

Ralton Concentrated Australian Equity

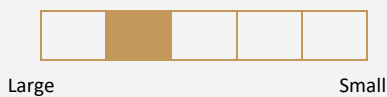
Portfolio Report | April 2021

Key facts

Income versus growth target



Market cap bias



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 | Downer Limited (DOW) +9.75%

DOW is currently in the process of transforming its business to one with lower capital intensity, less volatility in earnings with a mix of operating businesses exposed to broad spending in the Australian economy. Expectations of further stimulus targeting infrastructure sectors where DOW holds a no.1 or no.2 position bolsters our view of a sustainably growing earnings and dividend outlook. Capital management makes DOW further attractive with a recent announcement of an on-market buyback of up to 70.1mn shares or ~10% of shares on issue. Downers investor day provided a significant amount of detail on their market share and addressable spend. Management confirmed the growth outlook of the business with positive colour on customer drivers, and competitive positioning. We came away from the investor day with further confidence in our thesis and anticipate further strong earnings and cash performance moving forward.

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	1.76%	7.13%	31.08%	5.83%	8.09%	8.78%	7.20%
Income	0.00%	1.23%	2.56%	3.78%	3.83%	4.03%	4.19%
Growth	1.76%	5.90%	28.52%	2.05%	4.26%	4.74%	3.01%
Index	3.70%	7.64%	31.58%	9.70%	10.40%	8.28%	6.10%

Portfolio April Performance and Drivers

The Ralton Concentrated portfolio returned +1.81% for the month of April, however still underperforming a strong return for the ASX300 Accumulated Index of +3.70%. The yields on Australian 10-year government bonds fell 9bps to 1.79% but with large swings throughout the month slowing down last months momentum of the market rotation from growth to value names resulting in a weaker than market performance for the month for the value oriented Ralton Portfolio.

The Ralton Concentrated Portfolio performed strongly over April however not to the same extent as the broader market. This underperformance to the market can be partly attributed to the strength in 4 of the 5 WAAAX names, all of which absent from the Ralton Portfolio which displayed a resurgence after the weakness in the prior month. This weakness was partly offset by the Portfolio selection in the consumer staples space holding Tassal during its strength and removing the name from the portfolio off the back of uninspiring commentary during the Macquarie conference, subsequently avoiding most of the decline at the tail-end of the month. Conviction holding Aristocrat (+8.21%) gained due to the latest digital trends remaining robust and consistent with Aristocrats business model contributing to further gains in market share across social casino. ALL's star game RAID continues to impress with a better than expected performance and continued strong momentum.

The portfolio benefited from the strength in gold over the month. Gold miner Northern Star Resources (+10.86%) was the largest contributor to performance in the metals and mining sector with BHP (+5.30%) leveraging off the strength of iron ore. Regis Resources (-6.96%) was the weakest name from the sector due to M&A issues with Tropicana and reductions of broker valuations. Weakness in Challenger (-20.16%) was the portfolios main detractor with sales and organic growth trends tracking well however margin pressures led to a guidance downgrade impacting the performance of the stock.



Sector allocation

Sector	Ralton	Index	+/-
Banks	22.22	21.33	0.89
Chemicals	3.32	0.60	2.72
Communication Services	5.14	4.17	0.97
Construction Materials	3.10	1.65	1.45
Consumer Discretionary	5.42	8.04	-2.62
Consumer Staples	3.26	4.98	-1.71
Containers & Packaging	5.00	0.78	4.22
Diversified Financials	1.65	5.12	-3.47
Energy	4.11	3.44	0.67
Health Care	10.99	9.94	1.05
Industrials	9.54	6.86	2.68
Insurance	4.00	2.76	1.23
Metals & Mining	17.35	17.73	-0.38
Real Estate	2.12	6.93	-4.80
TOTAL	100	100	

Top 10 holdings

National Australia Bank Limited
BHP Group Ltd
Westpac Banking Corporation
Telstra Corporation Limited
Commonwealth Bank of Australia
Ancor PLC
QBE Insurance Group Limited
Northern Star Resources Ltd
Ramsay Health Care Limited
Aristocrat Leisure Limited

