

Ralton Dividend Builder

Portfolio Report | November 2021

Key facts

Income versus growth target



Market cap bias



Investment strategy

A portfolio of ASX-listed equities designed to provide attractive tax-effective income

Investment objective

Outperform index by over 3% p.a.

Benchmark index

S&P/ASX 300 Accumulation Index

Portfolio Manager

Will Riggall

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

HUB24, NetWealth, Praemium, OneVue, Powerwrap, Linear, Xplore, Wealth02

Stock spotlight | Rio Tinto (RIO) +3.56%

Rio Tinto (RIO) has been sold off aggressively due to China growth concerns impacting steel demand. While we believe China will slow from its recent high rates, policy communications from the Chinese government reflects a directive to re-invigorate growth into 2022. While the country remains focused on wealth equality and reducing the power of technology monopolies we see the potential for stimulus to push iron ore back over \$100 per tonne delivering upside to the current bearish sentiment. Aluminum and copper exposure also adds weight to the thesis given their role in the future of a de-carbonised economy. RIO continues to deliver strong EBIT from its low cost iron ore operations with its leverage to copper underestimated in its currently depressed share price. We have taken to opportunity to add on weakness.

Performance (% returns greater than one year are p.a.)¹

At month end	1 mth	3 mth	1 yr	3 yr	5 yr	10 yr	Inception
Ralton	-2.41%	-4.34%	11.86%	6.85%	7.34%	10.93%	7.37%
Income	0.44%	1.40%	5.16%	4.72%	4.74%	4.81%	4.97%
Growth	-2.84%	-5.73%	6.69%	2.14%	2.60%	6.12%	2.40%
Index ²	-0.53%	-2.31%	16.02%	12.89%	10.30%	10.34%	6.28%

¹Performance is based on a model portfolio and is gross of investment management and administration fees, but net of transaction costs. Total returns assume the reinvestment of all portfolio income.

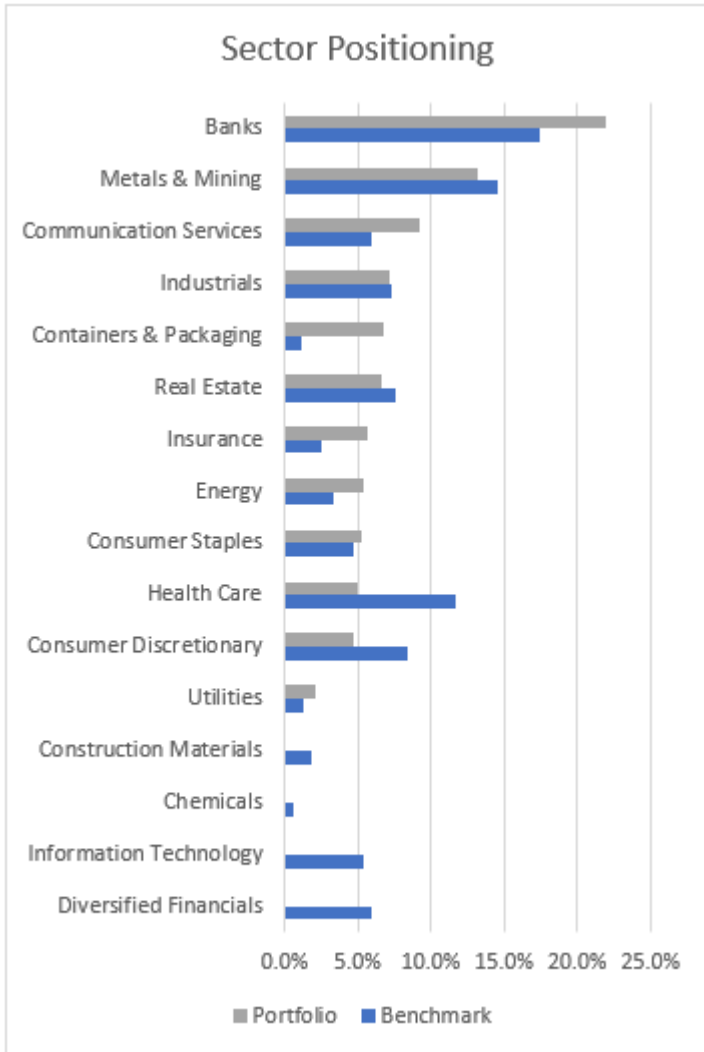
²Index means the S&P/ASX 300 Accumulation Index.

