Ralton Dividend Builder

Portfolio Report | November 2020

RALTON ASSET MANAGEMENT EST. 2005

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 | Turning Positive Banks

Over the last quarter we have become more constructive on the Australian major banks, and subsequently lifted the portfolio exposure form a long held underweight to marginally overweight. What had become clear was the worst case scenarios around housing (in particular) would not be realised with extreme stimulus measures and lower mortgage rates supporting consumer balance sheets and confidence. Conversely, upside scenarios are now moving into consideration. This should reduce credit risk and help lift profit growth through to FY23.

That said we still see the structural risks of aggressive (more flexible) competition, and low margins (due to low interest rates) as making the organic outlook for the majors muted on a multi-year basis. They are currently trading slightly cheap to historical (5 year) book value (at 0.9x) but cheaper than historical average to the market PE (by 1 standard deviation). With the worst of COVID-19 moving into the background, the question remains how the picture will settle once the initial adrenaline of the declining threat begins to fade. We continue to pick our exposures bottom up, and view NAB as the best exposure (on a risk/reward basis) as the cultural reset that has occurred under Ross McEwan begins to unlock the potential of

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	**11.01%**	**9.96%**	**-6.87%**	**3.48%**	**6.47%**	**9.15%**	**7.02%**
Income	*0.25%*	*1.13%*	*3.88%*	*4.66%*	*4.62%*	*4.80%*	*4.95%*
Growth	*10.76%*	*8.82%*	*-10.76%*	*-1.18%*	*1.85%*	*4.36%*	*2.07%*
Index	**10.23%**	**8.27%**	**-1.62%**	**7.06%**	**9.14%**	**8.01%**	**5.56%**

Portfolio November Performance and Drivers

The Ralton Dividend Builder portfolio returned +11.01% for the month, outperforming another strong performance from the ASX300 Accumulated Index (+10.23%) by +0.79%.

Key drivers of the strong performance over the month were the portfolios strong stock selection with recent additions to the portfolio benefiting from the cyclical rotation. Real Estate was a key contributor, up +14% over the month with Scentre Group up a staggering 33% as investors cheered strong domestic spending and moving into the premier retail mall owner in Australia. We see further upside ahead as the company closes its discount to book value. The portfolio benefited from its underweight to Healthcare as large benchmark weight CSL +3.4% underperformed, rewarding Ralton's valuation discipline. Woodside (+27.7%) and Challenger (+20%) contributing as vaccine rollout buoyed Energy and Financial sectors.

Conversely, key detractors to the portfolio in November can be put down to the defensive holdings that did not keep pace with the pro-cyclical trend. The portfolios single holding within the Gold sector was the major detractor Evolution Mining declining 10% in line with its sector peers. We remain constructive on the name given the solid growth outlook and dividend yield as well as its diversifying characteristics. While Value style stocks trended higher, low PE defensives were left behind with Tassal Group (+2.54%) lagging and long term holdings Amcor (AMC) up 4% and Sonic Healthcare (SHL) down 5.4% with no specific news flow. 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	19.54	19.38	0.16
Communication Services	5.31	4.15	1.15
Consumer Discretionary	8.50	7.66	0.84
Consumer Staples	4.76	5.82	-1.06
Containers & Packaging	3.99	0.87	3.12
Diversified Financials	3.45	5.31	-1.86
Energy	3.77	3.83	-0.07
Health Care	2.72	11.27	-8.55
Industrials	14.27	7.48	6.79
Insurance	1.59	2.93	-1.34
Metals & Mining	17.01	15.92	1.10
Real Estate	8.85	7.39	1.45
Utilities	2.12	1.47	0.65
TOTAL	**100**	**100**	

Top 10 holdings

- BHP Group Ltd
- National Australia Bank Limited
- Commonwealth Bank of Australia
- Westpac Banking Corporation
- Scentre Group
- Amcor PLC
- Woodside Petroleum Ltd
- Evolution Mining Limited
- Challenger Limited
- Seven Group Holdings Limited

Portfolio metrics

PE	14.70
EPS Growth (%)	8.80%
Dividend Yield (%)	4.42%

November Monthly Market Commentary

The 10.2% delivered in November ranks in the top 10 monthly returns since 1980. An extraordinary return for investors driven by a rotation into cyclical exposures following news of vaccine approvals in the UK and the US. Continued strong demand for Iron Ore assisted the AUD to new highs, further supporting the outlook for Australia's domestic recovery.

Cyclicals sit within the "value" bucket with Financials up 15% led by the major banks and Energy, up 28% as global Oil prices lifted after lagging the broader commodity complex. The rotation was funded by COVID winners and defensives with the Staples sector down -0.72% for the month, with Healthcare (+2.72%) and Utilities (+1.16%) lagging the market strength. The Materials sector underperformed to a lesser extent (+7.25%) with commodity returns bifurcating with Iron Ore surging and Gold weakening despite a weaker USD. We remain positive the broad commodity complex with inflation expectations lifting and a continued growth in China set to drive Precious, Base and Bulk materials higher.