Portfolio metrics

	Ralton
PE	15.60
EPS Growth (%)	11.90%
Dividend Yield (%)	3.91%

April Monthly Market Commentary

The Australian market returned +3.70% over the month of April, continuing the strong equity market performance with the ASX300 now up +20.62% over 6 months and +31.58% over one year. The strength in the market over the month can be partly attributed to the improvement in Australian sentiment as both consumer and business sentiment surveys indicated higher levels. The outlook for the country has continued to look positive as the country moves to a more stable "covid normal". The markets concerns regarding the end of government stimulus measures including the Job Keeper initiative was reduced with the labour market report publishing stronger numbers than expected, with employment rising +70.7k and the unemployment rate falling -20bp to 5.6%. Another measure of the health of the labour market, the underemployment rate, rose to levels last witnessed pre-COVID. The housing market was once again in focus with a continued strong pace in the prices rising 2.8% for the month of March with building approvals up dramatically at 21.6% supported by the homebuilder scheme. The Ralton team has taken the view these numbers should bode well for retailers of furniture and homewares particularly as strength in the Australian dollar supports margins.

Equity valuations have begun to fall from their historical highs, but still trade at elevated levels with the ASX ending the month at 18.5x, after being over 20x for most of the last year. 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 Information Technology sector was the clear outperformer in the April month increasing 8.16%, attributing to a significant portion of the underperformance of the portfolio for the month while value names took a bit of a breather. Growth tech names Megaport (+22.70%) and EML Payments Limited (+16.29%) led the sector higher as Megaport confirmed a large pipeline giving comfort for a strong Q4 and beating expectations. While EML was the beneficiary of an increase in retail and consumer confidence along with a slow-down of the growth reversal for the month. Metals and Mining (+6.75%) was driven by Galaxy Resources and Orocobre up +45.02% and +36.92% respectively resulting from a proposed merger creating a top five global lithium chemicals company. As a thematic, improving economic conditions across the globe, and in particular demand for steel in China is driving the prices of Iron Ore increasing the attractiveness of Mining assets. Cleanaway (+29.55%) led the strength in Industrials with continual news of M&A activity involving Suez Sydney assets through the entire month of April.

The Investor rotation which benefited cyclical and value segments of the market in the month of March slowed and High PE sectors were again leading the index higher for the month. Last months strength in the Chemical sector reversed with a decline of -5.94% for April. Incitec Pivot contributed to sector weakness with a decline of -9.25% due to disruptions of the Waggaman Ammonia Plant, and a surge in fertiliser prices. The Energy sector weighed on the Index led by Whitehaven Coal (-26.45%) and Beach Energy (-24.60%) both due to downgrades in output. Whitehaven downgrades due to persistent faulting issues at Narrabri preventing the company from utilising the the spike in high CV coal prices. Beach Energy share price dropped on the announcement Western Flank Oil Output were below prior estimates.

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 22 092 872 056) (Copia) by calling 1800 442 129 or email clientservices@copiaipartners.com.au. Any opinions or recommendations contained in this document are subject to change without notice. Ralton and Copia are under no obligation to update or keep information contained in this document current. ZENITH: The Zenith Investment Partners ("Zenith") Australian Financial Services License No. 226872 rating (assigned June 2019) referred to in this document is limited to "General Advice" (as defined by the Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Zenith usually charges the product issuer, fund manager or a related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessment's and at <http://www.zenithpartners.com.au/RegulatoryGuidelines>. LONSEC: The LONSEC Rating (assigned August 2019) presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product(s). Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold Ralton Asset Management product, and you should seek independent financial advice before investing in this product. The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document following publication. Lonsec receives a fee from the Fund Manager for researching the product using comprehensive and objective criteria. For further information regarding Lonsec's Ratings methodology, please refer to our website at: <http://www.lonsecresearch.com.au/research-solutions/our-ratings>