# Ralton Australian Equity Ex 50

Portfolio Report | October 2020

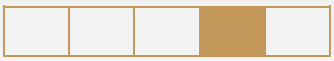
RALTON ASSET MANAGEMENT

## Key facts

### Income versus growth target

Income Growth

### Market cap bias



Large Small

### Investment strategy

A portfolio of ASX-listed equities designed to provide high capital growth

### Investment objective

Outperform index by over 4% p.a.

### Benchmark index

S&P/ASX Small Ordinaries Accumulation Index

### 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

## Stock spotlight | Nickel Mines Limited (NIC)

During the month Nickel Mines (NIC) signed an MOU offtake partner (Shanghai Decent Investment) for a significant expansion to its current operations which could double the company's current Nickel production delivering significant value for shareholders. with Nickel Mines (NIC) is an Indonesian focussed integrated nickel miner and producer that has been listed on the ASX since August 2018. NIC is well positioned as the largest payable Nickel producer listed on the ASX with bottom quartile operating costs and therefore high margins. Despite a strong recent run, we see continued potential for a strong re-rate as company delivers mandated growth from increasing ownership of processing plants amid a strengthening global outlook. With a intrinsic value well above the current price we foresee the risk return trade-off as attractive and look forward to providing further updates as the company investment moves the once small operator to the 6th largest Nickel producer globally.

## 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 | **1.61%** | **1.28%** | **-3.78%** | **0.64%** | **5.20%** | **9.00%** | **6.64%** |
| Income | *0.06%* | *0.77%* | *1.95%* | *2.49%* | *2.62%* | *3.27%* | *3.51%* |
| Growth | *1.55%* | *0.51%* | *-5.73%* | *-1.85%* | *2.58%* | *5.73%* | *3.13%* |
| Index | **0.46%** | **4.69%** | **-2.40%** | **4.63%** | **8.56%** | **3.24%** | **1.72%** |

## Portfolio October Performance and Drivers

The Ralton X50 portfolio returned +1.61% for the month outperforming another solid month for the Small Ordinaries Accumulated Index (+0.46%) by +1.15%.

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. Active positions in the mining sector delivered strong performance as dual holdings NST and SAR announced a strategic and financially positive merger with both stock lifting strongly. Key holding James Hardie increased 4.35% post upgrading its 2021 guidance and long term holding Link Administration Holdings (LNK) rose 28% post a bid by Private Equity. The company still trades at a discount to the bid and our assessed intrinsic value and we will continue to hold until the value for the core super administration franchise and emerging property tech platform PEXA is realised.

Conversely, at a sector level the portfolios overweight to commodity sectors that detracted from performance during the month included the Industrial sector with Austal (ASB) down 17% as the company was implicated in a corruption probe. We take ESG considerations very seriously and have engaged with the company and are seeking further information. As is stands the company appears have acted appropriately. We remain attracted to the strengthening outlook for mining capex as commodity prices remain strong, however key holdings Perenti (-11%) and Emeco Holdings (-10%) declined due to elevated concern regarding global growth in the lead up to the US election. After a strong run, Healius (HLS) decline -7.5% as Victoria emerged from its COVID lockdown, we see a continued strong outlook for HLS as COVID pathology volumes are replaced by a return to normal testing patterns.

## Sector allocation

| Sector | Ralton | Index | +/- |
|---|---|---|---|
| **Chemicals** | **3.95** | **0.51** | **3.43** |
| **Communication Services** | **2.28** | **5.58** | **-3.30** |
| **Consumer Discretionary** | **13.23** | **17.13** | **-3.91** |
| **Consumer Staples** | **6.87** | **7.01** | **-0.14** |
| **Containers & Packaging** | **2.32** | **0.21** | **2.11** |
| **Diversified Financials** | **5.04** | **7.93** | **-2.89** |
| **Health Care** | **4.04** | **6.70** | **-2.66** |
| **Industrials** | **15.94** | **8.83** | **7.11** |
| **Information Technology** | **12.60** | **7.14** | **5.46** |
| **Insurance** | **4.79** | **2.01** | **2.77** |
| **Metals & Mining** | **18.62** | **17.76** | **0.86** |
| **Real Estate** | **3.13** | **12.97** | **-9.85** |
| **TOTAL** | **100** | **100** | |

## Top 10 holdings

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

## Portfolio metrics

| | Ralton |
|---|---|
| PE | 13.60 |
| EPS Growth (%) | 14.90% |
| Dividend Yield (%) | 2.94% |

## 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.

The Small Ordinaries underperformed the Mid and Large segments of the index as Tech and Banks led large cap indices. The key driver of the Small Index in October was the strong returns in the Financial Sector (+5.5%) led by portfolio holding Steadfast as the company upgraded guidance. Following the economy friendly budget, Consumer Staples (+1.8%) and Discretionary (+1.7%) sector performed well, as Metcash (+6.9%) was buoyed by strong supermarket results from Woolworths and Coles, while in the Discretionary sector stellar performer AP Eagers (+18.7%) was boosted by a return to strong October new car sales statistics.

Detractors from market returns were again centred in laggard Energy sector (+0.8%) as weak coal pricing impacted, however major declines were seen in the Healthcare sector (+8.6%) as high PE healthcare names Mesoblast (MSB) and Nanosonics (NAN) declined -40% and -9.3% commensurately post disappointing updates.