Ralton Australian Equity Ex 50

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 high capital growth

Investment objective

Outperform index by over 4% p.a.

Benchmark index

S&P/ASX Small Ordinaries Accumulation

Portfolio Manager

Ralton Asset Management

Inception date

February 2008

Management fee

0.75% p.a. (may vary across platforms)

Number of stocks

20-35

External ratings

Zenith “Approved”

Key platforms

CFS First Wrap, HUB24, Linear, NetWealth, OneVue, Powerwrap, Praemium

Stock spotlight | Nufarm Limited (NUF) +29.51%

Nufarm is well known to investors with a chequered history marked by seasonal and operational issues impacting performance. However material changes at the company level and a significant recovery underway in the global agricultural sectors provides a positive backdrop to a company with a number of catalysts for value realisation. Post a period of drought, La Nina has brought rains that have improved crop output and filled the water table which is seeing increased demand for cropping inputs globally. The February update confirmed the strong growth with 1H21 revenue set to increase 17% year on year. Moreover, the sale of the South American division reduces balance sheet and operational risk which in combination with strong growth will lead to further share price gains. 2021 is also a significant year as the company will attain first sales of its Omega 3 Canola crop. Amid a backdrop of sustainability, the company's significant competitive advantage in this space could lead to earnings that may dwarf the rest of the group. Trading an EV/EBITDA discount to its historical range with a strong recovery underway we look forward to sharing with you its strong contribution in future portfolio reports.

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	**-0.97%**	**-1.25%**	**40.16%**	**2.14%**	**6.83%**	**8.70%**	**7.01%**
Income	*0.96%*	*1.22%*	*2.16%*	*2.49%*	*2.59%*	*3.24%*	*3.50%*
Growth	*-1.93%*	*-2.47%*	*38.00%*	*-0.35%*	*4.24%*	*5.46%*	*3.51%*
Index	**0.79%**	**2.09%**	**52.15%**	**8.33%**	**10.69%**	**4.11%**	**2.80%**

Quarterly Market Commentary

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. 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. We expect the market rotation to be more pronounced of the next quarter in the Small Ordinaries index as the rotation plays catch up to the broader index, a trend that is set to benefit the Ralton process and subsequently returns.

Cyclical sectors continue to drive the market with Chemicals (+29.51%) and Banks (+27.17%) leading sector performance during the quarter. However, unlike the large components of the index which is being driven by "value" stocks, the small segment continues to see gains by "growth" companies with ZIP and Lynas Rare Earths increasing +39.51% and 55% respectively. The Containers & Packaging sector (+34.85%) was boosted by the strong performance of Pact Group (+34.85%) as its turnaround gather pace. In the Communications sector (+9.43%) a bid from MIRA for perennial disappointment Vocus (+34.9%).

Post the strong increase in commodity prices, the Industrials sector (-10.96%) which is dominated by mining/infrastructure activity related exposures retreated as related companies forecast muted outlooks. Service Stream and NRW Holdings declined 39% and 32% respectively as economic activity delays mining related COVID delays impacted earnings. Weakness in Energy markets also saw investors cautious across capex exposed companies, with former holding Cooper Energy (-30.77%) impacted by continuing issues at its Orbost plant. Gold names dragged the Metals & Mining (-2.34%) sector lower the commodity price weakened in the face of rising rates, we expect rates to consolidate and gold to again deliver strong performance, as such we topped up holdings during the

Sector allocation

Sector	Ralton	Index	+/-
Chemicals	7.08	0.68	6.40
Communication Services	6.26	5.70	0.56
Consumer Discretionary	10.61	17.33	-6.72
Consumer Staples	5.98	7.12	-1.13
Containers & Packaging	4.43	0.27	4.16
Diversified Financials	6.94	8.34	-1.40
Energy	2.20	2.26	-0.06
Health Care	4.53	6.73	-2.20
Industrials	16.50	6.38	10.12
Information Technology	2.40	7.38	-4.98
Insurance	4.74	2.86	1.89
Metals & Mining	16.26	17.00	-0.75
Real Estate	5.24	12.60	-7.36
TOTAL	**100**	**100**	

Top 10 holdings

Steadfast Group Limited
Seven Group Holdings Limited
Healius Limited
Pact Group Holdings Ltd.
Bapcor Ltd
Nickel Mines Ltd.
Incitec Pivot Limited
Nufarm Limited
Inghams Group Ltd.
Reliance Worldwide Corp. Ltd.

Portfolio metrics

	Ralton
PE	12.80
EPS Growth (%)	11.00%
Dividend Yield (%)	3.42%

Portfolio Quarterly Performance and Drivers

While delivering strong returns over the preceding year we are cognisant that the portfolio has not kept pace with the fast accelerating benchmark. Key factors behind the underperformance are the Small Ordinaries outperformance against the X50/ non benchmark holdings in the portfolio as per the mandate, the resilience of "growth" style investments, namely ZIP, LYC and PBH driving index gains and 2 holdings now exited detracting from performance in the quarter.

The acceleration in the electrification of economies is driving Copper and Nickel markets to new highs, as such key holdings Nickel Mines (+12.56%) , OZ Minerals (+22%) contributed strongly to performance over the quarter. Agriculture exposures IPL (+27.63%) and NUF (+29.51%) gained strongly after delivering robust results, agricultural commodity strength should extend this strong performance with significant valuation upside remaining. While we look to benefit from cyclical trends, the Ralton process looks for turnaround stories where strategic or management change is set to drive both earnings and valuation higher. Pact Group (+4.85%) was a top performer in February after its half year result confirmed our view that a turnaround is well underway. Trading at 12x with peers closer to 17x PE we see material share price upside. Since investment 360.ASX (+26.32%) has gained over 100%, trading at half the multiple of similar growth peers we see strong value support in a high growth enterprise.

In the monthly review it became clear that a large portion of the underperformance against the small ordinaries index is attributable to non holdings in segments of the market with high growth but also high valuation risk with ZIP (+39.5%) and Lynas (+55%) surging in the quarter. However the performance was impacted by Freedom Foods emerging from its extended trading halt to fall -84.4%, while internal fraud is challenging to detect as a minority investor we have materially increased to focus in our investment process on cashflow transparency and expect the lessons learnt to materially improve returns as we look for new and exciting investment opportunities. Secondly we exited Appen (-35.69%) in February post the result given the clouded outlook, while it detracted over 100bps from performance the portfolio exited the position without loss given the strong run in price since its addition at COVID lows. The portfolios gold position has underperformed as real yields have surged higher. Gold can outperform with rising yields but only if it is followed by inflation. We are of the view inflation will follow over the next 2 quarters and we expect positions in NST (-24%) and RRL (-21%) to provide strong gains in the months to come.