

Ralton Leaders

Portfolio Report | October 2020



Key facts

Income versus growth target



Market cap bias



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



Stock spotlight | QBE Insurance Limited (QBE)

The Ralton Leaders Portfolio initiated a position in QBE Insurance (QBE.ASX) in October. The company operates across a range of geographies and offers insurance and reinsurance to individuals and corporate entities under leading brands. Strong operational momentum under the group's "brilliant basics" has been masked by the recent exit of CEO Pat Regan. The benefits of Ralton's patient approach to investing now provide the opportunity to acquire a position in the company at a discount to book and our assessed intrinsic value with the benefits of the cost out program to continue and the premium pricing cycle set to drive earnings growth for the foreseeable future. COVID risks appear limited from business interruption (BI) claims and the recent capital raising place the company in the strongest financial position in the last decade. We look for the announcement of a replacement CEO to drive investor confidence, combined with the strong earnings outlook we see the prospect for material share price gains, supported by a better than market yield.

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	1.64%	1.48%	-8.48%	2.39%	5.47%	7.57%	5.99%
Income	0.00%	0.93%	2.81%	4.01%	4.02%	4.25%	4.42%
Growth	1.64%	0.55%	-11.28%	-1.62%	1.46%	3.33%	1.57%
Index	2.09%	0.78%	-8.58%	4.17%	6.72%	7.17%	5.09%

Portfolio October Performance and Drivers

The Ralton Leaders portfolio returned +1.64% for the month, underperforming another strong performance from the ASX100 Accumulated Index (+3.05%) by -0.45%.

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. 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 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, Active positions in the mining sector delivered strong performance with OZL increasing 6% and NST (+9%) contributing strongly post an announced merger with Saracen minerals, the combination will drive increased investor interest

Conversely, sectors that detracted from performance during the month included Healthcare sector as recent strong performer Ramsay Healthcare (-6%) declined as International operations are set to be impacted again by a COVID resurgence and non held high PE health names performed strongly. Concerns in the lead up the election and rising global COVID cases impacted global cyclical companies BHP (-5%), Aurizon Holdings (-11%) and Beach Energy (-11%). AZJ.ASX share was further impacted by moves by China to halt the import of Australian Coal and BPT.ASX suffered as Oil price declined. We see both companies well positioned to drive growth independent from commodity prices.



Sector allocation

Sector	Ralton	Index	+/-
Banks	18.25	20.63	-2.39
Chemicals	1.88	0.67	1.21
Communication Services	8.33	3.77	4.56
Construction Materials	3.22	1.34	1.88
Consumer Discretionary	4.08	6.43	-2.35
Consumer Staples	6.03	6.36	-0.33
Containers & Packaging	3.71	1.04	2.68
Diversified Financials	2.84	4.98	-2.14
Energy	2.31	3.45	-1.13
Health Care	11.86	12.82	-0.97
Industrials	8.08	7.14	0.94
Information Technology	2.03	4.17	-2.14
Insurance	2.39	2.88	-0.49
Metals & Mining	17.19	16.14	1.05
Real Estate	2.22	6.36	-4.14
TOTAL	100	100	

Top 10 holdings

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

Portfolio metrics

	Ralton
PE	15.30
EPS Growth (%)	8.40%
Dividend Yield (%)	3.69%

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%. We Ralton portfolio has been increasing its weight to financials through an increased weight in NAB and adding QBE. Both businesses perform better coincidental with a steepening yield curve which was evident in October. 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%).