

# Ralton Concentrated Australian Equity

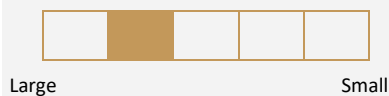
Portfolio Report | February 2021

## Key facts

### Income versus growth target



### Market cap bias



### Investment strategy

A portfolio of ASX-listed equities designed to provide capital growth with some 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



## Stock spotlight | QBE Insurance Group (QBE)

QBE was a standout performer in the February reporting season increasing 16% as the company showed signs of improving operational momentum amid a strengthening industry backdrop. While QBE has been challenged by COVID claims disruption and unexpected CEO change, the recent QBE result indicated a company with strengthening underlying fundamentals with COVID business interruption claims now quantified and provided for. QBE remains a high conviction position in the portfolio with valuation appealing and benefits of the cost out program to continue. Global peers continue to report a tightening premium cycle and with bond rates increasing the key drivers of earnings have turned positive. The recent capital raising place the company in the strongest financial position in the last decade. We look for the announcement of a replacement CEO to drive investor confidence, and expect the strengthening premium pricing cycle to drive material share price gains, supported by a better than market yield. In the month we added to the position and look for further price appreciation over the coming quarters.

## 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	<b>2.23%</b>	<b>4.69%</b>	<b>5.75%</b>	<b>3.77%</b>	<b>8.85%</b>	<b>8.34%</b>	<b>6.91%</b>
Income	0.54%	0.55%	2.62%	3.72%	3.84%	4.03%	4.19%
Growth	1.69%	4.14%	3.14%	0.05%	5.02%	4.31%	2.73%
Index	<b>1.48%</b>	<b>3.16%</b>	<b>7.06%</b>	<b>7.53%</b>	<b>10.85%</b>	<b>7.68%</b>	<b>5.70%</b>

## Portfolio February Performance and Drivers

The Ralton Concentrated portfolio returned +2.23% for the month, outperforming a relatively strong ASX300 Accumulated Index by a healthy +0.75%. This builds on January's strong result creating a solid start to the calendar year with the portfolio outperforming the market +1.53% QTD.

Portfolio positioning in resources again benefited investors as overweights in OZL (+20%) and BHP (+12.8%) drove portfolio performance. Key drivers of the strong performance over the month were the portfolios stock selection in the Healthcare sector as Ramsay (4.81%) performed strongly with surgical volumes improving will a return to normal operating trends is seeing a normalisation of COVID costs. Ralton's diligence in avoiding extreme valuation signals assisted as higher bond rates impacted valuation extremes in the IT sector with large index weight Afterpay declining -12% along with the broader Tech Index which retreated -7.15%. Although the level exposure to Insurance names remained underweight, key holding QBE increased +15.69% in the month. We see further gains as likely as higher rates drive investment returns and premiums continue to surge up 10% year on year. While the portfolio benefited from base and bulk commodity exposure, Gold holdings NST (-12%) and RRL (-14%) lagged as real rates, global growth expectations decreased the attractiveness of the sector as downturn insurance. Gold equities continue to screen extremely well given high cash flow with costs well below current prices. Furthermore we are increasingly of the view that volatility will increase, as such



## Sector allocation

Sector	Ralton	Index	+/-
Banks	21.73	20.76	0.96
Chemicals	3.50	0.61	2.89
Communication Services	4.90	4.06	0.84
Construction Materials	2.76	1.50	1.26
Consumer Discretionary	4.78	7.65	-2.87
Consumer Staples	4.93	5.63	-0.70
Containers & Packaging	4.92	0.82	4.10
Diversified Financials	3.59	5.09	-1.50
Energy	2.06	3.81	-1.75
Health Care	8.55	10.00	-1.44
Industrials	11.03	6.73	4.30
Insurance	3.95	2.78	1.17
Metals & Mining	17.08	18.42	-1.34
Real Estate	2.06	6.72	-4.66
<b>TOTAL</b>	<b>100</b>	<b>100</b>	

## Top 10 holdings

BHP Group Ltd
National Australia Bank Limited
Westpac Banking Corporation
Amcors PLC Shs Chess Depository Interests
Repr 1 Sh
Commonwealth Bank of Australia
Telstra Corporation Limited
QBE Insurance Group Limited
Ramsay Health Care Limited
Challenger Limited
Incitec Pivot Limited

## Portfolio metrics

	Ralton
PE	14.80
EPS Growth (%)	11.60%
Dividend Yield (%)	3.96%

## February Monthly Market Commentary

The Australian market returned +1.47% in February which was a positive result given the opposing forces of higher real interest rates and a better than expected Australian reporting season. Heading into February the market P/E had reached nearly 20x however post market upgrades with the Banking and Resources as the key drivers, market valuation has settled at a still elevated 18.1x. Conversely, the month saw an 10 year bond rates move higher with the spread to short term rates accelerating. Valuations for all asset classes are anchored by the use of bond rates in the discounting of cash flows. As such businesses with long duration earnings such as healthcare and IT bore the brunt of the volatility, giving up further gains.

As previously described, the key drivers of the market in February were large index constituents Banks (+5.61%) and Materials (8.24%) with the broader Financials sector including Insurance (+4.47%) and Diversified Financials (+3.67%) benefiting from the reflation trade. Iron Ore and Copper names were strong with OZ Minerals increasing 20% while higher rates impacted traditionally defensive gold names, Northern Star reduced 21%. The Banking sector which is benefiting from the improving economy with lower bad debts and higher credit growth was led by Westpac (12.7%). While within insurers QBE led gains increasing 16% as insurance premiums continue to show signs of inflation.

Sectors not exposed to the improving economic outlook, namely Utilities (-8.0%) and Technology (-8%) and Staples (-4.5%) lagged the Index. China exposed companies flagged continued Daigou channel disruption with infant formula related names A2 Milk (-15.98%), while Coles (-15.82%) posted a disappointing result as they continue to lag preferred exposure Woolworths in online sales. Orica (-18%) delivered a surprise downgrade flagging challenging conditions with the combined announcement that long term CEO Alberto Calderon will leave the company.

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 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 in an 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 [clientservices@copiapartners.com.au](mailto:clientservices@copiapartners.com.au). Any opinions or recommendations contained in this document are subject to change without notice. Ralton and Copia are under no obligation to update or keep information contained in this document current. ZENITH: The Zenith Investment Partners ("Zenith") Australian Financial Services License No. 226872 rating (assigned June 2019) referred to in this document is limited to "General Advice" (as defined by the Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Zenith usually charges the product issuer, fund manager or a related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessment's and at <http://www.zenithpartners.com.au/RegulatoryGuidelines>. LONSEC: The Lonsec Rating (assigned August 2019) presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to "General Advice" (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product(s). Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold Ralton Asset Management product, and you should seek independent financial advice before investing in this product. The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document following publication. Lonsec receives a fee from the Fund Manager for researching the product using comprehensive and objective criteria. For further information regarding Lonsec's Ratings methodology, please refer to our website at: <http://www.lonsecresearch.com.au/research-solutions/our-ratings>