Ralton Dividend Builder

Portfolio Report | February 2021

Key facts

Income versus growth target

Income — Growth

Market cap bias

Large — Small

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 | Sonic Healthcare Limited (SHL)

During February we increased the position in SHL. At a high level, Sonic Healthcare (SHL) offers exposure to the defensive health care sector and geographical diversification, along with a meaningful dividend yield. The recent 1H21 result indicated the company is strongly positioned to continue to growth post the COVID testing period with underlying volumes in pathology and radiology recovering. In addition the strong balance sheet supports the company's stated objective of M&A which has historically strengthened its competitive position and delivered an immediate earnings uplift. Valuation is attractive, trading at discount to Healthcare peers and similar defensive growth names.

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	**1.83%**	**4.89%**	**3.72%**	**4.56%**	**9.11%**	**8.96%**	**7.28%**
Income	*0.73%*	*0.90%*	*4.01%*	*4.62%*	*4.64%*	*4.80%*	*4.93%*
Growth	*1.10%*	*3.99%*	*-0.30%*	*-0.06%*	*4.48%*	*4.16%*	*2.35%*
Index	**1.48%**	**3.16%**	**7.06%**	**7.53%**	**10.85%**	**7.68%**	**5.70%**

Portfolio February Performance and Drivers

The Ralton Dividend Builder portfolio returned +1.83% for the month, outperforming another strong month for the market which returned 1.48%. Strong stock picking has resulted in the strategy delivering 3.65% in alpha over the last 6 months.

A combination of stock selection and portfolio sector positioning delivered strong returns in February. The team has increasingly positioned the portfolio to benefit from improving economic conditions while building positions in business that show improving quality of business trends. Nine Entertainment (NEC) is benefiting from improving advertising budgets as well as a fast growing digital business led by the Stan streaming platform. An exceptional result in February drove the stock up 19%, we see further gains ahead. Ralton's diligence in avoiding extreme valuation signals assisted as higher bond rates impacted valuation extremes in the IT sector with large index weight Afterpay declining -12% along with the broader Tech Index which retreated -7.15%. Key holdings BHP (+12.8%), Telstra (+1.2%) and NAB (+4.7%) all delivered results ahead of expectations with the market cheering the return of strong dividends.While the portfolio benefited from its BHP position, Gold holding Evolution Mining (-12%) lagged as real rates, global growth expectations decreased the attractiveness of the sector as downturn insurance. Gold equities continue to screen extremely well given high cash flow with costs well below current prices. Furthermore we are increasingly of the view that volatility will increase, as such uncorrelated nature of the sector remain a key portfolio construction tool. High yielding defensive industrial suffered with Sonic Healthcare (-7.7%) and APA (-5%) underperforming the strong marketThe portfolio remains committed to its dual target of providing both income and capital returns. The strong reporting season indicates a return to higher dividends and we look forward to delivering higher income over the next few quarters.

Sector allocation

Sector	Ralton	Index	+/-
Banks	20.28	20.76	-0.49
Communication Services	8.40	4.06	4.34
Consumer Discretionary	5.40	7.65	-2.25
Consumer Staples	5.46	5.63	-0.17
Containers & Packaging	4.84	0.82	4.02
Diversified Financials	3.68	5.09	-1.41
Energy	3.94	3.81	0.13
Health Care	3.92	10.00	-6.07
Industrials	9.58	6.73	2.85
Insurance	2.44	2.78	-0.34
Metals & Mining	16.22	18.42	-2.20
Real Estate	6.25	6.72	-0.47
Utilities	4.22	1.21	3.01
TOTAL	**100**	**100**	

Top 10 holdings

BHP Group Ltd
National Australia Bank Limited
Commonwealth Bank of Australia
Westpac Banking Corporation
Telstra Corporation Limited
Amcor PLC Shs
Woodside Petroleum Ltd
Sonic Healthcare Limited
Challenger Limited
Nine Entertainment Co. Holdings Limited

Portfolio metrics

PE	14.70
EPS Growth (%)	8.60%
Dividend Yield (%)	4.93%

February Monthly Market Commentary

The ASX300 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.

Traditionally high yield sectors of Consumer Discretionary (+4.8%), Banking (+4.05%) and Communications (+2.55%) led the market higher in January as the rotation towards economic exposure parts of the economy continued. Wesfarmers again performed as housing exposures strengthened as house prices have proved resilient to COVID impacts. The resilience seen in housing is being seen in the broad economy which is supporting key indicators for the Banking sector such as asset quality and lending growth. Performance was led by key positions, Westpac up 9% and NAB up over 4%.

Traditionally defensive sectors of REITS (-4.28%), Container & Packaging (-6.48%) 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 returned, Sydney Airport (-10.8%) and Qantas (-7.2%) impacting Industrial sector returns and finally sector leader CSL (-4.05%) declined as investors funded cyclical exposure, and sold off defensive names.