## Total returns

| At 30 September 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. | 2.51 | 1.22 | 6.60 | 5.99 | 9.22 | 9.66 | 12.11 | 9.15 | 7.64 |
| *Income return* | *0.67* | *1.22* | *2.05* | *4.72* | *4.24* | *4.01* | *4.03* | 4.25 | *4.38* |
| *Growth return* | *1.84* | *0.00* | *4.55* | *1.27* | *4.98* | *5.65* | *8.08* | 4.90 | *3.25* |
| S&P/ASX 300 Acc Index | 1.91 | 2.55 | 10.80 | 12.57 | 11.85 | 9.55 | 10.89 | 8.05 | 6.03 |
| **Difference** | **0.60** | **-1.33** | **-4.20** | **-6.58** | **-2.63** | **0.12** | **1.22** | **1.10** | **1.60** |

## Performance review

- The S&P/ASX 300 Accumulation Index returned 2.55% for the September quarter, with Financials and Consumer Staples the top performing sectors and Materials and Communication Services the weakest performers for the period.
- The Ralton Concentrated Equity portfolio returned 1.22% for the quarter, underperforming the benchmark by 1.33%.
- For the September quarter, being overweight Consumer Discretionary and underweight Information Technology added relative value to the portfolio. The portfolio's underweight to Health Care and overweight to Utilities were the key detractors from portfolio returns.

## Performance attribution

### *Key contributors*

| Key contributors | Positioning |
|---|---|
| James Hardie Industries | Overweight |
| Super Retail Group | Overweight |
| Woolworths Group | Overweight |

**James Hardie Industries (JHX, +32.94%)** – performed strongly during the September quarter 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 provided 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 through lower pricing or decide to keep margin benefits and pay them to shareholders. We expect management to reinvest margin to deliver earnings over the medium term. JHX's strong market position in the US siding market and longer-dated opportunity in Europe provides the opportunity to invest in long-term growth. Further, a strong management team combined with valuation upside should deliver strong returns to shareholders.

**Super Retail Group (SUL, +20.53%)** – outperformed in the September quarter as consecutive rates cuts in May and June as well as improved confidence following the May election result appear to have assisted the company in delivering a better than expected result in the August reporting season. In a trading update included in this year's result, management indicated that sales continued to be strong and that competitors remain rational. As such, margins look to remain stable. The recent management transition to Anthony Hegarty provides strategic stability and we are supportive of his track record managing the Leisure division through a difficult period. An improved outlook and solid management execution have resulted in a period of strong performance during which SUL has approached our view of intrinsic value. As such, we have removed the position from the portfolio following a fundamental review.

**Woolworths Group (WOW, +12.19%)** – delivered strong gains in the quarter as the FY19 result confirmed recent 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 a group level 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 |
|---|---|
| Amcor | Overweight |
| WorleyParsons | Overweight |
| Spark Infrastructure | Overweight |

**Amcor (AMC, -11.98%) –** the global packaging company, underperformed the market during the quarter as it gave back part of the outperformance following its merger with Bemis. The merged entity began trading from mid-June with the principal listing in the US and a secondary listing in Australia. The acquisition of Bemis is a strategically significant move by AMC as it gives the group a diversified global footprint across Flexible and Rigid Plastics. AMC has the opportunity to continue to take share given its scale benefits (greater resin purchasing scale, manufacturing and innovation capabilities) and it should continue to generate solid organic growth in emerging markets as more sophisticated packaging moves through the supply chain. The combined business is highly cash generative and has a strong balance sheet, which will support acquisitive growth or share buybacks. The greater scale in the US provides AMC with a base to begin consolidating that market further now as well. The combined group is targeting $180m of synergy benefits and based on managements' past track record, we believe this is achievable. The company is aware of customer concerns around the use of plastic packaging and is working with them to develop more environmentally friendly options. AMC's scale places it in a far better position than peers to drive this transition. Overall, we believe AMC continues to offer a solid medium-term growth story.

**WorleyParsons (WOR, -11.56%) –** underperformed the market in the September quarter. WOR's strong correlation with the oil price has meant that it was adversely impacted by the sharp fall in the Brent oil price in early August, mainly due to perceptions of an acceleration in global oil production over the next year as trade tensions crimp global growth and reduce the outlook for global oil demand. WOR's FY19 result also appeared to confuse the market 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 also limited to industry macro outlook factors, which did little to ease investor concerns. WOR's competitive advantage stems from its position as a pre-eminent global provider of professional project and asset services, its proven experience in successfully delivering world class engineering solutions, and its established long-term blue-chip customer relationships making it the partner of choice for its customers. We believe the Jacobs ECR business remains on track to successfully deliver material EPS accretion, revenue and cost synergies.

