Ralton Leaders

Portfolio Report | January 2021

RALTON
ASSET MANAGEMENT
EST. 2005

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 | Incitec Pivot (IPL)

This month we wanted to revisit our investment thesis for Incitec Pivot (IPL). Ralton looks to find unrealised valuation opportunities and IPL is a great example of what we term "cyclical mis-valuation". In January IPL increased 15.8%, being the leading performer in the ASX100, as a top 5 active position the portfolio benefited strongly. Key industry exposures of explosives and fertilisers look set for an improved period ahead as strong commodity prices drive mining volumes and 3 years of below average agriculture yields look set to be broken post drought breaking rains. Within the Fertiliser division, commodity prices (DAP, Ammonia, Urea) have surged with the February Tampa Ammonia price now sitting 40% above the FY20 average. Strong grain prices are driving demand and recent industry contact has increased our confidence that farmers are looking to reinvest in soil nutrients post drought with improving demand seen for IPL's products. The combination of these factors should see stronger growth with the added benefit of a lower capex period ahead. We see material upside from current levels as earning estimates and valuation remains below historical levels.

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	**1.40%**	**13.64%**	**-3.42%**	**6.03%**	**8.88%**	**8.68%**	**6.92%**
Income	*0.00%*	*0.35%*	*2.39%*	*3.86%*	*3.95%*	*4.20%*	*4.36%*
Growth	*1.40%*	*13.29%*	*-5.81%*	*2.17%*	*4.93%*	*4.48%*	*2.56%*
Index	**0.42%**	**11.91%**	**-3.66%**	**7.17%**	**9.99%**	**8.10%**	**5.90%**

Portfolio January Performance and Drivers

The Ralton Leaders portfolio returned +1.40% for the month, outperforming a relatively flat ASX100 by +0.98%. Over the last six months the strategy has added +2.53% above market returns.

Key drivers of the solid performance over the month were the portfolios stock selection in the Metals & Mining sector as BHP (+3%) performed strongly given Oil exposure and Iron Ore names underperformed due to a weakening commodity price. Portfolio positioning in financials again benefited returns with key holdings Westpac (+9%) and NAB (+4%) outperforming peers and Challenger (+3.5%) extended recent gains as bond rates increased and default risk remained low. Looking at the key drivers of Incitec Pivot's (+16%) performance, Agriculture commodity prices continue to strengthen increasing demand for inputs including key commodities Ammonia, Urea and DAP. We expect a material increase in forward consensus earnings to continue to drive the share price.

The portfolio has maintained a level of exposure to the surging Oil price through BHP and Beach Energy. In January BPT (-9%) took a breather post strong performance while the surge in spot LNG saw Woodside (+7.6%) outperform. We continue to believe the Oil price will remain solid while Beach remains our preferred exposure due the likelihood that management will deploy the balance sheet, adding to earnings. Despite evidence that key indicators for Amcor's (-6%) operations remain positive, the share price has been under pressure due to a surging AUD weighing on offshore earners and stubbornly anaemic US investor interest. We expect the upcoming 1H21 result to be a catalyst for the stock as we foresee as strong result as well as the potential for the company to increase the buyback and/or dividend.

Sector allocation

Sector	Ralton	Index	+/-
Banks	24.12	22.60	1.53
Chemicals	2.26	0.68	1.58
Communication Services	8.51	3.92	4.59
Construction Materials	3.01	1.28	1.73
Consumer Discretionary	3.89	6.74	-2.85
Consumer Staples	5.67	5.85	-0.18
Containers & Packaging	3.17	0.90	2.27
Diversified Financials	3.46	4.45	-0.99
Energy	2.83	4.00	-1.17
Health Care	8.34	10.93	-2.59
Industrials	7.51	6.89	0.62
Insurance	2.04	2.67	-0.62
Metals & Mining	19.14	17.08	2.06
Real Estate	2.09	6.14	-4.05
Utilities	1.92	1.54	0.38
TOTAL	**100**	**100**	

Top 10 holdings

BHP Group Ltd
National Australia Bank Limited
Westpac Banking Corporation
Commonwealth Bank of Australia
Telstra Corporation Limited
Woolworths Group Ltd
CSL Limited
Aristocrat Leisure Limited
Northern Star Resources Ltd
Challenger Limited

Portfolio metrics

	Ralton
PE	16.10
EPS Growth (%)	12.80%
Dividend Yield (%)	3.69%

January Monthly Market Commentary

The ASX100 Accumulated Index continued it strong performance see in the final quarter of 2020, however pulled back late in the month as Biden and vaccine rollout driven positivity faded and volatility returned to markets as US retail investors bid up heavily shorted stocks such as *Gamestop* raising fear of Hedge Fund failures. In global markets, bond yields rose, combining with risk off sentiment to drive the USD higher this is turn impacted performance of ASX companies with offshore earnings. In commodities, Energy price increased by $4.08/bbl to $55.88/bbl while Iron Ore held recent strength and Gold was weighted down by the higher USD and surging Bond yields.

The market was led by the consumer discretionary sector (+4.7%) with Wesfarmers (+8.4%) and Nine Entertainment (+3.9%) contributing as the housing and advertising markets accelerated. Communication Services increased +2.7% with large cap Telstra increasing 4.7%. Financials continued to benefit from the rotation to cyclicals increasing +2.2% with ANZ and NAB both up over 4% over the month. Portfolio holding (IPL) was the top performer in the ASX100 increasing 15.8%.

Traditionally defensive sectors of REITS (-4.1%), Healthcare (-1.8%) and travel exposures in the Industrials (-3.0%) sector pulled back in January. As global bond rates increased, interest rate sensitive sectors including REITS underperformed, sector leaders Lendlease (-8.3%) and Goodman Group (+6.5%) led the falls. As COVID concerns returns Sydney Airport (-10.8%) and Qantas (-7.2%) impacting Industrial sector returns and finally sector leader CSL declined as investors funded cyclical exposure, and sold off defensive names.