

Ralton Concentrated Australian Equity

Portfolio Report | October 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

Will Riggall

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

HUB24, NetWealth, Praemium, OneVue, Powerwrap, Linear, Xplore, Wealth02

Stock spotlight | Worley (WOR) +9.18%

COP26 has been a lightning rod for investors to assess their portfolios through the lense of the new economy. The drive to net zero is estimated to deliver between \$1-2 trillion p.a. in capital investment. As a leader in the design and delivery of complex capital projects across the energy, chemical and infrastructure space, WOR is uniquely positioned to benefit as companies seek to re-position to a de-carbonised economy. New economy projects are not only large, but according to WOR in a FY21 Investor Presentation are being delivered at a higher EBIT margin. With consensus having factored in limited benefit in forecast earnings, the current low PE provides a significant opportunity for material gains while investing in a thematic set to shape investment markets for the next decade.

Performance (% returns greater than one year are p.a.)¹

At month end	1 mth	3 mth	1 yr	3 yr	5 yr	10 yr	Inception
Ralton	-0.42%	1.22%	27.67%	8.05%	8.35%	10.52%	7.35%
Income	0.00%	1.42%	3.77%	3.78%	3.87%	4.02%	4.20%
Growth	-0.42%	-0.20%	23.90%	4.27%	4.48%	6.50%	3.15%
Index ²	0.10%	0.77%	28.57%	12.26%	11.03%	10.01%	6.36%

¹Performance 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.

²Index means the S&P/ASX 300 Accumulation Index.

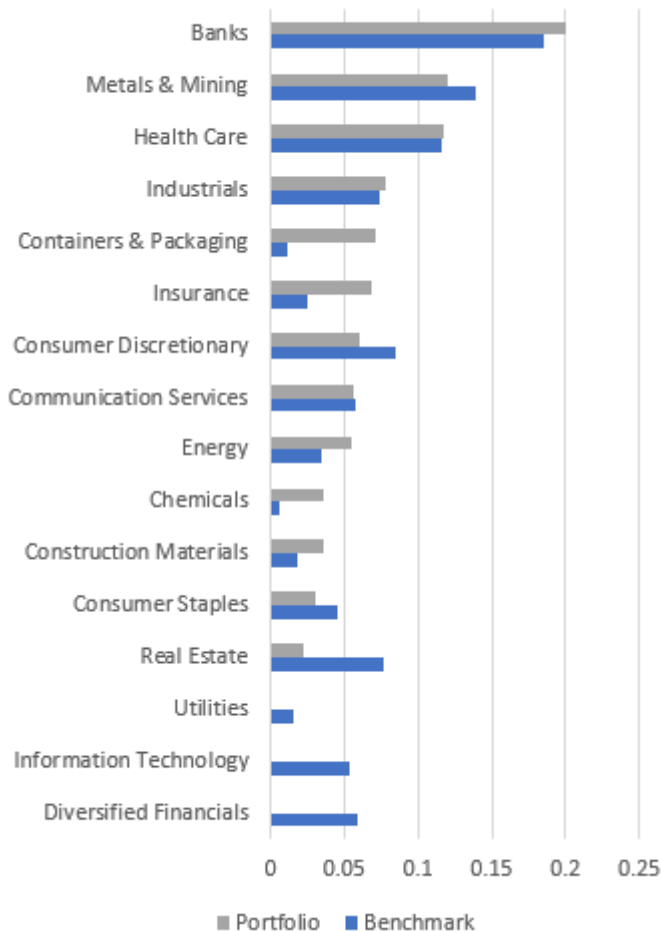
Portfolio Performance

The Ralton Concentrated portfolio returned -0.42% for October, marginally under a flat return for the Index of +0.10%. Stubbornly high inflation rates finally impacted bond markets with 10 year yield surging, stalling the share markets' march higher. For the portfolio focus remains on a company's ability to pass through inflation and positioning away from valuation extremes.

