Ralton Leaders

Portfolio Report | June 2021

Key facts

Income versus growth target

Income Growth

Market cap bias

Large Small

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.

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