Ralton Australian Equity Ex 50

Portfolio Report | June 2021

RALTON ASSET MANAGEMENT

Key facts

Income versus growth target

Market cap bias

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 | Worley Ltd (WOR) +14%

Worley's (WOR) recent performance has been impacted by the continuing effects of COVID on project deferrals and cautiousness by the market on the companies ability to keep cost out benefits as revenues return. We are of the view that these activity related impacts are transitory and dual tailwinds of commodity price driven capital expenditure and energy transition investment are currently being missed by the market. While consensus has factored in a lift in revenue in 2021 the medium term margin outlook shows considerable caution as to the ability of the company to earn traditional margins, despite significant cost out set to come through from the Jacobs acquisition. The recent result highlighted the ongoing revenue headwinds but also incorporated an upgrade to synergy benefits and above all strong cash flow to support a 4%+ dividend yield. We see the short term uncertainty as an opportunity to invest in a high quality global business with strong cyclical and structural tailwinds exposed to the emerging trend to de-carbonise the global energy matrix.

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	**2.67%**	**5.36%**	**19.53%**	**1.80%**	**6.80%**	**9.59%**	**7.29%**
Income	*0.08%*	*0.09%*	*2.21%*	*2.41%*	*2.55%*	*3.15%*	*3.44%*
Growth	*2.59%*	*5.27%*	*17.31%*	*-0.61%*	*4.25%*	*6.45%*	*3.85%*
Index	**3.08%**	**8.50%**	**33.23%**	**8.60%**	**11.24%**	**5.99%**	**3.37%**

Portfolio Quarterly Performance and Drivers

The Ralton Ex-50 portfolio returned +5.36% for the quarter, underperforming a stronger index return by -3.13% as the rotation to cyclicals and value retreated and bond yields moved lower. At the end of the 2021 financial year the portfolio delivered an absolute return of +19.53%, with the portfolios focus on earnings track record and value it has remained underweight the strongly trending tech and lower quality components of the Small Ordinaries index that were bid up strongly over the year. As the rally consolidated we expect the teams focus on high quality companies at reasonable valuations to deliver a catch up in FY22.

Contributing positively in during the March quarter were the portfolio's exposure in the Consumer Discretionary and Staples sectors as well as selective exposures in the Tech and Industrials sector. Within consumer, Ralton's conviction that Jumbo Interactive (+40%) was an underappreciated, high quality tech company trading on an industrial multiple. The trigger for the re-rate has been a run of jackpots that has historically been correlated with a jump in digital lottery ticket sales and a commensurate expansion in margin. As mentioned in the market update, Inghams (+20%) provided a positive update. We increased our position at depressed levels and held a strong position to capture the witnessed upside move. Life 360 has been a long term holding for the portfolio the attractive combination of trading cheap vs peers and a strong revenue opportunity. 360.ASX increased +39% over the month, sparked by bulge bracket broker coverage, the stock is up 180% since purchase. Independence Group (IGO) surged 20% during the quarter as Lithium price moved aggressively higher.

While IGO contributed strongly on the back of strong Lithium prices, Nickel and Copper and gold declined over the quarter. Nickel Mines (-19.8%), our preferred Nickel play pulled back, although the stock is up 70% since purchase, we see at least another 60% upside from current levels based on cash flow metrics, independent of the commodity price. Perenti declined -34% as the company flagged short term headwinds from increased wage costs as COVID measures impact availability of labor. PRN remains strongly positioned to benefit from broad commodity spend, with recent indications of a ramp up in bidding activity we see strong

Sector allocation

Sector	Ralton	Index	+/-
Banks	1.9%	0.0%	-1.88%
Chemicals	0.5%	5.6%	5.09%
Communication Services	5.3%	5.9%	0.63%
Construction Materials	3.2%	0.0%	-3.25%
Consumer Discretionary	16.1%	11.0%	-5.13%
Consumer Staples	5.3%	3.6%	-1.67%
Containers & Packaging	0.3%	4.1%	3.81%
Diversified Financials	9.1%	6.8%	-2.32%
Energy	2.6%	4.6%	2.04%
Health Care	6.8%	6.9%	0.10%
Industrials	6.1%	18.3%	12.16%
Information Technology	8.4%	3.4%	-5.06%
Insurance	3.4%	5.1%	1.78%
Metals & Mining	17.4%	11.1%	-6.22%
Real Estate	13.6%	5.7%	-7.95%
Utilities	0.0%	0.0%	0.00%
TOTAL	**100**	**100**	

Top 10 holdings

Bapcor Ltd
Centuria Industrial REIT
Healius Limited
IGO Limited
Inghams Group Ltd.
LIFE360 INC
Pact Group Holdings Ltd.
Reliance Worldwide Corp. Ltd.
Seven Group Holdings Limited
Steadfast Group Limited

Portfolio metrics

	Ralton
PE	14.5
EPS Growth (%)	11.80%
Dividend Yield (%)	3.10%

Quarterly Market Commentary

The Small Ordinaries Index increased 8.50% over the quarter, marginally ahead of the broader market. The market was driven by strong Lithium prices driving key names Pilbara Mining (+39%), Galaxy (+45%) and Orocobre (+36%), while gold names took a breather. Strong share markets have begun to be reflected in the valuation of fund managers with Pendal (+27%), HUB24 (+38%) and IOOF Ltd (+22%) gaining. The latter benefiting from the settlement of its acquisition of MLC. Finally, the IT sector and other high PE names assisted market returns with Megaport rising +67% and IRESS up 40% respectively and imaging software provider Pro Medicus up +42% after announcing a number of contract wins. The decline in bond yields see in the late stage of the quarter sought to benefit these high PE, long duration names as well as strong returns in the REIT sector (+9.85%).

In such a strong month most sectors delivered gains however the staples and broad exposure in the industrials sector declined. Within the Staples sector (-2.68%), Costa group (-29%) disappointed as the company flagged depressed Avocado prices and labor shortages in the mushroom division will impact CY21 earnings. Within the Industrial, M&A aggressor Seven Group (-9.8%) pulled back as the company raised its bid price for Boral, post the quarter we have seen a surge in the share price as the company has effective control with over 50% of the Boral register. Large declines in high PE tech stocks EML Payments (-29%) and Nuix reminded investors of the risk involved in placing high future growth expectations on sky high multiples, the precipitous fall can be very painful, NXL itself falling -58% in the quarter.

From here the market outlook appears more balanced with the global economic opening driving growth in developed countries, early signs of slowing in China's key indicators raises risks. Growth without the commensurate supply of goods and services can drive inflation as is the case currently, however declining bond yields appears to discount the prospect that inflation is structural, indicating it as cyclical with deflationary pressures of changing demographics and debt ever present.

Ralton expects the next quarter to bring some volatility to growth expectations and markets with the prospect of 10% pullback increasingly likely, in this instance we would be utilising the cash we are currently holding to invest in high quality companies that our fundamental investment process continues to target with valuation discipline reducing risk of capital loss.