Ralton Concentrated Australian Equity

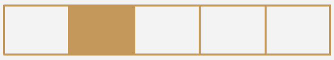
Portfolio Report | February 2021

Key facts

Income versus growth target

Income Growth

Market cap bias



Large Small

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	**2.23%**	**4.69%**	**5.75%**	**3.77%**	**8.85%**	**8.34%**	**6.91%**
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	**1.48%**	**3.16%**	**7.06%**	**7.53%**	**10.85%**	**7.68%**	**5.70%**

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 Januarys 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
TOTAL	**100**	**100**	

Top 10 holdings

BHP Group Ltd

National Australia Bank Limited

Westpac Banking Corporation

Amcor 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.