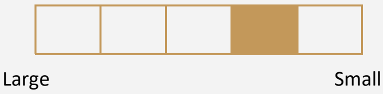
Ralton Australian Equity Ex 50

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.