Ralton Concentrated Australian Equity

Portfolio Report | December 2020

Key facts

Income versus growth target

Income — Growth

Market cap bias

Large — Small

Investment strategy

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

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	**0.92%**	**12.22%**	**-2.44%**	**2.44%**	**6.06%**	**8.25%**	**6.70%**
Income	*0.01%*	*0.30%*	*2.44%*	*3.78%*	*3.86%*	*4.04%*	*4.20%*
Growth	*0.91%*	*11.92%*	*-4.88%*	*-1.35%*	*2.20%*	*4.21%*	*2.50%*
Index	**1.32%**	**13.79%**	**1.73%**	**6.87%**	**8.84%**	**7.75%**	**5.63%**

Portfolio December Performance and Drivers

The Ralton Concentrated portfolio returned +0.92% for the month, marginally underperforming a robust 1.39% return for the ASX300 Accumulated Index. Looking across quarterly and sixth month periods, the portfolio has delivered 12.22% and 14.05% respectively, returning -1.57% and +0.32 against the index.

The market consolidated returns in December post Novembers outsized 10.2% gain, totalling 13.80% over the quarter. Key drivers of market performance were expectations of continued monetary stimulus, vaccine approvals in the US and UK and prospects for Biden led Fiscal spending. After a decade long period of style preference for growth over value, 2020 laggards Energy, Financials, Resources began to deliver returns while Technology stocks appear to be making their last run. The Banking (+28%) & Energy (+26%), closely followed by Information Technology (+24%) led the market higher in the December quarter. All banks outperformed the market with 2020 laggards ANZ and NAB leading. The Energy sector was boosted by the surge in Oil as the commodity lifted from its lows after lagging. The more operationally and financially leveraged names Oil Search (+40.5%) and Beach Energy (36.7%) led the sector. While 2020's winner IT increased 28% led by top 50 names Xero (+15%) and Afterpay (+47%) with Link Administration increasing 49% after receiving a bid from PE; the portfolio took advantage of share price strength to exit the position. As the market became more convinced that an economic recovery was taking hold long term rates began to increase. A steepening yield curve is commonly positive for cyclical names such as Resources and Financials which was certainly seen in the December quarter. While conversely interest rate sensitive sectors,

Sector allocation

Sector	Ralton	Index	+/-
Banks	20.29	19.24	1.05
Chemicals	3.99	0.62	3.37
Communication Services	4.91	4.05	0.87
Construction Materials	3.00	1.54	1.46
Consumer Discretionary	5.28	7.68	-2.39
Consumer Staples	5.09	5.88	-0.78
Containers & Packaging	4.44	0.87	3.58
Diversified Financials	3.72	5.14	-1.42
Energy	2.33	3.76	-1.43
Health Care	8.70	10.61	-1.91
Industrials	11.65	7.18	4.47
Insurance	2.23	2.74	-0.50
Metals & Mining	18.46	17.45	1.02
Real Estate	2.25	7.26	-5.02
TOTAL	**100**	**100**	

Top 10 holdings

BHP Group Ltd

National Australia Bank Limited

Westpac Banking Corporation

Commonwealth Bank of Australia

Telstra Corporation Limited

Amcor PLC

Incitec Pivot Limited

Challenger Limited

Woolworths Group Ltd

Ramsay Health Care Limited

Portfolio metrics

	Ralton
PE	14.70
EPS Growth (%)	12.10%
Dividend Yield (%)	3.73%

December Quarterly Market Commentary

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