

# Ralton Concentrated Australian Equity

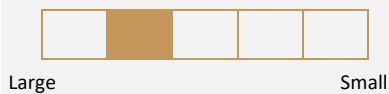
Portfolio Report | December 2021

## 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 | Incitec Pivot Ltd (IPL) +13.19%

In our September update we highlighted the potential upside from continued strong ammonia prices for key holding IPL. With gas as a key input for ammonia, high gas prices in Europe enable IPL to derive strong price realisation as the gas price in the US shows low volatility. IPL has been a strong performer for the current quarter; however we see continued upside from geopolitical unrest between Russia and the Ukraine driving gas prices higher, with impending sanctions on key gas supplier Russia very likely. Strong farm economics and commodity prices should see stronger growth with the added benefit of a lower capex period ahead set to drive free cashflow and further share price gains.

### Performance (% returns greater than one year are p.a.)<sup>1</sup>

At month end	1 mth	3 mth	1 yr	3 yr	5 yr	10 yr	Inception
Ralton	2.79%	0.39%	15.67%	9.33%	6.86%	11.00%	7.32%
Income	0.12%	0.61%	4.09%	3.73%	3.88%	3.96%	4.19%
Growth	2.66%	-0.22%	11.58%	5.60%	2.98%	7.04%	3.13%
Index <sup>2</sup>	2.65%	2.21%	17.54%	13.96%	9.94%	10.79%	6.44%

<sup>1</sup>Performance 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.

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

## Portfolio Performance

Despite a strong end to the year, the Ralton Concentrated Australian Equity Portfolio (portfolio) returned 0.39% for the quarter, underperforming the market as it finished off a strong year. Stubbornly high inflation rates finally impacted bond markets with 10 year yield surging; however the major impact on high PE names is yet to take hold. The Portfolio's focus on value and quality should result in strong outperformance.

Contributors	Comment
<b>Mineral Resources Ltd (MIN)</b> +24.97%	After adding MIN in November we have seen Iron Ore prices stabilise and Lithium prices continue to rise driving the share price higher over the quarter. We continue to see material value in the stock.
<b>Incitec Pivot (IPL)</b> +13.19%	The combination of strong agricultural markets and fertilizer pricing continues to support the investment thesis for IPL. If current commodity prices are to be maintained; the market will need to materially upgrade EPS forecasts.
<b>James Hardie Industries (JHX)</b> +11.13%	Despite higher US interest rate forecasts, which are traditionally negative for housing affordability, JHX continues to deliver excellent results as recent investment in capacity and sales entrenches their competitive position.
Detractors	Comment
<b>Westpac Banking Corp Ltd (WBC)</b> -15.70%	WBC was a material disappointment during the quarter, reporting lower margin as well as flagging a delay in its cost out strategy. We will meet with management and review the position in light of evidence of poor operational control.
<b>Smart Group Corporation Ltd (SIQ)</b> -18.42%	SIQ fell after TPG and Potentia Capital revised their bid from \$10.35 to \$9.25, which the board rejected. We expected continued interest due to strong cashflow attributes and upside as new car sales return to normal levels.
<b>Pact Group Ltd (PGH)</b> -33.60%	PGH updated the market at its AGM, flagging continued headwinds from COVID. The trajectory of operational turnarounds are not linear; however, we remain of the conviction that new management and strategy will deliver strong value as the company pivots to the structural tailwinds of the circular economy.



