

# Ralton Leaders

Portfolio Report | August 2021

## Stock spotlight | Downer (DOW) +25.5%

At Ralton we look for enduring “thematics” that a company may exploit to deliver sustainable growth over the medium term. On the 3rd of September I was privileged to present on to Netwealth clients on companies set to benefit from the greening of global economies. Downer was one of five opportunities I spoke to represented in our portfolios. The energy transition will result in a significant spend on power infrastructure, which delivers Downer an expanded market opportunity as itself transitions to a pure play urban services business, exiting the more capital intensive and volatile earnings. The new Downer will have more a more stable earnings profile, delivering higher returns to shareholders. Trading at 16.5 PE, with a strong yield and enviable balance sheet, we see further as it capitalises on this exciting opportunity.

**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>3.08%</b>	<b>4.27%</b>	<b>33.04%</b>	<b>9.03%</b>	<b>10.63%</b>	<b>11.38%</b>	<b>7.87%</b>
Income	0.64%	0.98%	3.56%	3.78%	3.92%	4.13%	4.37%
Growth	2.45%	3.29%	29.48%	5.24%	6.71%	7.25%	3.50%
Index	<b>2.28%</b>	<b>5.68%</b>	<b>28.48%</b>	<b>10.12%</b>	<b>11.05%</b>	<b>10.56%</b>	<b>6.85%</b>

### Portfolio Performance

The Ralton Leaders portfolio returned +3.08% for August, 0.81% ahead of the ASX100 Index. Standout results from core holdings have now delivered alpha of 4.56% over the last year. Key holdings retain material upside, with the portfolio at higher growth with a lower aggregate PE.

Contributors	Comment
DOW (+25.5%)	Downer delivered a strong result, ahead of market expectations, lifting NPAT growth 20%+ from the prior year, with cash flow strong again. Through asset sales and strong execution, DOW moves closer to a lower capital intensive, growth business. We see further upside.
JHX (+16.0%)	In the FY21 result, CEO Jack Truong delivered 20%+ volume growth and expanding margins through manufacturing efficiency and execution of a strong strategic plan. Through R&D, mix shift is set to drive next stage of growth.
QBE (+9.60%)	QBE delivered the standout result for reporting season as a strong global premium cycle and lower cost delivered a result 40% ahead of expectations. More broadly the insurance sector appears in strong shape. Overweight.
Detractors	Comment
BHP (-14.73%)	Lower Iron Ore prices sent the mining sector lower, however its was a significant announcement to demerge its Energy business that caused investor concern. We see the move as positive, delivering exposure to higher growth commodity markets and a stronger balance sheet.
APT (+39.24%)	Afterpay surged after the board accepted a bid by global payments leader Square Group. Post completion APT will be removed from the ASX Index.
WOR (-3.94%)	Worley delivered an FY21 result marginally below expectations as global COVID actions limited access to sites. Conversely the outlook looks to have strengthened, with energy transition projects to deliver growth and margin.

### Key facts

#### Income versus growth target



#### Market cap bias



#### 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

Will Riggall

#### Inception date

February 2008

#### Management fee

0.75% p.a. (may vary across platforms)

