

Ralton Leaders

Portfolio Report | April 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 | 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. Downer's 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	1.23%	7.98%	31.07%	8.83%	9.53%	9.21%	7.41%
Income	0.00%	1.20%	2.56%	3.85%	3.92%	4.18%	4.37%
Growth	1.23%	6.78%	28.52%	4.99%	5.61%	5.03%	3.04%
Index	3.51%	7.68%	30.58%	9.76%	10.32%	8.57%	6.38%

Portfolio Monthly Performance and Drivers

The Ralton Leaders portfolio returned +1.23% for the month of April, however still underperforming a strong return for the ASX100 Accumulated Index of +3.51%. The yields on Australian 10-year government bonds fell 9bps to 1.79% but with large swings throughout the month slowing down last month's 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 Leaders 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. The WAAAX names displayed a resurgence after the weakness in the prior month. The Leaders weakness was partly offset by the Portfolio selection in Industrials with ALS (+8.88%) up due to strong commodity activity levels across most major end markets. Conviction holding Aristocrat (+8.21%) gained due to the latest digital trends remaining robust and consistent with Aristocrat's 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 name 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. Beach Energy (-25.66%) was the main detractor to portfolio performance announcing a 5% 2P reserves downgrade driven by poor performance of some oil and gas fields in the Western Flank and lowering its FY21 production and EBITDA guidance by 5%. Weakness in Challenger (-20.16%) further weighed on the portfolio 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	25.27	24.12	1.16
Chemicals	2.10	0.60	1.50
Communication Services	8.78	3.94	4.84
Construction Materials	3.25	1.42	1.83
Consumer Discretionary	4.31	6.71	-2.40
Consumer Staples	5.05	4.71	0.34
Containers & Packaging	3.09	0.86	2.23
Diversified Financials	1.68	4.62	-2.94
Energy	2.03	3.63	-1.60
Health Care	7.88	10.42	-2.54
Industrials	7.30	6.90	0.40
Insurance	4.00	2.72	1.28
Metals & Mining	19.00	17.89	1.10
Real Estate	2.07	6.11	-4.04
Utilities	1.82	1.39	0.44
TOTAL	100	100	

Top 10 holdings

BHP Group Ltd
National Australia Bank Limited
Westpac Banking Corporation
Commonwealth Bank of Australia
Telstra Corporation Limited
CSL Limited
Woolworths Group Ltd
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%

Monthly Market Commentary

The Australian market returned +3.51% over the month of April, continuing the strong equity market performance with the ASX100 now up +20.51% over 6 months and +30.58% 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 number 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 a significant portion of the underperformance of the portfolio for the month and 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 month's strength in the Chemical sector reversed with a decline of -5.94% for April. Icitec Pivot contributing 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