

Ralton Australian Equity Ex 50

Portfolio Report | December 2020

Key facts

Income versus growth target



Market cap bias



Investment strategy

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

Investment objective

Outperform index by over 4% p.a.

Benchmark index

S&P/ASX Small Ordinaries Accumulation

Portfolio Manager

Ralton Asset Management

Inception date

February 2008

Management fee

0.75% p.a. (may vary across platforms)

Number of stocks

20-35

External ratings

Zenith "Approved"

Key platforms

CFS First Wrap, HUB24, Linear, NetWealth, OneVue, Powerwrap, Praemium



Stock spotlight | Independence Group (IGO)

Independence Group (IGO) lifted 55% during the month as the group made a transformational deal acquiring a 49% stake in an Australian Lithium mine. With effective 25% ownership of the Greenbushes spodumene mine and 49% holding in the Kwinana lithium hydroxide plant the company is now firmly aligned with the growth in global EV's as battery demand surges. The Lithium purchase looks well timed with lithium recently lifting from depressed levels. Not reflected in the 55% increase was investors benefit from the 1:8.5 rights issue executed \$4.60 per share, extremely attractive given the stock trade to \$6.38 at the end of the quarter.

Despite the significant share price lift further catalysts lay ahead with the potential \$1bn sale of its gold operations allowing the company to focus on Nickel, Copper and Lithium commodities. Still trading at a discount to NAV with strong growth ahead we look forward to providing updates in the coming months.

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 | 2.38% | 10.58% | 4.44% | 1.58% | 6.56% | 9.38% | 7.25% |
| Income | 0.06% | 0.12% | 1.81% | 2.43% | 2.57% | 3.21% | 3.47% |
| Growth | 2.32% | 10.46% | 2.63% | -0.85% | 3.99% | 6.17% | 3.78% |
| Index | 2.76% | 13.83% | 9.21% | 6.57% | 10.46% | 3.77% | 2.69% |

Portfolio December Performance and Drivers

The Ralton X50 portfolio posted strong absolute returns for the quarter, increasing +10.58%, however lagged a very strong period from the ASX Small Ordinaries Index + 13.83%.

The Ralton process has successfully delivered strong long term returns by targeting high quality businesses with low valuation risk. Consistent portfolio construction means the Ralton X50 will trade strongly as the market moves away from high growth companies, however as is common in early stages of a rotation, low quality companies led the market explaining the portfolios underperformance over the quarter. As the rotation matures we have already begun to see core holdings outperform.

Strong stock selection in the Financials sector aided performance driven by Challenger (+68%) post a positive update and improving industry fundamental driven by increasing yields. The team is increasingly constructive on commodities and capex related exposures as prices remain strong and profitability looks increasingly sustainable. While Gold exposures lagged, Nickel play Nickel Mines (NIC) increased 66% and OZ Minerals (+35%) contributed strongly as underlying commodity strength was supported by solid operational performance. Among capex related exposures, Westrac owner Seven Group (SVW) rose 30% while Emeco Holdings (EHL) increased 36%.

Conversely, key detractors to the portfolio in the December quarter included the portfolio's holding in Appen (-27%) as the company continues to be hampered by slower digital spending by major partners, as global economies exit COVID we expect advertising and APX's strong growth rates to return resulting in outperformance. Procyclical moves did drive investors to take profits in the Gold sector with holdings Northern Star (-7%) and Saracen (+8.0%) declining post recent gains. During the quarter we sold out of SAR at a significant profit and recycled funds into Regis Resources (RRL) which bucked the negative trend and added to



Sector allocation

| Sector | Ralton | Index | +/- |
|------------------------|------------|------------|-------|
| Chemicals | 4.29 | 0.54 | 3.74 |
| Communication Services | 4.62 | 5.45 | -0.83 |
| Consumer Discretionary | 12.95 | 16.50 | -3.55 |
| Consumer Staples | 7.48 | 6.79 | 0.70 |
| Containers & Packaging | 2.39 | 0.21 | 2.17 |
| Diversified Financials | 8.57 | 8.36 | 0.21 |
| Health Care | 4.08 | 6.87 | -2.79 |
| Industrials | 17.18 | 7.26 | 9.92 |
| Information Technology | 4.92 | 6.64 | -1.72 |
| Insurance | 4.90 | 3.08 | 1.83 |
| Metals & Mining | 18.95 | 18.48 | 0.47 |
| Real Estate | 2.88 | 12.77 | -9.90 |
| TOTAL | 100 | 100 | |

