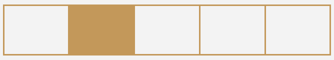
# Ralton Dividend Builder

Portfolio Report | March 2021

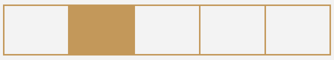
## Key facts

### Income versus growth target



Income Growth

### Market cap bias



Large Small

### Investment strategy

A portfolio of ASX-listed equities designed to provide 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 | 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 | **2.23%** | **5.54%** | **35.31%** | **6.49%** | **8.33%** | **9.16%** | **7.41%** |
| Income | *0.95%* | *1.68%* | *4.20%* | *4.75%* | *4.68%* | *4.83%* | *4.97%* |
| Growth | *1.28%* | *3.86%* | *31.11%* | *1.74%* | *3.65%* | *4.33%* | *2.44%* |
| Index | **2.30%** | **4.15%** | **38.34%** | **9.73%** | **10.32%** | **7.86%** | **5.85%** |

## Portfolio Quarterly Performance and Drivers

The Ralton Dividend Builder portfolio returned +5.54% for the quarter, outperforming another strong period for the market by +1.39%. Investors have received a 4.2% dividend over the last year, well ahead of the index.

Valuation discipline has kept us underweight CSL (-6%) however a positive view on sustainably high levels of COVID testing has seen Sonic Healthcare positively contribute, we also topped up the position during the quarter. 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 21.4% over the quarter, we see further gains ahead. Conviction holding Telstra (+17%) gained due to further clarity on an asset split, increasing the transparency of its infrastructure like assets. 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%. While the portfolio benefited from its BHP position (+9.6%), gold holding Evolution Mining (-46.8%) 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, as such we took the opportunity during the quarter to increase the position. While we remain bullish on general activity in the resources space, early signs of inflation in wages and lower gold prices spooked investors in Perenti (-23.6%), given our strong stock conviction we added to the position 10% below current levels.The 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 | 20.83 | 21.47 | -0.64 |
| Communication Services | 8.64 | 4.18 | 4.45 |
| Consumer Discretionary | 5.67 | 8.03 | -2.37 |
| Consumer Staples | 8.33 | 5.61 | 2.72 |
| Containers & Packaging | 5.13 | 0.81 | 4.32 |
| Diversified Financials | 1.96 | 5.11 | -3.15 |
| Energy | 3.78 | 3.73 | 0.04 |
| Health Care | 4.26 | 9.99 | -5.74 |
| Industrials | 9.16 | 6.79 | 2.37 |
| Insurance | 2.38 | 2.69 | -0.31 |
| Metals & Mining | 16.70 | 16.88 | -0.18 |
| Real Estate | 6.23 | 6.97 | -0.74 |
| Utilities | 4.44 | 1.27 | 3.18 |
| **TOTAL** | **100** | **100** | |

## Top 10 holdings

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

## Portfolio metrics

| | |
|---|---|
| PE | 14.60 |
| EPS Growth (%) | 9.50% |
| Dividend Yield (%) | 5.01% |

## March Quarterly Market Commentary

The Australian market returned +4.15%, 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 sector 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 (-13.98%) 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.