# Ralton Concentrated Australian Equity

Portfolio Report | June 2020

RALTON ASSET MANAGEMENT EST. 2005

## 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

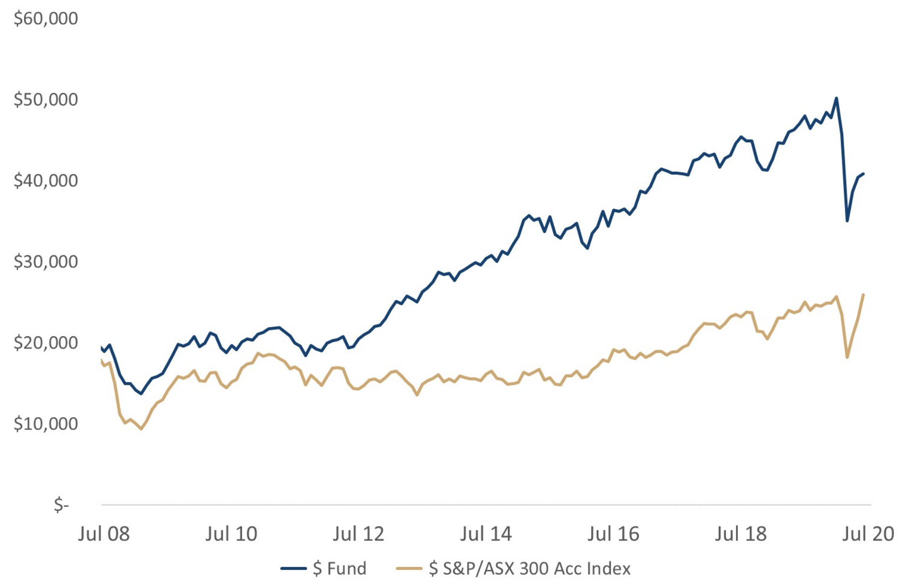
**External ratings**

Zenith "Approved"

**Key platforms**

CFS First Wrap, HUB24, Linear, NetWealth, OneVue, Powerwrap, Praemium

## Growth of $20,000 since inception




## 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 | **1.12%** | **16.65%** | **-13.04%** | **-0.01%** | **3.91%** | **8.10%** | **5.86%** |
| Income | *0.00%* | *0.06%* | *3.14%* | *4.08%* | *4.02%* | *4.16%* | *4.27%* |
| Growth | *1.12%* | *16.59%* | *-16.18%* | *-4.10%* | *-0.11%* | *3.95%* | *1.59%* |
| Index | **2.43%** | **16.79%** | **-7.61%** | **5.24%** | **6.00%** | **7.71%** | **4.77%** |

## Stock spotlight | Healius Ltd (HLS)

Healius (+47.3%) under new CEO Michael Parmenter has embarked on a turnaround program with the intention to improve the growth and margin structure of its 3 key operating divisions; Pathology, Radiology and the Medical Centres. The investment thesis underpinning the portfolios investment has been value realisation through earnings improvement or realisation of intrinsic through a transaction. In June, the company announced the sale of the Medical Centre business to BGH Capital at an above market value. The transaction resulted in a strong re-rate in the share price as the sale has delivered a streamlined company with stronger organic growth opportunities, along with a much improved balance sheet. Looking forward the company is benefiting not only from a recovery in volumes as the medical systems restarts, but elevated COVID testing which is at a higher than average margin. HLS remain a high conviction position as we see continued momentum in the operational turnaround with a 300bp margin gap to its closest peer Sonic Healthcare (SHL) to close while the structural growth within its radiology and pathology business likely to attract a high value in a low growth market.

## Sector allocation

| Sector | Ralton | Index | +/- |
|---|---|---|---|
| Financials | 16.2% | 27.1% | -10.8% |
| Real Estate | 2.44% | 6.92% | -4.47% |
| Industrials | 5.07% | 7.29% | -2.22% |
| Materials | 30.42% | 19.55% | 10.88% |
| Energy | 2.15% | 3.89% | -1.74% |
| Telecommunication | 9.05% | 3.92% | 5.14% |
| Consumer Discretionary | 6.28% | 7.02% | -0.74% |
| Utilities | 0.00% | 1.89% | -1.89% |
| Consumer Staples | 7.93% | 6.44% | 1.49% |
| Health Care | 13.35% | 12.40% | 0.95% |
| Information Technology | 2.44% | 3.63% | -1.19% |
| **TOTAL** | **100.00%** | **100.00%** | |

## Top 10 holdings

- Telstra Corp.
- Northern Star
- Amcor
- BHP Group
- Healius Ltd
- Woolworths Group
- James Hardie Industries
- Oz Minerals
- Aristocrat Leisure
- Ramsay Healthcare

## Portfolio metrics

| | |
|---|---|
| PE | 16.20 |
| EPS Growth (%) | 6.74% |
| Dividend Yield (%) | 3.99% |

## Performance Commentary

While the first quarter saw a sharp a decline in global equity markets, the June quarter saw material gains in tech and cyclical names, largely driven by global stimulus measures, resulting in a 16.79% return for the ASX300. The Ralton Concentrated Equity Portfolio marginally underperformed the market return, delivering 16.65% for the quarter.

The market was driven by two key themes. Financial stimulus measures have driven increased liquidity and lower rates which has increased the attractiveness of the Tech Sector with investors seeking structural growth with evidence of a sharp acceleration in tech transformation has been driven by economy closures. Secondly, monetary stimulus has enabled consumers to continue to spend with further share price performance aided by a faster than feared recovery from the COVID induced recession metrics. As such the Index was led by Technology (+48.7%) and Consumer Discretionary (+30.1%) sectors.

Key drivers for the portfolio were its stock selection in the Healthcare sector, Materials overweight while the portfolios defensive Telecommunications positions underweight traditional growth names detracted from performance. Healius (HLS) delivered a key catalyst in selling its Medical Centres to private equity, we see a continued positive outlook as COVID testing continues to accelerate and the market appreciates the quality of its core Pathology and Radiology operations. James Hardie delivered a very strong set of numbers in the quarter, we are of the view the company will continue to deliver strong returns. Finally, the portfolios less economic sensitive Telco exposure in Spark NZ and Telstra failed to re-rate with the broader recovery in cyclical names after the significant sell off.

Looking forward we are of the view that the market will continue to remain range bound as significant global and domestic stimulus support valuations, balancing the inherent risk in earnings from company defaults and increasing chances of a second wave. The portfolio continues to hold a range of quality companies that are able to deliver growth, independent of the recovery trajectory while retaining the valuation discipline at the core of the Ralton process. Key risks to the market remain a resurgence in COVID infections, geopolitical tensions as well as an increasing focus on the outcome of the US election. Were we to see the Fed remove its aggressive stimulus measures we would change our current investment positioning. In any case, the portfolios long held mission to protect capital while delivering above market returns will place it well to deliver consistent returns in any environment.