## Total returns

| At 31 August 2019 | 1 mth % | 3 mths % | 6 mths % | 1 yr % | 3 yrs % p.a. | 5 yrs % p.a. | 7 yrs % p.a. | 10 yrs % p.a. | Inception % p.a. (Mar 2008) |
|---|---|---|---|---|---|---|---|---|---|
| Ralton Concentrated Aus Eq. | -3.34% | 0.33% | 2.67% | 3.44% | 8.63% | 8.55% | 8.75% | 6.66% | 7.46% |
| *Income return* | *0.55%* | *0.74%* | *2.14%* | *4.74%* | *4.20%* | *3.99%* | *4.01%* | 4.24% | *4.35%* |
| *Growth return* | *-3.89%* | *-0.41%* | *0.52%* | *-1.30%* | *4.43%* | *4.56%* | *4.73%* | 2.43% | *3.11%* |
| S&P/ASX 300 Acc Index | -2.27% | 4.30% | 9.53% | 9.14% | 11.34% | 7.94% | 10.93% | 8.50% | 5.90% |
| **Difference** | **-1.07%** | **-3.97%** | **-6.86%** | **-5.71%** | **-2.71%** | **0.61%** | **-2.19%** | -1.84% | **1.56%** |

## Performance review

- The S&P/ASX 300 Accumulation Index returned -2.27% for the month of August, with Health Care and Real Estate the top performing sectors and Materials and Financials the weakest performers for the period.
- The Ralton Concentrated Equity portfolio returned -3.34% for the month, underperforming the benchmark by 1.07%.
- For the month of August, being overweight Consumer Discretionary and underweight Financials added relative value to the portfolio. The portfolio's overweight to Energy and underweight to Health Care were the key detractors from portfolio returns.

## Performance attribution

***Key contributors***

| Key contributors | Positioning |
|---|---|
| James Hardie Industries | Overweight |
| Healius | Overweight |
| Woolworths Group | Overweight |

**James Hardie Industries (JHX, +13.37%)** – performed strongly in August as the market responded positively to a better than expected Q1 2020 result. Lead indicators had been mixed going into the result including weakness in US House Sales and Starts while conversely mortgage rates continue to decline, resulting in increased affordability and industry confidence. It appears the latter is the appropriate indicator as JHX delivered a positive outlook for US home construction with the expectation that they will continue to deliver strong growth above the industry average going forward. The company is currently seeing tailwinds from lower input costs as well as momentum in their cost out program and as such JHX has the choice to either supercharge growth from lower pricing or decide to keep margin benefits and pay them to shareholders. We expect management to reinvest margin to deliver longer-term earnings growth. We believe the positive US housing outlook is supported by improving housing affordability and will lead to a recovery in home approvals and sales. JHX's strong market position in the US siding market provides a strong long-term opportunity for growth as the company benefits from expected growth in housing formation, which is moving towards long-term growth trends. Further, we are attracted to the company's long-dated growth option in Europe.

**Healius (HLS, +9.56%)** – performed strongly in August as the FY19 result confirmed our view that the turnaround is gathering momentum. Key indicators included better than expected GP hirings in the second half of 2019, a foundation stone that will underpin improved profitability in their underutilised medical centre portfolio. Moreover, the pathology result indicated a return to normal revenue growth trends with the addition of improved EBIT margins as the pathology industry begins to show more rational behaviour. The company indicated that 2020 profitability will be ahead of 2019 and we are forecasting 10% growth which is less than the annualisation of the strong second half. As such we think there is possibility that the company will continue to positively surprise the market. In addition, we retain the view that there is a high likelihood of a takeover by either its major shareholder, Jango, or potential interest from a number of private equity groups. Whether or not a bid is concluded, we continue to back the strategic initiatives of new CEO, Dr Malcolm Parmenter, to deliver a turnaround across the company's operational divisions and see the potential for strong medium-term growth.

**Woolworths Group (WOW, +6.04%)** – delivered strong gains in August as the FY19 result confirmed recent industry feedback that the underlying business continues to perform well, and industry inflation is returning after a long period of deflation. The full year result was marginally ahead of expectations delivering underlying growth of 5%. Key drivers were continued positive sales momentum, boosted by the success of the "Lion King" Ooshies promotion, outperforming the second instalment of Coles' "Little Shop" campaign. Pleasingly management have indicated a good start to the year with same store sales up 7.5%, supporting a positive outlook in which we believe Woolworths will grow at between 6-7% annually over the next few years. WOW remains our preferred domestic defensive exposure as we believe COL is facing relatively higher capital spend that will lower return on

capital and cashflow available to shareholders. We remain attracted to the company's strong market position in an industry that should deliver sustainable growth. We also see a strong cashflow outlook as WOW is moving into a period of reduced capital expenditure. Management execution remains strong and the balance sheet's strength offers flexibility.

