Ralton Concentrated Australian Equity

Portfolio Report | March 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 capital growth with some 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 | Telstra Corp (TLS) +17%

Since the announcement by the Rudd government of the creation of the NBN, Australia's largest telco has been under material pressure from loss of high margin broadband earnings and increased competition in its mobile business. The significant position that the portfolio holds in Telstra is reflective of our view that the company is at an inflection point where business risk is reducing and earnings growth is set to accelerate. Group earnings are supported by ongoing cost reduction, an end of the NBN rollout and improving mobile outlook, broadly headwinds are turning into tailwinds. With the release of 5G handsets, TLS is set to monetise on its strong competitive advantage in 5G given competitors remain hamstrung by the ban of their Huawei technology build. Furthermore we see a catalyst for realisation of the undervalued infrastructure assets with the separation into four distinct legal entities. InfraCo Towers set to receive bids in early 22. We expect the company to sustain a 5% dividend yield and look to near term catalysts for share price appreciation.

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	**2.98%**	**6.82%**	**42.12%**	**6.13%**	**8.26%**	**8.60%**	**7.11%**
Income	*0.69%*	*1.23%*	*2.56%*	*3.78%*	*3.83%*	*4.03%*	*4.22%*
Growth	*2.29%*	*5.59%*	*39.56%*	*2.34%*	*4.42%*	*4.57%*	*2.89%*
Index	**2.30%**	**4.15%**	**38.34%**	**9.73%**	**10.32%**	**7.86%**	**5.85%**

Portfolio Quarterly Performance and Drivers

The Ralton Concentrated portfolio returned +6.82% for the quarter to march, outperforming a relatively strong ASX300 Accumulated Index by a healthy +2.67%. While the early stages of the COVID period was not all positive, a commitment to buying quality companies at a discount their intrinsic value has resulted in the strategy adding +3.78% to a very strong annualised return for the markets (+38.34%). The Ralton team spend a significant portion of their time seeking out idiosyncratic risk that can be capitalised on to make strong, repeatable returns. The strong performance in IPL (+29.5%) set against the significant decline in ORI (-8%) is evidence that fundamental research can drive alpha generation.

Agricultural commodity price and farmer profitability continue to drive EPS upgrades for IPL with limited impact from explosive volumes COVID impacts, while ORI and its now former CEO were not fortunate. Valuation discipline has kept us underweight CSL (-6%) however key turnaround story Healius and post COVID recovery holding Ramsay Healthcare delivered strong returns. Conviction holding Telstra (+17%) gained due to further clarity on an asset split with the outcome increased the transparency of its infrastructure like assets.

Portfolio positioning in resources again benefited investors as overweights in OZL (+20.2%) and BHP (+9.6%) were assisted by strong operating result and commodity prices, while gold holdings detracted. While the portfolio benefited from base and bulk commodity exposure, Gold holdings NST (-24.5%) and RRL (-21.43%) 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, post selling down at higher valuations we topped up holdings during the quarter. In the consumer sector strong gains from Aristocrat (+10.8%) was not enough to offset

Sector allocation

Sector	Ralton	Index	+/-
Banks	22.10	21.47	0.63
Chemicals	3.72	0.66	3.06
Communication Services	5.26	4.18	1.08
Construction Materials	2.94	1.60	1.34
Consumer Discretionary	5.20	8.03	-2.84
Consumer Staples	4.91	5.61	-0.70
Containers & Packaging	5.18	0.81	4.37
Diversified Financials	2.11	5.11	-3.01
Energy	2.08	3.73	-1.65
Health Care	8.44	9.99	-1.55
Industrials	10.48	6.79	3.70
Insurance	3.98	2.69	1.29
Metals & Mining	16.93	16.88	0.05
Real Estate	2.16	6.97	-4.81
TOTAL	**100**	**100**	

Top 10 holdings

National Australia Bank Limited
BHP Group Ltd
Westpac Banking Corporation
Telstra Corporation Limited
Amcor PLC
Commonwealth Bank of Australia
QBE Insurance Group Limited
Incitec Pivot Limited
Ramsay Health Care Limited
Woolworths Group Ltd

Portfolio metrics

	Ralton
PE	14.90
EPS Growth (%)	12.00%
Dividend Yield (%)	3.97%

March Quarter Market Commentary

The Australian market returned +4.15% over the quarter, continuing the strong equity market performance with the ASX300 now up +18% over 6 months and +38% over one year. With memories of last March well in the rear view mirror and the an accelerating vaccine rollout coupled with central bank commitment to support functioning markets are set to breach historical highs in the forthcoming period. Despite a rally in value stocks over growth, the ASX Industrials x Financials index remains at a large premium to the broader market at 18.1 x NTM EPS. At this stage, stock gains are being supported by EPS upgrades with EPS growth set to exceed 20% in the next year. However we remain of the view that we are entering a period of "new normal" as bond yields normalise with early signs of inflation emerging. Irrespective of the path the destination is the same with higher yields and lower expected returns driving a longer term rotation to companies set to benefit from global growth, or more clearly those in the "value" bucket. A thematic that is set to benefit the Ralton process and subsequently returns.

The Banking sector was the clear leader in the March quarter, increasing 15.51% over the quarter, driving a significant portion of the market return. Discounted banks Westpac (+26%) and ANZ (+24%) led the sector higher as updates released in February confirmed that the consumer is in strong shape and the housing market is lifting lending volume. The Communication Services (+8.98%) was driven by Telstra, increasing 17% however it was sector wide M&A activity that drove sentiment as Vocus (VOC) accepted a joint bud by Aware Super and MIRA to acquire the company. As a thematic, increasing data usage and low interest rates are driving the attractiveness of Telco assets. Despite a disappointing update by Orica and the subsequent exit of long term CEO, the Chemicals sector rose 9.44% as Agri exposed IPL and NUF increased 29.5% and 28% respectively. Given solid rains and improving global farming economics, the outlook for these stocks remains robust.

As investors rotate to the cyclical components of financials and consumer sectors, segments of the market that have benefited from low inflation driven discount rates became the sources of funding. High PE sectors IT and Healthcare were then decliners over the quarter falling -10.3% and -2.14% respectively. In the IT sector, market darling Afterpay declined as CBA stepped up its entry into the BNPL space while the market suffered from indigestion as the company tapped the convertible bond market with $1.5bn in February. CSL (-6.05%), Resmed (-7.15%) led the Healthcare sector lower as valuations normalised from excessive levels and USD exposed companies faced headwinds from a surging The pull back in gold names also factored over the quarter as rising yields impacted gold prices due to the long negative correlation.