

# Ralton Concentrated Australian Equity

Monthly Portfolio Report | February 2025

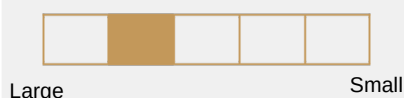


## Key facts

### 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

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

| At month end       | 1 mth | 3 mth | 1 yr  | 2 yr  | 3 yr  | 5 yr  | 10 yr | Inception |
|--------------------|-------|-------|-------|-------|-------|-------|-------|-----------|
| Ralton             | -2.1% | -0.7% | 6.8%  | 5.2%  | 6.7%  | 7.2%  | 6.3%  | 7.1%      |
| Income             | 0.2%  | 0.4%  | 3.4%  | 3.7%  | 3.5%  | 3.4%  | 3.7%  | 4.0%      |
| Growth             | -2.3% | -1.1% | 3.4%  | 1.5%  | 3.2%  | 3.8%  | 2.6%  | 3.0%      |
| Index <sup>2</sup> | -4.0% | -2.7% | 9.5%  | 10.0% | 8.8%  | 8.8%  | 7.5%  | 6.5%      |
| Outperformance     | 1.8%  | 2.0%  | -2.6% | -4.8% | -2.1% | -1.5% | -1.2% | 0.6%      |

<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

The Ralton Concentrated Portfolio outperformed the ASX300 Accumulated Index in February, returning -2.1%, versus the index return of -4.0%.

| Contributors  | Comment  |
|---|--|
| <b>Light &amp; Wonder, Inc.</b><br><b>Shs Chess Depository</b><br><b>Interests Repr 1 Sh</b><br><b>(LNW.ASX)</b><br>22.6% | LNW delivered a strong contribution throughout February, underpinned by a better-than-expected 4Q24 result and the proposed acquisition of Grover Gaming. Management reiterated its Adjusted Earnings Before Interest, Tax, Depreciation, and Amortisation (AEBITDA) guidance for 2025, while the proposed acquisition is expected to be earnings accretive from day one, subject to approval. The outlook remains positive, with management executing well on the strategy.   |
| <b>Telstra Group Limited</b><br><b>(TLS.ASX)</b><br>7.2%  | TLS delivered strong performance following a solid first-half result. The Mobile division met expectations, while the Fixed Consumer & Small Business (C&SB) segment saw significant improvement driven by price increases and margin expansion. The company's cost-saving program continues to yield results, with further savings anticipated in its mid-year T30 Strategy update. A \$750 million share buyback and an increased 5.5% interim dividend reflect its robust financial position. With superior network coverage and growing demand for digital infrastructure, TLS remains well-positioned as a market leader. |



## Portfolio Performance

| Detractors  | Comment   |
|---|---|
| <b>IDP Education Ltd.</b><br><b>(IEL.ASX)</b><br>-24.7%   | IEL was a detractor this month following a softer-than-expected 1H25 result, with ongoing pressures in the external operating environment impacting Student Placement and IELTS volumes. Despite these challenges, IEL continues to demonstrate strong margin control and gain market share, reinforcing its competitive position.  |
| <b>Resmed Inc CHES</b><br><b>Depository Interests</b><br><b>on a ratio of 10 CDIs</b><br><b>per ord.sh</b><br><b>(RMD.ASX)</b><br>-7.4% | RMD was a detractor during February, with the stock falling 7.6%. This decline followed a strong rally in January, which was supported by solid Q2 earnings results. We believe the sell-off in RMD during February reflected negative sentiment due to the ongoing penetration of weight loss drugs, which, for some, are viewed as a long-term threat to demand for RMD's sleep apnea machines that treat obstructive sleep apnea.  |
| <b>Ampol Limited</b><br><b>(ALD.ASX)</b><br>-8.9%   | ALD was a detractor over the month following a weaker-than-expected FY24 earnings result. While ALD had already guided on operational earnings, net profit after tax (NPAT) was softer than expected due to higher interest costs. Also unhelpful to ALD over the month was negative sentiment flowing from peer fuels infrastructure company Viva Energy (VEA.ASX), which fell -25% following its earnings result that revealed challenges facing its retail convenience division. |

## Portfolio Commentary

The portfolio performed well over the month, outperforming the broader market. As noted previously, our portfolio had underperformed due to three key factors:

1. Growth stocks outpacing value
2. Banks rallying beyond fundamentals (we are underweight banks)
3. Poor stock selection.

These factors have improved in recent months, and we expect this to persist.

