

# Ralton Leaders

Portfolio Report | November 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 | Turning Positive Banks

Over the last quarter we have become more constructive on the Australian major banks, and subsequently lifted the portfolio exposure from 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	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 November Performance and Drivers

The Ralton Leaders portfolio returned +11.05% for the month, outperforming another strong performance from the ASX100 Accumulated Index (+10.22%) by +0.82%. Pleasingly, on a rolling quarter basis the portfolio has added +2.51% above the index return.

Key drivers of the strong performance over the month were the portfolios strong stock selection in the Diversified Financials sector driven by another strong month from Challenger (+20%) and QBE (+21%) lifting as the sector saw strong buying support due to higher yields and evidence of a premium tightening cycle in the global insurance sector. post a strong update. The portfolio recently moved oversight banks, timely given the strong sector performance with key bank exposure NAB up 25%. Given the Oil price surge in November, preferred exposure Beach (BPT) was up a 49%. Despite the strong run, our fundamental valuation remain ahead of current levels and the strong balance sheet and multiple growth drivers will enable the company to growth outside of Oil price performance. 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 key holdings Northern Star and declining post recent gains, at a sector level the impact was muted post reducing the stock weight above \$16. We remain constructive on solid growth outlook for Northern Star and the sector more broadly with decade high operating margins, strong diversifying characteristics, and inflation expectation set to increase the gold as well as the broad commodity complex's appeal. Holdings in the Staples, Paper & Packaging and Healthcare sectors, WOW, AMC and RHC detracted from performance as the market move to reposition for an accelerating economy. All names offer strong growth outlooks with

## Sector allocation

Sector	Ralton	Index	+/-
Banks	23.67	21.96	1.71
Chemicals	2.01	0.67	1.34
Communication Services	8.49	3.91	4.58
Construction Materials	3.31	1.37	1.94
Consumer Discretionary	4.11	6.35	-2.25
Consumer Staples	5.25	5.69	-0.44
Containers & Packaging	3.44	0.97	2.47
Diversified Financials	3.06	4.85	-1.79
Energy	3.11	4.04	-0.93
Health Care	9.09	11.91	-2.82
Industrials	8.04	7.27	0.77
Information Technology	1.88	3.96	-2.08
Insurance	2.60	3.07	-0.47
Metals & Mining	16.61	15.66	0.95
Real Estate	2.34	6.64	-4.30
<b>TOTAL</b>	<b>100</b>	<b>100</b>	

## Top 10 holdings

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

## Portfolio metrics

	Ralton
PE	16.20
EPS Growth (%)	11.90%
Dividend Yield (%)	3.46%

## 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.