Top 10 holdings

| |
|------------------------------|
| Bapcor Ltd |
| Steadfast Group Limited |
| Seven Group Holdings Limited |
| Healius Limited |
| Regis Resources Limited |
| Northern Star Resources Ltd |
| OZ Minerals Limited |
| Challenger Limited |
| Nickel Mines Ltd. |
| Inghams Group Ltd. |

Portfolio metrics

| | Ralton |
|--------------------|---------|
| PE | 13. 60 |
| EPS Growth (%) | 10. 10% |
| Dividend Yield (%) | 3. 04% |

December Quarterly Market Commentary

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 led all sectors. We expect continued strong performance from cyclical sectors, benefiting the portfolios value style with long duration segment including IT and healthcare likely to be used as funding sources.

Metals & Mining led the index increasing 20%, with Mineral Resources (+33.7%) and major holding IGO (+55%) driving the sector. The resilient consumer continues to drive strong results from Discretionary Retail (+11%) as fiscal support and an opening economy drives out of home consumption again, this is best exemplified by Webjet, increasing 30%. Financials also rose strongly (+20%), as strong equity markets drove funds under management.

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 and negative for long duration sectors. This was certainly the case in the December quarter with interest rate sensitive sectors, Health Care (+3.3%) and IT (+3.8%) lagging the strong market as investors rotated from last years winners.

Performance of the Ralton Dividend Builder Model Portfolio is based on a model portfolio and is gross of investment management and administration fees, but net of transaction costs. The total return performance figures quoted are historical and do not allow the effects of income tax or inflation. Total returns assume the reinvestment of all portfolio income. Past performance is not a reliable indicator of future performance. * The performance comparison of \$20,000 over 5 years is for illustrative purposes only. Performance is calculated on a gross basis. Actual performance will vary depending on the amount of fees charged by the relevant platform that a client uses to implement the portfolio. The comparison with the S&P/ASX 300 Accumulation Index is for comparative purposes only. Index returns do not allow for transaction, management, operational or tax costs. An index is not managed and investors cannot invest directly in an index. There is no guarantee these objectives will be met. # Portfolio holdings may not be representative of current or future recommendations for the portfolio. The securities listed may not represent all of the recommended portfolio's holdings. Future recommended portfolio holdings may not be profitable. This document is for general information only and does not take into account the specific investment objectives, financial situation or particular needs of any specific reader. As such, before acting on any information contained in this document, readers should consider whether the information is suitable for their needs. This may involve seeking advice from a qualified financial adviser. Ralton Asset Management (ABN 45 114 924 382) (Ralton) is the provider of the Ralton Wholesale High Yield Australian Shares Model Portfolio. To subscribe, contact Copia Investment Partners Ltd (AFSL 229316, ABN 22 092 872 056) (Copia) by calling 1800 442 129 or email clientservices@copiapartners.com.au. Any opinions or recommendations contained in this document are subject to change without notice. Ralton and Copia are under no obligation to update or keep information contained in this document current. **ZENITH:** The Zenith Investment Partners ("Zenith") Australian Financial Services License No. 226872 rating (assigned February 2019) referred to in this document is limited to "General Advice" (as defined by the Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Zenith usually charges the product issuer, fund manager or a related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessment's and at <http://www.zenithpartners.com.au/RegulatoryGuidelines>. **LONSEC:** The Lonsec Rating (assigned February 2019) presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product(s). Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold Ralton Asset Management product, and you should seek independent financial advice before investing in this product. The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document following publication. Lonsec receives a fee from the Fund Manager for researching the product using comprehensive