Ralton Dividend Builder

Portfolio Report | August 2020

Key facts

Income versus growth target

Income — Growth

Market cap bias

Large — Small

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

Ralton Asset Management

Inception date

February 2008

Management fee

0.75% p.a. (may vary across platforms)

Number of stocks

25-35

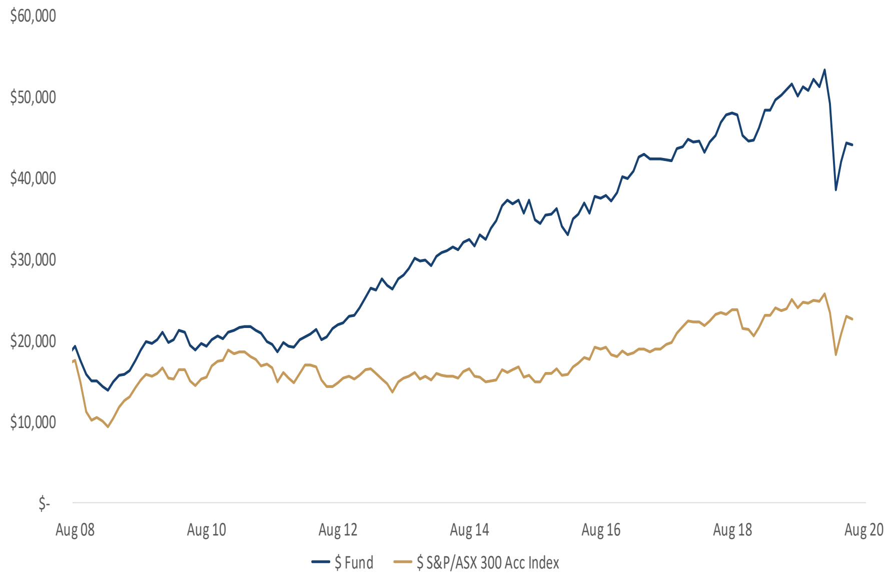
External ratings

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	0.42	-0.26	-11.79	1.53	4.85	8.69	6.36
Income	0.54	1.03	4.06	4.70	4.68	4.83	4.96
Growth	-0.13	-1.29	-15.85	-3.17	0.17	3.86	1.40
Index	3.05	6.19	-4.82	6.24	7.58	7.75	5.01

Stock spotlight | Austal (ASB) & RIO Tinto (RIO)

Rio Tinto (RIO) was added to the Dividend Builder portfolio on 4-August-20, at a starting weight (2%). The company offered a favourable valuation, strong earnings based primarily on iron ore, with growth from copper and aluminium, a conservatively geared balance sheet, along with a good dividend yield. Subsequently Rio Tinto’s actions surrounding the appalling destruction of the Juukan Gorge caves have become apparent. Obviously, Ralton Asset Management views these matters with deep concern. We note the CEO has now ‘stepped down’ from his role, and other senior managers will also leave the company. Ralton’s investment in Rio Tinto remains under review.

Austal (ASB) is a new investment in the Dividend Builder portfolio. The WA headquartered company designs and constructs commercial and defence ships and ferries. It has shipyards in Australia, USA, and Asia. With quality management, and strong contract execution, it is known as an efficient and capable shipbuilder. The company is trading at a meaningful discount to assessed valuation, provides an acceptable dividend, and will act to provide diversification to the portfolio. Additionally, Austal provides opportunity for future earnings growth, including from its expansion into steel shipbuilding in the USA, and an expanding support / maintenance business.

Sector allocation

Sector	Ralton	Index	+/-
Financials	20.55	26.09	-5.54
Real Estate	2.00	6.77	-4.77
Industrials	9.13	7.19	1.95
Materials	32.70	20.62	12.08
Energy	2.10	3.77	-1.67
Telecommunication	8.33	4.04	4.29
Consumer Discretionary	5.27	7.40	-2.14
Utilities	2.50	1.78	0.71
Consumer Staples	8.38	6.58	1.80
Health Care	2.44	11.82	-9.38
Information Technology	0.00	3.94	-3.94
TOTAL	**100.0**	**100.0**	

Top 10 holdings

Amcor CDI
Evolution Mining Ord Shs
BHP Group Ord Shs
National Australia Bank Ord Shs
James Hardie Industries CDI
Telstra Corporation Ord Shs
InvoCare Ord Shs
Spark New Zealand Ord Shs
Austal Ord Shs
Inghams Group Ord Shs

Portfolio metrics

PE	15.49
EPS Growth (%)	5.31%
Dividend Yield (%)	4.75%

August Monthly Commentary

The Ralton Dividend Builder portfolio returned +0.42% for the month, underperforming another strong performance from the ASX300 Accumulated Index (+3.05%) by -2.63%.

The reporting season that took place in August was always going to provide volatility as companies did their best to make sense of the uncertain backdrop while analysts attempted to gather insight into an unclear earnings outlook. Counterintuitively, companies most impacted by COVID faired the best as government stimulus and aggressive cost out measures delivered strong operational execution and results. Reporting season was broadly better than feared with more companies beating expectations than missing. Continuing on from recent performance trends Technology (+15.5%) and Consumer Discretionary (+8.7%) sectors performed best, with small companies (+7.25%) significantly outpacing the broader index. Conversely, Utilities (-4.8%) and Telcos (-3.7%) lagged. Despite the positive investor sentiment the market saw forecast growth decline by a further 2% with FY21 to see yet another year of EPS declines. Bucking this trend were upgraded outlooks in Resources and the Staples industries.

Turning to the portfolio, Telstra (TLS) was a major negative contribution to the portfolio for the month, after it released a disappointing FY20 result (including FY23 forecast ROIC reduced from 10% to 7%). Other negative contributions were Evolution Mining (EVN) (gold sentiment negative, which has rebounded in September), Challenger (CGF) (market waiting to see return to annuity sales growth) and (IAG) (disappointing FY20 result). Additionally, not having any meaningful exposure to the Technology sector (for instance, Afterpay), as well as to momentum stocks, weighed on portfolio performance. Positive contributions were achieved from Consumer Staples, including Tassal (TGR) and Woolworths (WOW), along with defensive investments such as Wesfarmers (WES) and Amcor (AMC). Holdings sold during August-20 were Transurban (TCL), Aristocrat Leisure (ALL) and South32 (S32). Additions to your portfolio in August-20 were Austal (ASB), Wesfarmers (WES), Rio Tinto (RIO), Invocare (IVC), and Sonic Healthcare (SHL). Subsequent to the Aug-20 reporting season, a further review of holdings has been undertaken, with particular consideration of dividend sustainability – in an environment where the dividends of many companies are being suspended or reduced. This review is focussed on ensuring a strong dividend yield from the portfolio continues, whilst also