strategy

A portfolio of ASX-listed equities designed to provide 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

Stock spotlight | Nine Entertainment Group (NEC)

In late September the Ralton Dividend Builder portfolio initiated a position in Nine Entertainment Group (NEC), the stock performed very strongly in October rising 19%.

Since re-listing NEC has assembled a range of media assets including Channel 9, Stan, Fairfax newspapers, Domain and radio. While peer media companies face strong economic headwinds as advertisers have reduced advertising spend in the face of global uncertainty we are of the view that Nine Entertainments diversity and exposure to digitals assets is under-appreciated by the market. On our estimates 50% of the SOTP value for NEC is now contributed by new media assets (Stan, Domain and Broadcast Video on Demand (BVOD). The company's FY20 result illustrated to the investment community that their digital assets are able to drive growth despite a weak environment with "Stan" delivering a large uplift in earnings as well as resilient earnings outcomes from the traditional media assets of TV, Radio and Newspapers. The company should continue to re-rate as its new media assets drive earnings growth amid continuing improvement in the ad cycle as COVID pressures subside. The group has a strong balance sheet and a strong and

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	**0.98%**	**-0.54%**	**-13.91%**	**0.09%**	**4.29%**	**7.89%**	**6.20%**
Income	*0.06%*	*1.43%*	*4.29%*	*4.79%*	*4.71%*	*4.84%*	*4.96%*
Growth	*0.92%*	*-1.97%*	*-18.20%*	*-4.70%*	*-0.42%*	*3.04%*	*1.23%*
Index	**1.89%**	**1.22%**	**-7.91%**	**4.22%**	**6.89%**	**6.86%**	**4.79%**

Portfolio October Performance and Drivers

The Ralton Dividend Builder portfolio returned +0.98% for the month, underperforming another strong performance from the ASX300 Accumulated Index (+1.89%) by -0.90%. Key drivers of the strong performance over the month were the portfolios strong stock selection in the Diversified Financial sector driven by Challenger (+26%) post a strong update and nascent evidence of investor appetite for value style over growth. James Hardie increased 4.35% post upgrading its 2021 guidance however with a low income yield and insufficient upside we exited the stock crystallising material gains. As mentioned we are increasingly confident on the outlook for the bank sector and recent addition in NAB (+5%) drover performance. The teams investment thesis in Nine Entertainment continues to play out as digital growth from assets Stan and catch up TV outpaces traditional media structural decline. Finally, as highlight budget beneficiaries rallied and the portfolios investment in Seven Group (SVW) increased +8.4% with division Westrac and Coates set to benefit from domestic activity.

Conversely, key detractors to the portfolio in October related increasing global growth concern in the lead up the election as well as evidence of rising global COVID cases, global cyclical companies were impacted including BHP (-5%), Aurizon Holdings (-11%) and Perenti Global (-6%). Specifically, AZJ.ASX share was further impacted by moves by China to halt the import of Australian Coal, we see a cost out and a sustainable 6% yield as key support for shareholder returns, moreover the company's key Met Coal customers are not impacted as thermal coal remains the key target of trades tensions. Finally the portfolio underweight in the Information Technology impacted returns in the month with Afterpay increasing 21%. The portfolio remains committed to its dual target of providing both income and capital returns. We significant valuation risk in these high PE names and without dividend support we do not see them meeting our investment criteria.

Sector allocation

Sector	Ralton	Index	+/-
Banks	**18.49**	**18.20**	**0.29**
Communication Services	**5.51**	**3.99**	**1.52**
Consumer Discretionary	**6.14**	**7.77**	**-1.64**
Consumer Staples	**7.99**	**6.44**	**1.55**
Containers & Packaging	**6.84**	**0.93**	**5.91**
Diversified Financials	**3.21**	**5.35**	**-2.14**
Energy	**2.39**	**3.29**	**-0.90**
Health Care	**3.19**	**12.05**	**-8.87**
Industrials	**12.94**	**7.35**	**5.59**
Insurance	**1.63**	**2.77**	**-1.13**
Metals & Mining	**18.61**	**16.34**	**2.27**
Real Estate	**7.11**	**7.19**	**-0.07**
Utilities	**2.28**	**1.60**	**0.68**
TOTAL	**100**	**100**	

Top 10 holdings

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

Portfolio metrics

PE	13.90
EPS Growth (%)	5.60%
Dividend Yield (%)	4.75%

October Monthly Market Commentary

October was marked by four key themes which together drove the Australian market higher, outperforming global indices and showed continued signs of the beginning of style rotation to cyclicals and value related parts of the index. Drivers included a stimulatory budget, increased prospects of further RBA easing and the initial opening of the Victorian economy as COVID numbers continued to decline. M&A also returned to the market with takeover bids for LNK, AMP as well as Saracen (SAR) and Norther Star(NST) announcing their merger.

Despite the outlook for the Australian economy strengthening, IT was again the strongest performer in the month increasing +7%, led by Afterpay (+21%). This was closely followed by the Banking sector increasing 5.6%. The Ralton portfolio has been increasing its weight to financials through an increased weight in CBA and NAB. A steepening yield curve which was evident in October, which is broadly positive for financials, moreover, we are becoming incrementally positive on Banks due to an improving consumer delivering better than expected bad debt charges and evidence of strong cost control in what is likely to remain a low growth environment for credit.

Increasing caution in the lead up to the US election, with global COVID cases surging saw Materials (-1.2%) pull back led by BHP declining -5% and the Industrials sector pulling back -3.9% led by Transurban (-4.6%).