## Top 10 holdings (alphabetical)

Amcor PLC  
 Aristocrat Leisure Limited  
 BHP Group Ltd  
 Incitec Pivot Limited  
 James Hardie Industries PLC  
 National Australia Bank Limited  
 Northern Star Resources Ltd  
 QBE Insurance Group Limited  
 Telstra Corporation Limited  
 Westpac Banking Corporation

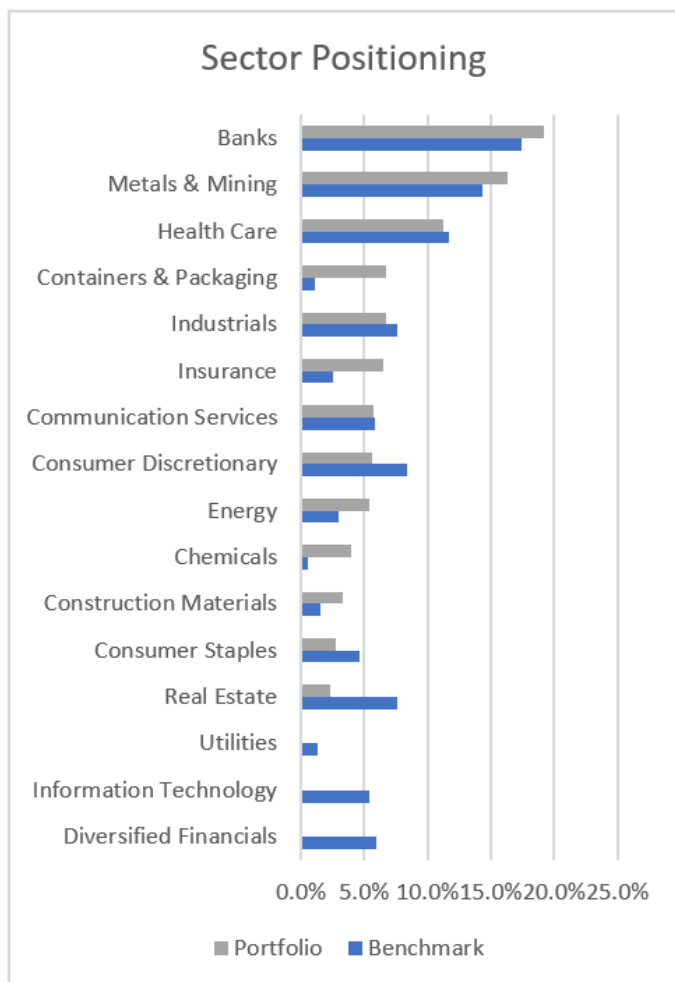
## Portfolio metrics\*

	Ralton	XKOA1 <sup>^</sup>
# of Securities	26	196
Market Capitalisation	55,274.6	64,466.8
Active Share	65.9	--
Tracking Error	3.66	0.00
Beta	0.98	1.00
Est 3-5 Yr EPS Growth	9.5	8.2
ROE	13.4	13.7
Div% Next 12 Months	3.99	3.36
P/E using FY2 Est	14.8	17.5
Price/Cash Flow	9.4	12.5

\*Source: FactSet

<sup>^</sup>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

## Sector Positioning



## 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.
- MIN** The Iron Ore division is set to benefit from expansion projects that will bring on growth at a lower marginal cost and the Lithium business is set to accelerate growth post a period of capex. Having de-rated due to Iron Ore weakness, trading on a single digit PE with material growth ahead we see the prospect of significant share gains for investors.
- QANTAS Airways Limited (QAN)** Not only does the domestic airline industry look to be a more rational duopoly under the new Virgin, but under Alan Joyce, QAN has emerged a more efficient business by which the rapid expected increase in revenue should see material upside to earnings. Trading below 10x PE, we took advantage of recent weakness from "Omicron" to initiate a position.

### SELL

- Downer EDI Limited (DOW)** The investment in DOW 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 and the share price has reacted accordingly, closing the value opportunity.
- Regis Resources Limited (RRL)** RRL has de-rated post paying above the odds for IGO's Tropicana mine with the objective of buying scale and growth. In the recent period the broader Gold sector has caught up and we now see relative value in conviction position Northern Star Resources Limited (ASX: NST) which offers production growth amid a more diversified company.
- ALS Limited (ALQ)** ALQ has been a strong performer for the Portfolio, increasing over 70% since its addition. While we remain positive on the industry outlook for both segments, ALQ has moved closer to our view of underlying value and as such we have exited and will reinvest in a number of high conviction investment ideas.