

# Ralton Leaders

Portfolio Report | June 2021

# **Key facts**



### **Investment strategy**

A portfolio of ASX-listed equities designed for long-term capital growth and some tax-effective income

#### **Investment objective**

Outperform index by over 3% p.a.

### **Benchmark index**

S&P/ASX 100 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

#### **Key platforms**

Brightday, Linear, OneVue, Praemium



# Stock spotlight | ALS Limited (ALQ) +36.3%

ALS Limited (ALQ.ASX) performed strongly over the June quarter, appreciating 30%, with the share price now up 70% since purchase. ALQ provides global laboratory testing services, holding strong market positions in its key verticals of Commodities as and Life Sciences, wit the latter the provision of sampling services for environmental, consumer and pharmaceutical products. We are starting to see our investment thesis play out global economic re-opening drives increased testing in mining and general industry segments with mines and economies open up post shutdowns. More specifically, strong commodity prices have driven junior miner capital raising which historically has led to increased exploration and testing volumes. This was confirmed at the FY21 results in May, with the analysts moving to upgrade recommendations and outer year earning forecasts. ALQ continues to trade at discount to its intrinsic value with near term revenue and margin well below peak cycle. Strong management, a well-capitalised balance sheet and expected earnings

**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	3.20%	8.16%	40.85%	9.45%	9.81%	9.09%	7.36%
Income	0.65%	1.20%	2.56%	3.85%	3.93%	4.18%	4.40%
Growth	2.55%	6.97%	38.29%	5.60%	5.88%	4.91%	2.96%
Index	2.53%	4.46%	36.76%	9.90%	10.29%	8.19%	6.15%

# **Portfolio Quarterly Performance and Drivers**

The Ralton Concentrated portfolio returned +5.80% for the quarter, underperforming a stronger index return by -2.68% 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 +31.46% with income of 4.07%, +3.54% ahead of the stellar returns seen across the market.

The portfolio is generally overweight the diversified set of companies within the Industrials sector. Key holding ALQ increased 36.3%% over the quarter, with the stock now up 100% since purchase as commodity price appreciation is now flowing through to miner expenditure boosting the high margin minerals testing division. As previously stated we have been tilting the portfolio to companies set to benefit from an opening global economy vs Australia as vaccinated percentage of population is materially higher. Long term holding Aristocrat (ALL) surged 26% over the quarter as the US consumer returned to Las Vegas, once again opening to tourists.

The strategy has benefited strongly over the last year from its positioning in Resources, however our caution around Iron Ore price sustainability and tilt towards inflation beneficiary Gold and OZ Minerals (-1.58%) detracted in the June quarter. Key negative contributors were the portfolios overweights in Northern Star (+3.16) and OZ Minerals (-1.6%) as Copper & Gold prices declined. Incitec (-17.9%) dropped sharply after a strong as the company announced further operational issues at its WALA Ammonia plant. We see the issues as transient and expect share price to move higher as consensus upgrades on strong DAP and Ammonia prices.

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Portfolio Update Ralton Leaders

Sector allocation			
Sector	Ralton	Index	+/-
Banks	23.5%	24.5%	0.96%
Chemicals	0.5%	1.9%	1.40%
Communication Services	3.9%	8.9%	4.96%
Construction Materials	1.5%	3.4%	1.87%
Consumer Discretionary	7.2%	4.6%	-2.65%
Consumer Staples	5.3%	4.8%	-0.47%
Containers & Packaging	0.8%	3.0%	2.19%
Diversified Financials	4.4%	1.8%	-2.57%
Energy	3.1%	5.4%	2.33%
Health Care	10.7%	7.8%	-2.91%
Industrials	7.0%	7.3%	0.32%
Information Technology	3.7%	0.0%	-3.70%
Insurance	2.7%	4.1%	1.38%
Metals & Mining	17.7%	14.0%	-3.78%
Real Estate	6.1%	2.0%	-4.04%
Utilities	1.7%	1.7%	-0.05%
TOTAL	100	100	

Top 10 holdings		
Aristocrat Leisure Limited		
BHP Group Ltd		
Commonwealth Bank of Australia		
CSL Limited		
James Hardie Industries PLC		
National Australia Bank Limited		
QBE Insurance Group Limited		
Telstra Corporation Limited		
Westpac Banking Corporation		
Woolworths Group Ltd		

Portfolio metrics				
	Ralton			
PE	15.4			
EPS Growth (%)	13.30%			
Dividend Yield (%)	4.08%			

# Quarterly Market Commentary

The Australian market returned an extremely strong 8.47% for the quarter. With bond rates rolling lower late in the quarter, despite surging indicators of inflation market sentiment rotated away from recent value style winners towards the high PE segments of the market including IT.

Sustainably high Iron Ore prices helped drive Resource names higher with FMG and RIO up 16.7% and 14.3% respectively over the quarter. Banks consolidated gain increasing 8.3% led by CBA (+15.6%) and WBC (+8%). Offshore companies again took the ascendency in the quarter as global economies emerge from their COVID slumber, with Aristocrat (+26%) and Dominos (+25%) leading the Consumer Discretionary sector (+26%). James Hardie (+13%) and Boral (+34%) benefited from improving domestic and US housing markets, with the latter receiving an improved bid from Stokes' Seven Group Holdings.

With the market up so strongly it was left to releasing disappointing updates. Beach Petroleum (-27.7%) surprised the market with a downgrade to expected production from its Western Flank assets. Incitec Pivot (-17.9%) showed continuing operational issues at its US Ammonia asset, delaying the benefits of surging commodity prices. Finally, the Diversified Financials (-15.47%) sector was dragged down by Challenger (-15.47%) as it lowered its margin and profit outlook in April. However post the end of the quarter Apollo International took a strategic stake, boosting shares and the chance of a take out at much higher multiples.

## Outlook

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

Performance of the Ralton Dividend Builder Model Portfolio is based on a model portfolio and is gross of investment management and administration fees, but net of transaction costs. The total return performance figures quoted are historical and do not allow the effects of income tax or inflation. Total returns assume the reinvestment of all portfolio income. Past performance is not a reliable indicator of future performance.\* The performance comparison of \$20,000 over 5 years is for illustrative purposes only. Performance is calculated on a gross basis. Actual performance will vary depending on the amount of fees charged by the relevant platform that a client uses to implement the portfolio. The comparison with the \$8.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 an in index. There is no guarantee these objectives will be met. # Portfolio holdings may not be representative of current or future recommendations for the portfolio. The securities listed may not represent all of the recommended portfolio's holdings. Future recommended portfolio holdings may not be profitable. 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. Ralton Asset Management (ABN 45 114 924 382) (Ralton) is the provider of the Ralton Wholesale High Yield Australian Shares Model Portfolio. To subscribe, contact Copia Investment Partners Ltd (AFSL 229316, ABN 22 092 872 056) (Copia) by calling 1800 442 129 or email dientservices@copiapartners.com.au. Any opinions or recommendations contained in this document are subject to change without notice. Ralton