Regarding growth stocks, the February profit reporting season revealed that many high-expectation companies in the "quality at any price" category experienced a reality check, with growth not justifying further share price increases e.g., Car Group Limited (CAR.ASX), NetWealth Group (NWL.ASX), Pro Medicus (PME.ASX), JB Hi-Fi (JBH.ASX), Guzman Y Gomez (GYG.ASX), Life360 Inc (360.ASX), Brickworks Limited (BRG)). On the banks, the profit season confirmed their muted prospects, with Commonwealth Bank of Australia (CBA.ASX), Bendigo and Adelaide Bank (BEN.ASX), National Australia Bank Ltd (NAB), and Westpac Banking Corporation (WBC) reporting soft net interest margin (NIM) trends and persistent cost pressures.

Most importantly, our stock portfolio performed well over the reporting season, with winners including, NIB Holdings Limited (NHF.ASX), QBE Insurance Group Ltd (QBE.ASX), Qube Holdings Ltd (QUB), Light & Wonder Inc (LNW.ASX), Telstra Group Ltd (TLS), Monadelphous Group Ltd (MND), ResMed (RMD.ASX), outnumbering losers including, Ampol Ltd (ALD.ASX), Woolworths Group Ltd (WOW.ASX), IDP Education Ltd (IEL.ASX), and WBC. For stocks that neither outperformed nor underperformed, market expectations were reasonable, and these stocks held up well against the broader market sell-off, names include Dexs (DXS.ASX), Goodman Group (GMG.ASX), Transurban Group (TCL.ASX), Newcrest Mining Limited (NCM.ASX), Worley Ltd (WOR.ASX), CSL Ltd (CSL.ASX), Ramsay Health Care Ltd (RHC.ASX), and Pexa Group Ltd (PXA.ASX).

During the month, we made some key portfolio changes. We sold Growthpoint Properties Australia Ltd (GOZ.ASX) and replaced it with DXS, which we view as better positioned due to its superior property portfolio, stronger balance sheet, and lower-risk profile. DXS also offers better dividend growth potential and is an attractive merger and acquisition (M&A) target, trading below net tangible assets in a favourable office market.

Additionally, we introduced a small position in PXA, Australia's leading digital property settlement platform. PXA handles over 90% of property transfers in Australia and is classified as a critical infrastructure asset. Despite a market cap decline to \$2 billion, we believe the market has undervalued PXA's growth potential, especially in the UK, where it faces a broken settlement system. With new leadership under Russell Cohen, we expect PXA to address past challenges and succeed in the medium term.

## Portfolio Activity

### BUY

#### PEXA Group Limited (PXA.ASX)

Following our recent initiation, we have decided to add to our PXA position after a strong 1H FY25 result that has increased our confidence in the investment outlook. Despite its 90% market share and strong profitability, PXA has struggled with growth, particularly in the UK. We believe the market undervalues its growth potential, and expect the company's more cautious approach and new leadership to drive improvement.

#### Dexus (DXS.ASX)

We initiated a position in DXS during the month, recognizing an attractive opportunity amid the current interest rate cycle and evolving office demand dynamics. While the commercial real estate sector faced cyclical headwinds, DXS's high-quality, CBD-located office assets and disciplined capital management have positioned it well for recovery. With return-to-office mandates gaining momentum and interest rate expectations trending downward, we see upside potential in DXS's earnings and asset valuations over the long term.

#### Ramsay Health Care Limited (RHC.ASX)

Following RHC's 1H FY25 result, which showed evidence of improving fundamentals and renewed efforts under new leadership to address problematic areas of the business, we have decided to increase our position. As per previous communications, RHC owns a high quality portfolio of hospitals in Australia that is being overlooked by the market due to a disproportionate focus on the offshore operations.

#### Woolworths Group Ltd (WOW.ASX)

Following a period of weak performance, we have decided to top up our position in WOW. While WOW is currently facing several headwinds across its food and non-food divisions, we view these setbacks as transitory rather than terminal. WOW has an advantaged physical store network alongside a growing online business that puts the company in good stead to deliver growth earnings and dividends in the years ahead.

#### Goodman Group (GMG.ASX)

Following GMG's solid 1H result and capital raising to fund its growing opportunity to build data centres, we have decided to add to our position. We see GMG as advantaged versus its peers in its ability to create value given its existing assets are concentrated in metro locations that already have the necessary infrastructure (namely power) to be repurposed into digital infrastructure for cloud and technology-related tenants.

