

Ralton Dividend Builder

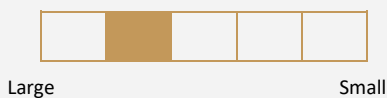
Portfolio Report | December 2020

Key facts

Income versus growth target



Market cap bias



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 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	1.60%	13.90%	-3.66%	3.35%	6.40%	8.94%	7.11%
Income	0.17%	0.49%	3.81%	4.67%	4.63%	4.80%	4.93%
Growth	1.42%	13.41%	-7.47%	-1.32%	1.77%	4.14%	2.17%
Index	1.32%	13.79%	1.73%	6.87%	8.84%	7.75%	5.63%

Portfolio December Performance and Drivers

The Ralton Dividend Builder portfolio returned +13.90% for the quarter, outperforming a strongly trending market by +0.11%.

Key drivers of the strong performance over the month were the portfolios stock selection in the Diversified Financials sector driven by Challenger (+68%), and with Banks lifting, NAB (+29%) was a positive contributor. Recent additions to the portfolio benefited from the cyclical rotation. Real Estate holding Scentre Group increased 26% as investors cheered strong domestic spending and a re-opening economy, looking forward 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 -1.3% underperformed, rewarding Ralton's valuation discipline. Recent addition, Woodside (+29%) contributed strongly as Oil prices increased off depressed levels. 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 with Evolution Mining declining 13% 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 (-3.2%) lagging and long term holdings Amcor (AMC) up 1% and Sonic Healthcare (SHL) down -3% as offshore names faced headwinds due the strengthening AUD.

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	19.17	19.24	-0.07
Communication Services	2.87	4.05	-1.17
Consumer Discretionary	8.67	7.68	0.99
Consumer Staples	5.36	5.88	-0.52
Containers & Packaging	3.95	0.87	3.09
Diversified Financials	3.80	5.14	-1.34
Energy	3.76	3.76	0.00
Health Care	2.61	10.61	-8.01
Industrials	13.91	7.18	6.73
Insurance	2.47	2.74	-0.27
Metals & Mining	18.14	17.45	0.69
Real Estate	8.47	7.26	1.20
Utilities	4.52	1.35	3.17
TOTAL	100	100	

Top 10 holdings

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

Portfolio metrics

PE	14.60
EPS Growth (%)	8.10%
Dividend Yield (%)	4.56%

December Quarterly Market Commentary

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, Health Care (-0.99%) and Utilities (-5.4%) lagged the

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