Contributors	Comment
Northern Star Resources Ltd (NST) +8.71%	NST lifted strongly as an improving gold price lifted sentiment. NST remains our preferred exposure due to the combination of increasing production and cost synergy realisation from the Saracen merger.
Worley Limited (WOR) +9.18%	WOR bounced back in October as investors focused on the company's strengthening outlook driven by increased economic activity as well as the groups increasing exposure to spend to deliver a lower carbon economy.
National Australia Bank Limited (NAB) +3.16%	NAB outperformed the broader bank sector as investors look to the upcoming reporting season. We believe the NAB CEO continues to deliver on the turnaround with the opening economy set to favor its business bank exposure.
Detractors	Comment
Smart Group Corporation Ltd (SIQ) -15.58%	SIQ fell after TPG and Potentia Capital revised their bid from \$10.35 to \$9.25, which the board rejected. We expect continued interest due to strong cashflow attributes and upside as new car sales return to normal levels.
Macquarie Group Limited (MQG) +8.70%	Upgraded guidance for first half earnings, supported by commodities and global markets activity as well as asset realisations. MQG is well placed to benefit from the green energy transition with outlook reflected in valuation.
Aurizon Holdings Ltd. (AZJ) -11.08%	AZJ has been performing well with coal prices and demand for utility earnings driving investor sentiment. However, the acquisition of OneRail brings coal and bulk exposure, while intent on divesting coal it does increase ESG risk.



Sector Positioning



Top 10 holdings (alphabetical)

Amcor PLC
 BHP Group Ltd
 Coles Group Ltd.
 Commonwealth Bank of Australia
 National Australia Bank Limited
 QBE Insurance Group Limited
 Sonic Healthcare Limited
 Telstra Corporation Limited
 Westpac Banking Corporation
 Woodside Petroleum Ltd

Portfolio metrics *

	Ralton	XKOA1 [^]
# of Securities	26	200
Market Capitalisation	54,557.50	66,035.90
Active Share	66.3	--
Tracking Error	4.02	--
Beta	0.95	1
Est 3-5 Yr EPS Growth	10.6	9.9
ROE	12.9	13.7
Div% Next 12 Months	4	3.47
P/E using FY2 Est	14.9	17.6
Price/Cash Flow	7.6	10.6

*Source: FactSet

[^]XKOA1 means the S&P/ASX 300 Accumulation Index. 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

Portfolio Activity

BUY

PGH Post a challenging period, we believe the business is now well positioned to see earnings recovery, and multiple expansion. We are attracted to the emerging strategy to be a leader in clean recycling, with the opportunity to build strong competitive advantage from a now solid base business. We expect continued earnings improvement and PE expansion to drive strong performance over a multiple year period.

SELL

DOW The investment in Downer was predicated on backing management to reduce the capital intensity through sale of non core operations and pivot towards a less volatile services business. Management have successfully executed on the transition the opportunity and the share price has reacted accordingly, closing the value opportunity.

What's got us thinking

All the talk has been about inflation, with tradition correlation of higher yields driving preference for cyclical stocks as yields and inflation are more often flagging a pick up in growth. However as the October month continued the strong lead in "value" stocks moved rapidly to "growth" as technology and healthcare sectors took the lead. So what gives? Banks reacted to inflation signals by increasing 2-5 years fixed rates by up to 50bps, however it was what the RBA and other central banks statements that shines the light on this dichotomy. While inflation looks to be stickier and more indicative of structural higher prices, the central banks refusal to flag higher future rates, resulting in an increase in short rates with long term rates rising far less. A traditional flattening of the yield curve, supporting the value of future growth and indicating some economic caution is warranted. We remain of the view that spot COVID-19 growth will continue to accelerate, supported by continued forecast EPS increases. We stay overweight cyclical growth and cautious on high valuations and expect positioning to deliver strong alpha over the coming quarter.