Ralton Leaders

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 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 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 potential of a business which trades at an 18% cheaper value than 20 years ago.

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%**	**13.91%**	**0.52%**	**5.39%**	**7.28%**	**8.63%**	**6.85%**
Income	*0.06%*	*0.35%*	*2.39%*	*3.86%*	*3.95%*	*4.20%*	*4.39%*
Growth	*0.86%*	*13.56%*	*-1.87%*	*1.53%*	*3.33%*	*4.44%*	*2.46%*
Index	**1.12%**	**13.78%**	**0.80%**	**6.89%**	**8.66%**	**8.09%**	**5.91%**

Portfolio December Performance and Drivers

The Ralton Leaders portfolio returned +14.87% for the quarter, outperforming a strongly trending market by +0.12%, with the strategy adding +1.99% above market returns over the last 6 months.

Key drivers of the strong performance over the month were the portfolios strong stock selection in the Diversified Financials sector driven by Challenger (+68%) and Link (+49%) lifting as the sector saw strong buying support due to higher yields as well as corporate interest in Link Financial after a challenging COVID period. The portfolio recently moved overweight banks, timely given the strong sector performance with key bank exposure NAB up 29%. Given the Oil price surge in November, preferred exposure Beach (BPT) was up a 37% over the quarter. The team is increasingly constructive on commodities and capex related exposures as prices remain strong and profitability looks increasingly sustainable. While Gold exposure lagged, copper holding OZ Minerals increased +37% and BHP increased 20%.

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 Northern Star declined post recent gains, however 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 (-7%) topping up at mid $12 given decade high operating margins, strong diversifying characteristics, and with inflation expectation set to increase the gold as well as the broad commodity complex should benefit. Holdings with significant offshore earnings underperformed due to the weakening USD as such ALL (+3.8%), AMC (+1.1%) and RHC (+5.9%) detracted from performance. All names offer strong growth outlooks with

Sector allocation

Sector	Ralton	Index	+/-
Banks	23.28	21.80	1.48
Chemicals	1.98	0.64	1.34
Communication Services	8.26	3.84	4.42
Construction Materials	3.17	1.33	1.85
Consumer Discretionary	3.93	6.40	-2.47
Consumer Staples	5.53	5.75	-0.22
Containers & Packaging	3.42	0.96	2.46
Diversified Financials	3.39	4.67	-1.28
Energy	3.15	3.94	-0.79
Health Care	8.66	11.15	-2.49
Industrials	7.75	7.16	0.58
Insurance	2.20	2.69	-0.49
Metals & Mining	19.07	17.30	1.77
Real Estate	2.21	6.47	-4.26
Utilities	1.92	1.55	0.37
TOTAL	**100**	**100**	

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
- Northern Star Resources Ltd
- Amcor PLC Shs

Portfolio metrics

	Ralton
PE	16.00
EPS Growth (%)	12.30%
Dividend Yield (%)	3.62%

December Quarterly Market Commentary

The ASX100 Accumulated Index consolidated returns in December post Novembers outsized 10.22% gain, totalling 13.91% 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%) & Information Technology (+2.8%), closely followed by Energy (+26%) and Metals (+16%) led the market higher in the December quarter. All banks outperformed the market with laggards ANZ (+34%) and NAB (29%) 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 23% 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 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 strong market, with AGL falling -12% as domestic energy prices remain weak.