***Key detractors***

| Key detractors | Positioning |
|---|---|
| WorleyParsons | Overweight |
| Mineral Resources | Overweight |
| Northern Star Resources | Overweight |

**WorleyParsons (WOR, -23.90%)** – significantly underperformed the market in August. In our view, WOR has been adversely impacted by the broader sell-down of global engineering contractor names on the back of the US-China trade war and perceptions of a weakening global macroeconomic environment. WOR's strong correlation with the oil price has also had an impact as Brent oil fell sharply in early August due to perceptions of an acceleration in global oil production over the next year as trade tensions crimp global growth and the outlook for global oil demand. The share price was also affected by the FY19 result, as the market appeared to be confused as to whether the result was a miss or in-line, largely due to the limited disclosure around underlying performance ex-Jacobs. WOR's new FY20 forward guidance was limited to industry macro outlook factors, which did little to ease investor concerns. We believe WOR is oversold and we have a positive view on the company based on strong FY20 projected earnings growth, and the realisation of new cost, margin and revenue synergies from the Jacobs acquisition.

**Mineral Resources (MIN, -17.73%)** – significantly underperformed the market in August. MIN's share price was affected by the restructured Albemarle agreement announced on 1 August and the ongoing weak lithium pricing environment. This revised agreement reduced MIN's cash payment from Albemarle, lowered MIN's equity stake in Wodgina to 40% (prior 50%), has likely slowed the ramp up in Wodgina spodumene sales, but has given MIN earlier access to lithium hydroxide production from a facility being built by Albemarle in Perth. MIN produces and ships lithium and iron ore and is Australia's leading provider of mining infrastructure services and equipment solutions, particularly crushing/processing. Although we retain a positive outlook on MIN's FY20 mining services operation, the current weak lithium price environment has increased the risk of holding the stock as we see a potential for the parties to withhold lower quality product from the market which will substantially impact sales over the next 12 months.

**Northern Star Resources (NST, -8.53%)** – underperformed the market in August, despite the AUD gold price rising 10% over the month. NST reached an all-time high of A$14.06/sh on 24 July from expectations of a positive upcoming June quarter report on the back of a supportive gold price/weakening USD. NST released its June quarter report on 30 July, and despite posting strong gold production growth of +21% from the prior March quarter, FY19 full year gold production fell 7% short of mid-point company guidance of 850-900koz. Furthermore, NST's new guidance provided on 1 August implies a broadly flat FY20 production outlook, but the market was looking for Pogo-driven growth. NST's forecast for FY20 Jundee gold production volumes was also less than expected, due to a decision to stockpile. Despite a flat FY20 outlook, NST remains positioned to deliver rising gold production volumes, productivity gains (lower costs), and more resources from the Pogo mine in Alaska. Our positive view on NST is based on it being one of Australia's leading gold producers with a strong capital position (net cash) and a proven track record of operational execution and delivery of exploration success that adds value to its portfolio of assets.

## Portfolio changes

***Key additions and material adjustments***

| Bought |
|---|
| Telstra Corporation (TLS) |
| GPT Group (GPT) |

**Telstra Corporation (TLS)** was added to the portfolio in August as we have identified a material shift in the competitive environment, improving the outlook for sustainable returns and subsequently outperformance. The shift to the NBN and competitive intensity in the mobiles business has caused downgrades to dividend expectations for several years. We now view the current industry dynamic as supportive of industry returns as evidenced by recent increases in mobile pricing across the industry. The government's ban on the use of Huawei mobile equipment has placed TLS's main competitors at a significant disadvantage with the deployment of 5G. As a result, we believe that TLS will show robust defensive attributes while delivering a strong dividend over the next few years.

The portfolio added **GPT Group (GPT)** during the month to diversify its exposure to the AREIT sector and provide an additional element of defensiveness in the current low bond rate environment. GPT's portfolio is spread across Australian retail, office, and logistics/industrial assets, and management has been actively remixing the book away from the troubled retail and toward the structurally supported logistics sub-sector. We are attracted to GPT because of the resilience of its retail portfolio in a

soft retail environment, its strongly performing office portfolio, and the operational strength of the growing logistics portfolio. Further, we see the solid growth in GPT's funds management business as a provider of additional earnings certainty, which is a key attraction in an increasingly uncertain economic environment. With solid earnings and distribution growth guided by management and anticipated by the market, GPT's relatively cheap valuation and attractive yield coupled with its strongly performing property portfolio render it an attractive candidate for portfolio inclusion.

