

Ralton Leaders

Portfolio Report | March 2021

Key facts

Income versus growth target



Market cap bias



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 | 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

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	3.20%	8.16%	40.85%	9.45%	9.81%	9.09%	7.36%
Income	0.65%	1.20%	2.56%	3.85%	3.93%	4.18%	4.40%
Growth	2.55%	6.97%	38.29%	5.60%	5.88%	4.91%	2.96%
Index	2.53%	4.46%	36.76%	9.90%	10.29%	8.19%	6.15%

Portfolio Quarterly Performance and Drivers

The Ralton Leaders portfolio returned +8.16% for the quarter, outperforming the ASX100 Index by +3.70%. The strategy continues to deliver beating the index by 4.08% over a 12 month timeframe, with the portfolio up 40.85%.

Conviction holding Telstra (+17%) gained due to further clarity on an asset split with the outcome increased the transparency of its infrastructure like assets, while NEC (+21.4%) increased assisting the contribution from Communication Services to the portfolio. The Ralton team spend a significant portion of their time seeking out idiosyncratic risk that can be capitalised on to make string, 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. 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 holding NST (-24.5%) 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. Sticking with commodities, Beach Energy (-4.4%) decline as Oil prices paused and the February result indicated weaker than



Sector allocation

Sector	Ralton	Index	+/-
Banks	24.98	24.27	0.70
Chemicals	2.34	0.66	1.68
Communication Services	8.85	3.96	4.88
Construction Materials	3.06	1.35	1.71
Consumer Discretionary	4.04	6.69	-2.65
Consumer Staples	5.33	5.39	-0.06
Containers & Packaging	3.18	0.89	2.30
Diversified Financials	2.13	4.65	-2.51
Energy	2.77	3.95	-1.17
Health Care	7.86	10.47	-2.61
Industrials	7.12	6.85	0.28
Insurance	3.96	2.67	1.29
Metals & Mining	18.20	16.86	1.34
Real Estate	2.09	6.16	-4.07
Utilities	1.85	1.45	0.40
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
QBE Insurance Group Limited
Northern Star Resources Ltd

Portfolio metrics

	Ralton
PE	15.90
EPS Growth (%)	11.30%
Dividend Yield (%)	3.96%

Quarterly Market Commentary

The Australian market returned +4.46% over the quarter, continuing the strong equity market performance with the ASX100 now up +18% over 6 months and +36% 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 15.39% 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 (+8.79%) was driven by Telstra, increasing 17% however it was sector wide M&A activity that drove sentiment as Vocus (VOC) accepted a joint bid 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 6.96% as Agri exposed IPL and increased 29.5%. 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 -12.37% and -2.11% 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.

Performance of the Ralton Dividend Builder Model Portfolio is based on a model portfolio and is gross of investment management and administration fees, but net of transaction costs. The total return performance figures quoted are historical and do not allow the effects of income tax or inflation. Total returns assume the reinvestment of all portfolio income. Past performance is not a reliable indicator of future performance. * The performance comparison of \$20,000 over 5 years is for illustrative purposes only. Performance is calculated on a gross basis. Actual performance will vary depending on the amount of fees charged by the relevant platform that a client uses to implement the portfolio. The comparison with the S&P/ASX 300 Accumulation Index is for comparative purposes only. Index returns do not allow for transaction, management, operational or tax costs. An index is not managed and investors cannot invest directly in an index. There is no guarantee these objectives will be met. # Portfolio holdings may not be representative of current or future recommendations for the portfolio. The securities listed may not represent all of the recommended portfolio's holdings. Future recommended portfolio holdings may not be profitable. This document is for general information only and does not take into account the specific investment objectives, financial situation or particular needs of any specific reader. As such, before acting on any information contained in this document, readers should consider whether the information is suitable for their needs. This may involve seeking advice from a qualified financial adviser. Ralton Asset Management (ABN 45 114 924 382) (Ralton) is the provider of the Ralton Wholesale High Yield Australian Shares Model Portfolio. To subscribe, contact Copia Investment Partners Ltd (AFSL 229316, ABN 22 092