Ralton Concentrated Australian Equity

Portfolio Report | May 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 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 | Westpac Banking Corp (WBC)

Westpac (WBC) share price has had a strong resurgence in 2021 due to the improving outlook for the sector. This outlook improvement is the result of a strong economic recovery post height of the pandemic, the easing of responsible lending regulations, and strength in the housing market. During May banks reported half year and quarterly results. Westpac posted strong results with a strong net profit and cash earnings as well as an aggressive cost cutting strategy announcement. Core earnings upgrades and better than expected Net Interest Margins provides further confidence surrounding Ralton's thematic for the business as well as the sector moving forward. We see solid building blocks being put in place for sector wide asset quality improvement and further share price upside. WBC remains one of our top banking picks moving into the covid recovery phase of the economy.

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	**3.37%**	**7.78%**	**28.93%**	**6.53%**	**7.57%**	**9.32%**	**7.38%**
Income	*0.47%*	*1.16%*	*2.98%*	*3.71%*	*3.81%*	*4.03%*	*4.20%*
Growth	*2.90%*	*6.62%*	*25.95%*	*2.81%*	*3.76%*	*5.29%*	*3.18%*
Index	**2.31%**	**8.53%**	**28.72%**	**10.10%**	**10.22%**	**8.75%**	**6.24%**

Portfolio May Performance and Drivers

The Ralton Concentrated portfolio returned +3.37% for the month of April, outperforming what feels like perpetually strong ASX300 Accumulated Index of +2.31%.

The Ralton Concentrated Portfolio performed strongly over May and outperformed as markets continued their upward trend. This outperformance to the market can be attributed to stock selection in key sectors metals and mining as well as financials.
The absence of High PE Technology stocks also assisted in the portfolios outperformance for the month. Raltons strong conviction towards its value style benefited the portfolio with market darling Afterpay (APT) dropping 21% off the back of interest rate and inflation concerns.

ALS (ALQ) was the highest contributor to the portfolio returning 17.46% posting strong Full year results and a bullish commentary for the outlook of commodities. ALS clear leverage to the strong mining activity backdrop was carried higher with the strong performance of the sector. Minerals division margins came in above market expectations with potential for further upside going forward. Long term holding Northern Star Resources (NST) provided further stock selection benefits with its strong reserve and Resources update lifting the stock over 11% for the month.

Raltons stock selection in banks was also a benefit to performance with an overweight holding in Westpac (WBC) adding 66bps to the portfolio return. Westpac was one of the best performing banking names in the sector for May thanks to earnings upgrades announced by the company in its half yearly results. The banks cash earning grew above market expectations and displayed better earnings quality and provision coverage than anticipated.

Weakness in Incitec Pivot (-13.58%) was the portfolios main detractor after the company reported further technical problems at Waggaman Plant hitting EBIT estimates by $33-$42m. Ralton still holds conviction for the stock and believe the stock is oversold. Raltons view confirms other businesses still performing inline with expectations with a potential for other segments to take up the earnings shortfall from the Waggaman plant.

Sector allocation

Sector	Ralton	Index	+/-
Banks	22.74	22.15	0.60
Chemicals	2.78	0.55	2.23
Communication Services	5.19	4.20	0.99
Construction Materials	3.02	1.65	1.37
Consumer Discretionary	5.73	8.13	-2.40
Consumer Staples	3.36	4.97	-1.61
Containers & Packaging	4.93	0.77	4.16
Diversified Financials	1.64	4.93	-3.29
Energy	3.92	2.99	0.93
Health Care	10.65	10.09	0.56
Industrials	9.52	6.65	2.86
Insurance	4.32	2.84	1.48
Metals & Mining	18.03	17.74	0.29
Real Estate	2.06	6.90	-4.85
TOTAL	**100**	**100**	

Top 10 holdings

National Australia Bank Limited
BHP Group Ltd
Westpac Banking Corporation
Commonwealth Bank of Australia
Telstra Corporation Limited
Amcor PLC
QBE Insurance Group Limited
Northern Star Resources Ltd
Aristocrat Leisure Limited
Woolworths Group Ltd

Portfolio metrics

	Ralton
PE	15.40
EPS Growth (%)	15.30%
Dividend Yield (%)	3.93%

May Monthly Market Commentary

The Australian market returned +2.31% over the month of May, continuing the strong equity market performance with the ASX300 now up +11.95% over 6 months and +28.72% over one year. The recent Covid outbreak in Melbourne announced the last week of May failed to dent investor optimism proved too strong with the news causing barely a ripple. The market was driven by strong economic data, expectations of further stimulus measures and the accelerating vaccine rollouts. Sector performance was mixed, with strong performances from both cyclical sectors such as Financials, as well as growth sectors such as Healthcare.

Banks were the main contributor to index performance over May with a constant flow of news from the sector over the month. Wealth manager IOOF (IFL) completed its takeover of NAB's advice, funds management and platforms business MLC Wealth. CBA joined the select group of companies with a price tag over $100 a share after providing a strong 3Q result announcing stronger earnings, significantly lower loan impairment expenses, and improved margins. WBC posted its half yearly result confirming a cost out program with EPS upside as well as improvement in NIM and bad debt provisions.

Healthcare, another strong performer for the month was led by the strength in biopharmaceutical angel CSL up +7.03% aided by an impressive presentation at the Macquarie conference and data points that Plasma sourcing issues are abating.

The Metals and Mining sector also contributed largely to the index strength over the month. The three biggest contributors to sector performance were gold miner names, largely as a result of the strong gold price over the month increasing by over US$100/oz as well as strong near-term catalysts for the case of Northern Star Resources (NST).

RIO also had a strong month with the Aluminium Stewardship Initiative (ASI) certifying Rio Tinto's ISAL smelter. This provides RIO a step in the right direction towards better practices with ISAL meeting independent environmental, social and governance standards and providing investors with a little more confidence after a disastrous 12 months with ESG issues.

The Information Technology sector gave back its gains from the prior month as the debate around transitory/cyclical/structural inflation intensified with the fed making comments of transitory inflation and other well-known economists confirming structural inflation is coming. The WAAAX names were the worst performing names weighing on the sector. Afterpay (APT) led the weakness in the group down 20.98% with investors alarmed by concerns surrounding a rise interest rates and exacerbated by US Treasury Secretary Janet Yellen hinting that in order to control the US economy from overheating an increase in interest rates may be necessary, the statement all the more concerning given the US is a key market for Afterpay. Xero (XRO) was weak due to its FY21 results announcement with weaker than expected profits and tough competition impacting Xero's international business. Even with an increase in investment for future earnings growth investors could not look past the downgrade announcement resulting in the stock finishing more than 6% lower for the month.EML Payments (EML) added to the weakness with extensive downgrades across the street as a result of regulatory concerns from the Central Bank of Ireland about EML's newly acquired Irish subsidiary PFS card services.