### SELL

#### Growthpoint Properties Australia (GOZ.ASX)

GOZ was sold during the month as part of our reevaluation of our positioning within the REITs sector. While lower interest rates may support general real estate with gearing, we have greater conviction in higher-quality office exposures within the sector. Given ongoing shifts in office demand, we prefer assets located in areas with stronger long-term fundamentals, benefiting from the increasing traction of return-to-office mandates in both private and public sectors.

#### Light & Wonder, Inc. Shs Chess Depository Interests Repr 1 Sh (LNW.ASX)

Following LNW's robust 4Q24 and CY24 results, we've taken the opportunity to lock in profits and reduce our position. While we still see a clear path for market share gains in the premium North American gaming operations segment and supportive industry conditions, we have right-sized the position to reflect our conviction, with ALL remaining our preference.

#### Worley Limited (WOR.ASX)

We have reduced our position in WOR, as we believe near-term earnings face downside risks. This decision follows negative developments with WOR's customers in the fossil fuel and chemical sectors, who are cutting capital expenditure and reducing headcount. Additionally, after reviewing WOR's performance since acquiring Jacobs Engineering in 2018, we found that its growth, excluding this acquisition, has been underwhelming given the capital and activity directed at decarbonising energy production.

## Portfolio Activity

### SELL

#### Commonwealth Bank of Australia (CBA.ASX)

CBA delivered a peer leading result as competitor banks including Westpac and National Australia Bank flagged increasing competition and deteriorating customer credit indicators. The weaker indicators witnessed in the bank sector raises the prospect that the earnings upgrade cycle that has supported banks is ending. With CBA trading materially above our through the cycle valuation we believe investors are better off allocating capital to other areas of the market with less valuation risk and earnings growth.

#### Westpac Banking Corporation (WBC.ASX)

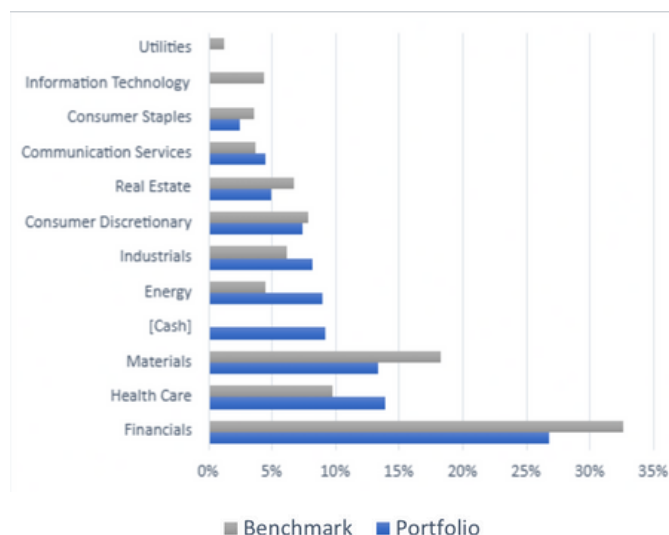
We have further reduced our bank exposure, taking 1% out of Westpac post a marginally disappointing 1Q25 result. Given a long period of better than expected results, the weaker net interest margin outcome rightly spooked investors. As we enter a rate cutting cycle, bank earnings look to have peaked and with valuations at decade highs we see superior value in other areas of the market. Low growth, high PE and emerging headwinds, we believe now is not the time to be over-exposed to the Australian banks.

## Top 10 holdings (alphabetical)

ANZ Group Holdings Limited  
BHP Group Ltd  
CSL Limited  
Goodman Group  
Macquarie Group, Ltd.

Resmed Inc CHESS Depositary Interests on a ratio of 10 CDIs per ord.sh  
Telstra Group Limited  
Transurban Group Ltd.  
Westpac Banking Corporation  
Woodside Energy Group Ltd

## Sector Positioning



## Portfolio metrics\*

|                       | Ralton   | XKOA1^   |
|-----------------------|----------|----------|
| # of Securities       | 26       | 297      |
| Market Capitalisation | 76,795.7 | 82,760.5 |
| Active Share          | 56.8     | --       |
| Tracking Error        | 3.42     | --       |
| Beta                  | 0.80     | 1.00     |
| Est 3-5 Yr EPS Growth | 4.3      | 4.6      |
| ROE                   | 11.6     | 12.7     |
| Dividend %            | 3.53     | 3.46     |
| P/E using FY2 Est     | 17.2     | 17.0     |
| Price/Cash Flow       | 10.9     | 11.5     |

\* Source: FactSet

^ XKOA1 means the S&P/ASX 300 Accumulation Index (Index). The Index is shown 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.