

Ralton Leaders

Portfolio Report | October 2021

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 \$1-2trillion pa in capital investment. As a leader in the design and delivery of complex capital projects across the energy, chemical and infrastructure space, the company 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 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	-0.15%	1.49%	31.17%	10.75%	10.66%	11.05%	7.65%
Income	0.00%	1.43%	3.86%	3.83%	3.99%	4.16%	4.38%
Growth	-0.15%	0.06%	27.31%	6.92%	6.67%	6.89%	3.27%
Index ²	-0.03%	0.36%	28.22%	12.08%	10.96%	10.25%	6.62%

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 Leaders portfolio returned -0.15% for October, marginally under a -0.03% ASX100 Index. 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%	Northern Star lifted strongly as an improving gold price lifted sentiment. NST remains our preferred exposure due to the combination of increasing production and cost synergy realization from the Saracen merger.
Worley Limited (WOR) +9.18%	Worley 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 Bank reporting season. We believe NAB CEO continues to deliver on the turnaround with the opening economy set to favor its business bank exposure.
Detractors	Comment
Macquarie Group Limited (MQG) +8.70%	Upgraded guidance for first half earnings, supported by commodities and global markets activity and asset realisations. MQG is well placed to benefit from the green energy transition with outlook reflected in valuation.
Aurizon Holdings Ltd. (AZJ) -11.08%	Aurizon has been performing well with coal prices and demand for utility earnings driving investor interest. However the acquisition of OneRail brings coal and bulk exposure, while intent on divesting coal it does increase risk.
Ansell Limited (ANN) -7.87%	We caught up with management during the month to assess whether the concern about rising input cost meeting increased glove supply justifies the fall. The issues appear short term, with broad group accelerating we stay invested.

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

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

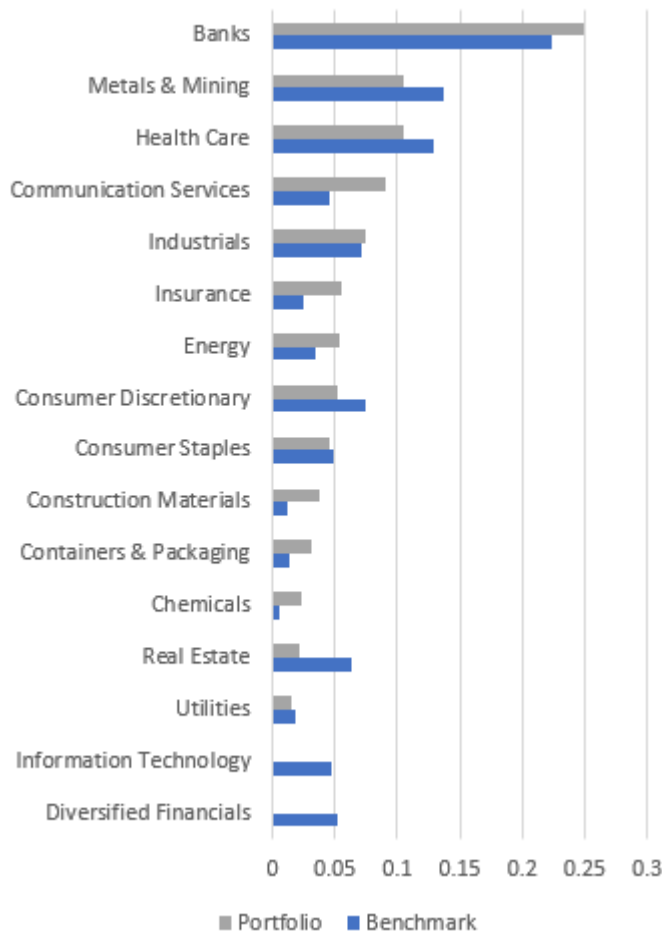
Portfolio metrics*

	Ralton	XTOAI [^]
# of Securities	24	99
Market Capitalization	67,184.4	76,944.7
Active Share	59.1	--
Tracking Error	3.58	--
Beta	1.00	1.00
Est 3-5 Yr EPS Growth	10.9	9.3
ROE	14.1	14.6
Div% NTM	3.94	3.69
P/E using FY2 Est	16.0	16.8
Price/Cash Flow	8.1	10.2

*Source: FactSet

[^]XKOAI 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

Sector Positioning



Portfolio Activity

BUY

NO TRADE

REDUCE

NO TRADE

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.