Ralton Dividend Builder

Portfolio Report | December 2021

Key facts

Income versus growth target

Income — Growth

Market cap bias

Large — Small

Investment strategy

A portfolio of ASX-listed equities designed to provide attractive 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 | Rio Tinto (RIO) +7.07%

The global mining industry has gone through a period of capital expenditure austerity post a period of restructuring and write offs after poor capital allocation in the prior cycle. The result has been an absence of new projects, and COVID-19 related disruption supply shortages combined with recovery linked demand is driving commodity prices. As developed countries reduce stimulus, all indicators are that China is set to restimulate its economy through lower lending rates which should support steel demand. RIO looks set to benefit from stabilisation in Iron Ore prices as well as its intention to move towards future facing minerals in aluminium, copper and lithium. Trading below long term levels with close to double digit yield, RIO is set for a strong 2022.

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	**3.89%**	**0.32%**	**14.38%**	**8.13%**	**7.05%**	**11.44%**	**7.61%**
Income	*0.10%*	*0.58%*	*5.08%*	*4.69%*	*4.74%*	*4.77%*	*4.94%*
Growth	*3.79%*	*-0.26%*	*9.29%*	*3.44%*	*2.31%*	*6.67%*	*2.67%*
Index[2]	**2.65%**	**2.21%**	**17.54%**	**13.96%**	**9.94%**	**10.79%**	**6.44%**

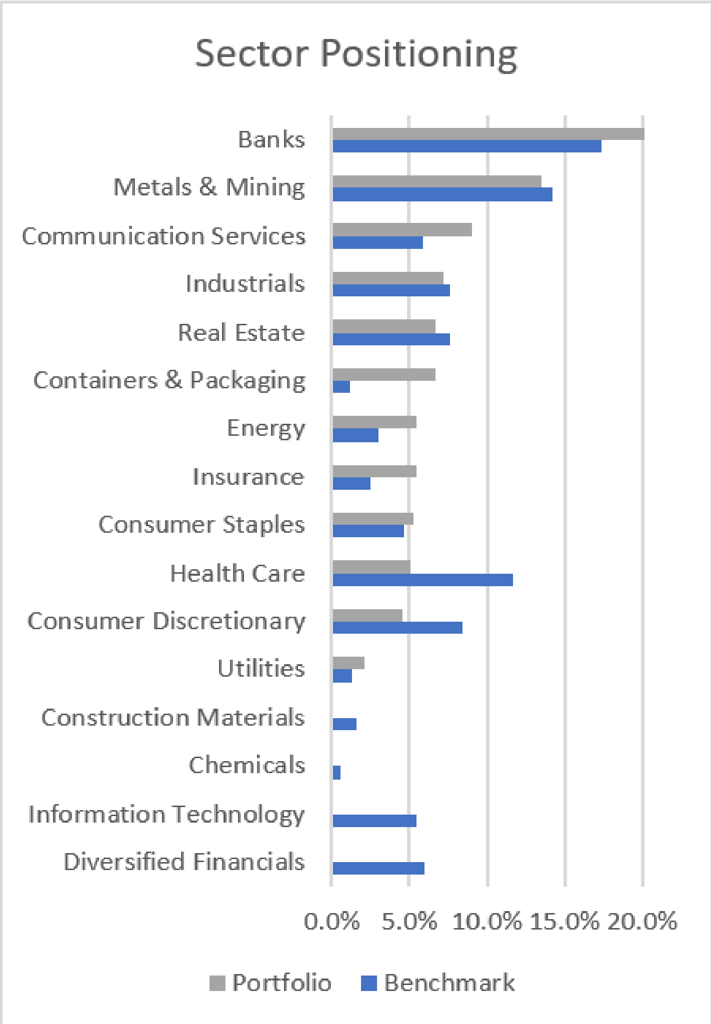
[1]Performance is based on a model portfolio and is gross of investment management and administration fees, but net of transaction costs. Total returns assume the reinvestment of all portfolio income.
[2]Index means the S&P/ASX 300 Accumulation Index.

Portfolio Performance

The Ralton Dividend Builder Portfolio (portfolio) returned +3.89% for the month, strongly outperforming the index; however, the strategy lagged the market over the quarter as yield underperformed. 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
Sonic Healthcare Limited (SHL) +14.68%	The rapid surge of Omicron infections globally has seen a surge in the demand for SHL's testing centres both in Australia and overseas. While domestically we may have seen peak testing, international testing volumes will remain elevated.
APA Group Limited (APA) +18.18%	Post a period of corporate uncertainty coloured by a AAP regained investor confidence were able to refocus on APA's monopolistic position in gas distribution assets in Australia.
Perenti Global Lmited (PEN) +15.49%	At the beginning of October PEN hosted its AGM confirming its positive outlook. Strong commodity prices, including the resurgent gold price is supporting capex spend, with labour shortages being actively managed.

Detractors	Comment
Smart Group Corporation Ltd (SIQ) -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.
Westpac Banking Corp Ltd (WBC) -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.
Pact Group Ltd (PGH) -20.01%	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 PGH pivots to the structural tailwinds of the circular economy.



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	XKOAI^
# of Securities	27	196
Market Capitalisation	58,000.2	64,466.8
Active Share	66.2	--
Tracking Error	4.40	0.00
Beta	0.93	1.00
Est 3-5 Yr EPS Growth	6.8	8.2
ROE	11.3	13.7
Div% NTM	4.70	3.36
P/E using FY2 Est	13.5	17.5
Price/Cash Flow	7.9	12.5

*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 an in index.

Portfolio Activity

BUY	Yield %	Comment
Pact Group Holdings Ltd (PGH)	4.40%	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.
Rio Tinto Limited (RIO)	10.31%	RIO has been sold off aggressively due to China growth concerns impacting steel demand. While we believe China will slow from its recent high rates, RIO continues to deliver strong EBIT from its low cost Iron Ore operations with its leverage to Copper underestimate in its currently depressed share price.
SELL		
Downer EDI Limited (DOW)	4.35%	The investment thesis 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, under Grant Fenn, have successfully executed on the transition 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 quarter 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 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 refuse 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, cautious on high valuations and expect positioning to deliver strong alpha over the coming quarter.