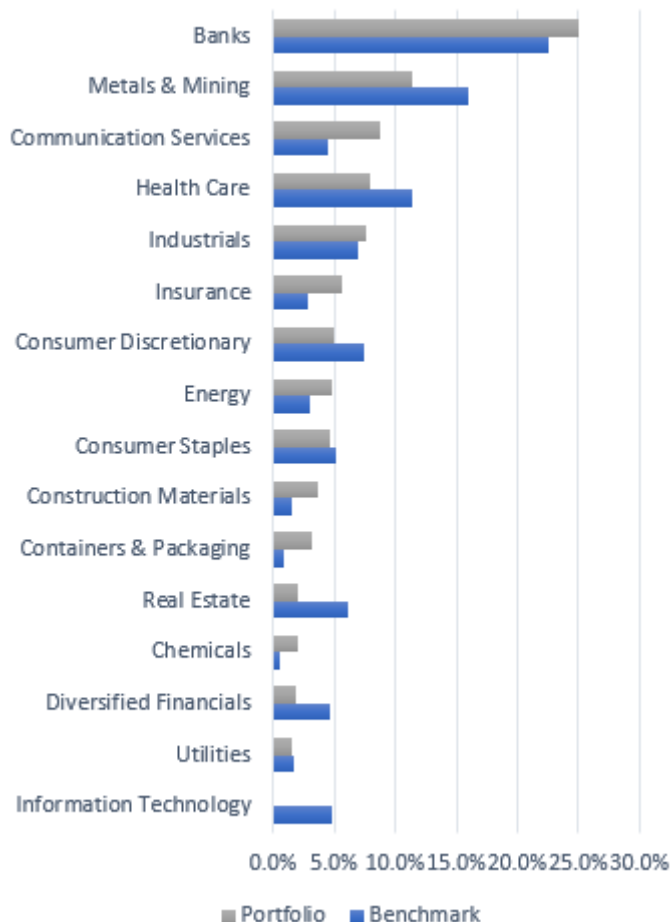
#### Number of stocks

25-35

#### Key platforms

Brightday, Linear, OneVue, Praemium

### Sector Positioning



### Top 10 holdings (alphabetical)

- Aristocrat Leisure Limited
- BHP Group Ltd
- Commonwealth Bank of Australia
- CSL Limited
- James Hardie Industries
- National Australia Bank Limited
- QBE Insurance Group Limited
- Telstra Corporation Limited
- Westpac Banking Corporation
- Woolworths Group Ltd

### Portfolio metrics

	Ralton	XTOAI
# of Securities	24	100
Market Capitalization	72,540.6	85,944.7
Active Share	58.5	--
Tracking Error	3.97	--
Beta	1.02	1.00
Est 3-5 Yr EPS Growth	11.3	10.2
ROE	10.9	11.2
Div% NTM	3.98	3.43
P/E using FY2 Est	16.5	17.7
Price/Cash Flow	8.7	11.8

### Portfolio Activity

#### BUY

**Insurance Australia Group** IAG looks set to benefit from a strong premium pricing cycle with internal cost out efficiencies set to drive insurer margin expansion, delivering growth independent of the economic recovery path. IAG has a history of trading at a premium given its low capital intensity and defensive growth characteristics, as such we see the prospect of PE expansion, EPS upside and a better than market yield as an attractive combination with clear catalysts set to play out in the near term.

#### REDUCE

**QBE Insurance** In the FY21 result, QBE delivered on our investment thesis that the combination of a strong global insurance market and improving company performance would result in a better than expected set of numbers. However given a near 40% return in less than 12 months we have taken the opportunity to reduce the position to align with our broader portfolio risk parameters.

### What’s got me thinking?

The Reporting Season delivered another strong month for markets it called a halt to the strong period of earnings upgrades as the global impact of Delta saw forward EPS reduced by 2%. Given the impact of lockdowns, how do you benefit from the opening trade without stepping into an earnings downgrade like the one delivered by United Malt (UMG) due to supply chain disruptions. We are seeking firstly be exposed to the movement of people, services (e.g. WOR) rather than goods given we expect supply chain issues to continue well past economies are fully vaccinated. Secondly, its is even more important to focus on a company’s competitive position and balance sheet (e.g. JHX) as its maintains earnings with the rising cost of inputs needed to be passed on and carried in inventory.

Performance of the Ralton Leaders Portfolio is based on a model portfolio and is gross of investment management and administration fees, but net of transaction costs. 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. 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 AM Pty Ltd Trading as Ralton Asset Management ABN 31 639 028 809 is a Corporate Authorised Representative (AR Number 1281001) of AdviceNet Pty Ltd (ABN 35 122 720 512 AFSL 308200). Ralton AM Pty Ltd is the provider of the Ralton Leaders Model Portfolio.