**Spark Infrastructure Group (SKI, -11.11%) –** underperformed the market in the September quarter. SKI's 1H19 result has maintained 2019 distribution guidance of at least 15 cps, however, it has also warned that distributions may need to rebase lower to offset the revenue declines anticipated for the next five year regulatory reset period, beginning July 2020 for SAPN, and July 2021 for VPN. SKI is also under cash flow pressure from lower expected returns associated with its pending change to a tax paying status, noting that distributions are expected to be funded from after tax standalone operating cash flows. SKI has identified substantial growth opportunities in Transgrid and for distribution assets in enhanced grid stability and electrifying transportation, but it believes regulators are offering insufficient returns under the rate-of-return guidelines (RORG) on distribution network assets in order to adequately compensate for development risk. We are attracted to the defensive characteristics of the earnings stream generated from SKI's high-quality electricity distribution networks, but business conditions and SKI's distribution outlook have deteriorated from the start of the year.

## Portfolio changes

***Key additions and material adjustments***

| Bought |
|---|
| OZ Minerals (OZL) |
| Flight Centre (FLT) |
| Telstra Corporation (TLS) |
| GPT Group (GPT) |
| Spark New Zealand (SPK) |

We added **OZ Minerals (OZL)** to our portfolio during the quarter for its quality assets and growth in copper and gold production. OZL has a portfolio of long life/ low cost assets that generate robust cashflows backed by the Prominent Hill operating mine. Future growth in copper and gold production is driven by Carrapateena, which clocked its first ore in April 2019 and is on track for commissioning from 4Q 2019.

**Flight Centre (FLT)** was added to the portfolio during the quarter. The business is part way through a multi-year turnaround. During FY19, the company has faced macroeconomic headwinds with the domestic leisure market declining along with a number of self-inflicted problems impacting corporate profitability. The domestic market should improve with the tax and rate cuts, whilst a number of last year's headwinds will not repeat, setting the company up for an improved outlook. We see valuation as attractive, with FLT trading at a significant discount to its own historical trading range and the broader market.

**Telstra Corporation (TLS)** was added to the portfolio during the quarter 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 quarter 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 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.

**Spark New Zealand (SPK)** is a key player in the NZ broadband and mobiles market and was added to the portfolio during the quarter. The business has undergone a significant cost out exercise which has left SPK in a strong position to benefit from its recently announced growth initiative. The company offers an attractive yield and growth outlook and is trading at a discount to the Australian telco market.

***Key disposals and material adjustments***

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

**Macquarie Group (MQG)** was removed from the portfolio during the quarter. 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 elected to remove our stake in **Mineral Resources (MIN)** during the quarter 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 restrict 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.

We elected to sell the position in **Spark Infrastructure (SKI)** during the quarter as business conditions and SKI's distribution outlook have deteriorated from the start of the year and we now see more attractive opportunities elsewhere in the market.

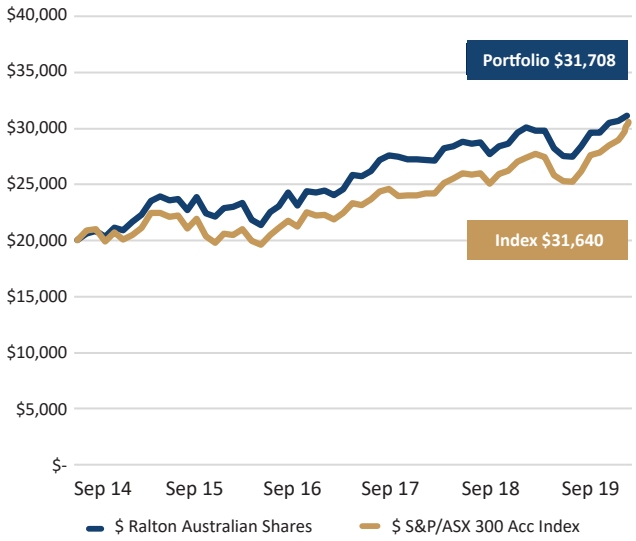
## Sector allocation

| GICS sector | Ralton | Index | +/- |
|---|---|---|---|
| Financials | 25.9% | 32.1% | -6.2% |
| Real Estate | 7.0% | 7.9% | -0.8% |
| Industrials | 0.0% | 8.1% | -8.1% |
| Materials | 22.9% | 17.3% | 5.6% |
| Energy | 8.0% | 5.0% | 3.0% |
| Telecommunication Services | 6.1% | 3.6% | 2.6% |
| Consumer Discretionary | 13.3% | 6.6% | 6.7% |
| Utilities | 0.0% | 1.8% | -1.8% |
| Consumer Staples | 8.4% | 5.9% | 2.5% |
| Health Care | 5.9% | 9.1% | -3.2% |
| Information Technology | 2.5% | 2.7% | -0.1% |
| **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 |
| Aristocrat Leisure | ALL |
| Northern Star | NST |
| Telstra Corporation. | TLS |

## Performance comparison of $20,000*

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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.