Portfolio Performance

The Ralton Dividend Builder portfolio returned -2.41% for November, underperforming a weakening market as concerns around Omicron and inflation rattled markets. The portfolio was impacted by lower bond yields again rewarding growth stocks, we see these impacts as transient and see the portfolio well positioned with above market growth for a higher yield.

Contributors	Comment
Sonic Healthcare (SHL) +6.67%	The resurgent Omicron variant is set to deliver another period of strong growth for SHL as PCR testing remains elevated. Higher earnings is translating to a very strong balance sheet this is likely to be deployed in accretive M&A.
Telstra Corporation Limited (TLS) +6.54%	Continued positive signs of a rational mobile market and increasing belief that post NBN and COVID19 impacts earnings growth is set to accelerate supported TLS during the month.
ALS Ltd (APA) +16.22%	Post a period of corporate uncertainty colored by a failed bid for Ausnet Services AST, APA regained ground as investors were able to refocus on the company's monopolistic position in gas distribution assets in Australia.
Detractors	Comment
Westpac Banking Corporation (WBC) -17.94%	WBC was a material disappointment during the month, reporting lower margin as well as flagging a delay to cost out. We will meet with WBC management and review the position in light of evidence of poor operational control.
Perenti Global Ltd (PRN) -19.61%	PRN lost ground during the month as the spectre of the Omicron virus raised concerns about impacts to their African mining operations. Trading at 6xNPAT with strengthening commodity prices, the PRN thesis remains compelling.
Pact Group (PGH) -14.52%	PGH updated the market at its AGM, flagging continued headwinds from COVID19. The trajectory of operational turnarounds are not linear; however, we remain of the conviction that new management and strategy will deliver strong value as the company pivots to the structural tailwinds of the circular economy.





Top 10 holdings (alphabetical)

- Ancor PLC
- BHP Group Ltd
- Coles Group Ltd.
- Commonwealth Bank of Australia
- National Australia Bank Limited
- Nine Entertainment
- QBE Insurance Group Limited
- Sonic Healthcare Limited
- Telstra Corporation Limited
- Westpac Banking Corporation

Portfolio metrics*

	Ralton	XKOAI [^]
# of Securities	27	200
Market Capitalisation	54,122.6	62,342.9
Active Share	66.7	--
Tracking Error	4.46	--
Beta	0.94	1.00
Est 3-5 Yr EPS Growth	7.3	8.5
ROE	7.2	11.0
Div% NTM	4.92	3.46
P/E using FY2 Est	12.9	16.9
Price/Cash Flow	6.9	11.5

*Source: FactSet
[^]XKOAI means the S&P/ASX 300 Accumulation Index. 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

Portfolio Activity

- BUY
- NO TRADES
- SELL
- NO TRADES

What's got us thinking

All the talk has been about inflation, with tradition correlation of higher yields driving preference for cyclical stocks as yields and inflation are more often flagging a pick up in growth. However, as the November month continued, the strong lead in value stocks moved rapidly to growth as technology and healthcare sectors took the lead. So what gives? Banks reacted to inflation signals by increasing 25 year fixed rates by up to 50bps; it was the RBA and other central banks' statements that shines the light on this dichotomy. While inflation looks to be stickier and more indicative of structural higher prices, the central banks refuse to flag higher future rates, resulting in an increase in short rates with long term rates rising far less. A traditional flattening of the yield curve, supporting the value of future growth and indicating some economic caution is warranted. We remain of the view that spot COVID19 growth will continue to accelerate, supported by continued forecast EPS increases. We stay overweight cyclical growth, and cautious on high valuations, and expect positioning to deliver strong alpha over the coming quarter.

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. Past performance is not a reliable indicator of future performance. Ralton AM Pty Ltd Trading as Ralton Asset Management ABN 31 639 028 809 is a Corporate Authorised Representative (AR Number 1281001) of AdviceNet Pty Ltd (ABN 35 122 720 512 AFSL 308200). Ralton AM Pty Ltd is the Investment Manager of the Ralton Dividend Builder Model Portfolio.