

Ralton Dividend Builder

Portfolio Report | October 2020

Key facts

Income versus growth target



Market cap bias



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 digital 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%).

Performance of the Ralton Dividend Builder Model Portfolio is based on a model portfolio and is gross of investment management and administration fees, but net of transaction costs. The total return performance figures quoted are historical and do not allow the effects of income tax or inflation. Total returns assume the reinvestment of all portfolio income. Past performance is not a reliable indicator of future performance. * The performance comparison of \$20,000 over 5 years is for illustrative purposes only. Performance is calculated on a gross basis. Actual performance will vary depending on the amount of fees charged by the relevant platform that a client uses to implement the portfolio. The comparison with the S&P/ASX 300 Accumulation Index is for comparative purposes only. Index returns do not allow for transaction, management, operational or tax costs. An index is not managed and investors cannot invest directly in an index. There is no guarantee these objectives will be met. # Portfolio holdings may not be representative of current or future recommendations for the portfolio. The securities listed may not represent all of the recommended portfolio's holdings. Future recommended portfolio holdings may not be profitable. This document is for general information only and does not take into account the specific investment objectives, financial situation or particular needs of any specific reader. As such, before acting on any information contained in this document, readers should consider whether the information is suitable for their needs. This may involve seeking advice from a qualified financial adviser. Ralton Asset Management (ABN 45 114 924 382) (Ralton) is the provider of the Ralton Wholesale High Yield Australian Shares Model Portfolio. To subscribe, contact Copia Investment Partners Ltd (AFSL 229316, ABN 22 092 872 056) (Copia) by calling 1800 442 129 or email clientservices@copiapartners.com.au. Any opinions or recommendations contained in this document are subject to change without notice. Ralton and Copia are under no obligation to update or keep information contained in this document current. ZENITH: The Zenith Investment Partners ("Zenith") Australian Financial Services License No. 226872 rating (assigned June 2019) referred to in this document is limited to "General Advice" (as defined by the Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Zenith usually charges the product issuer, fund manager or a related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessment's and at <http://www.zenithpartners.com.au/RegulatoryGuidelines>. LONSEC: The Lonsec Rating (assigned August 2019) presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product(s). Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold Ralton Asset Management product, and you should seek independent financial advice before investing in this product. The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document following publication. Lonsec receives a fee from the Fund Manager for researching the product using comprehensive and objective criteria. For further information regarding Lonsec's Ratings methodology, please refer to our website at: <http://www.lonsecresearch.com.au/research-solutions/our-ratings>