***Key disposals and material adjustments***

| Sold |
|---|
| Macquarie Group (MQG) |
| Super Retail Group (SUL) |
| Mineral Resources (MIN) |

**Macquarie Group (MQG)** was removed from the portfolio in August. Whilst we remain attracted to the highly successful asset management business, and in particular, the infrastructure assets, we see rising financial market risks which would adversely impact the other areas of the groups business. As such, we elected to dispose of the position.

**Super Retail Group (SUL)** was removed from the portfolio following a strong FY19 result in which the company indicated that they continue to manage a challenging retail environment better than peers. However, the valuation opportunity at the time of investment has been achieved and we see comparatively greater upside from other opportunities in names exposed to an improving consumer.

We have elected to remove our stake in **Mineral Resources (MIN)** during August as the current weak lithium trading environment has increased offtake risk to the extent that we now see potential for Albemarle to withhold spodumene sales for the next 12 months or until prices firm up. Mount Marion's FY20 lithium shipment volumes and costs are expected to be adversely affected by water supply issues that restricts the ability to produce higher-quality 6% spodumene. The profitability of the Iron Valley operations also becomes marginal at reduced iron ore prices. We retain a positive outlook on MIN's FY20 mining services operation, increased Koolyanobbing iron ore shipments, and expect completion of the Albemarle transaction soon, subject to FIRB and third party approvals.

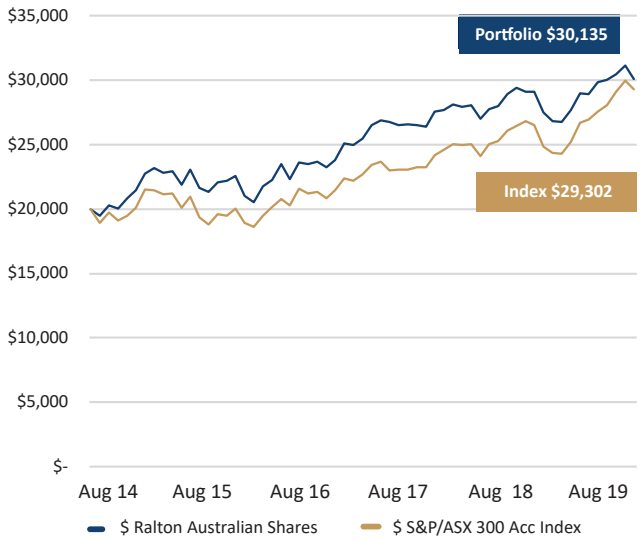
## Sector allocation

| GICS sector | Ralton | Index | +/- |
|---|---|---|---|
| Financials | 26.5% | 31.0% | -4.5% |
| Real Estate | 7.0% | 8.1% | -1.1% |
| Industrials | 0.0% | 8.3% | -8.3% |
| Materials | 22.3% | 17.5% | 4.8% |
| Energy | 7.2% | 5.0% | 2.2% |
| Telecommunication Services | 3.8% | 3.8% | 0.0% |
| Consumer Discretionary | 12.6% | 6.5% | 6.1% |
| Utilities | 4.0% | 1.9% | 2.1% |
| Consumer Staples | 8.4% | 6.0% | 2.4% |
| Health Care | 5.8% | 9.4% | -3.6% |
| Information Technology | 2.4% | 2.6% | -0.2% |
| **Total** | **100.0%** | **100.0%** | **0.0%** |

## Top 10 holdings#

| Company name | ASX code |
|---|---|
| Westpac Banking Corp | WBC |
| ANZ Banking Grp Ltd | ANZ |
| BHP Group Limited | BHP |
| Woolworths Group Ltd | WOW |
| Amcor PLC | AMC |
| Commonwealth Bank. | CBA |
| Vicinity Centres | VCX |
| Northern Star | NST |
| Spark Infrastructure | SKI |
| Aristocrat Leisure | ALL |

## Performance comparison of $20,000*



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| | | |
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Performance of the Ralton Concentrated Australian Equity Portfolio (Ralton Wholesale Australian Shares 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 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 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.