

Ralton Leaders

Portfolio Report | December 2021

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

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.)¹

At month end	1 mth	3 mth	1 yr	3 yr	5 yr	10 yr	Inception
Ralton	2.86%	1.20%	18.63%	12.16%	9.29%	11.65%	7.66%
Income	0.16%	0.66%	4.18%	3.75%	4.00%	4.10%	4.38%
Growth	2.69%	0.54%	14.45%	8.41%	5.29%	7.55%	3.28%
Index ²	2.84%	2.24%	17.65%	13.74%	9.79%	11.01%	6.71%

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.

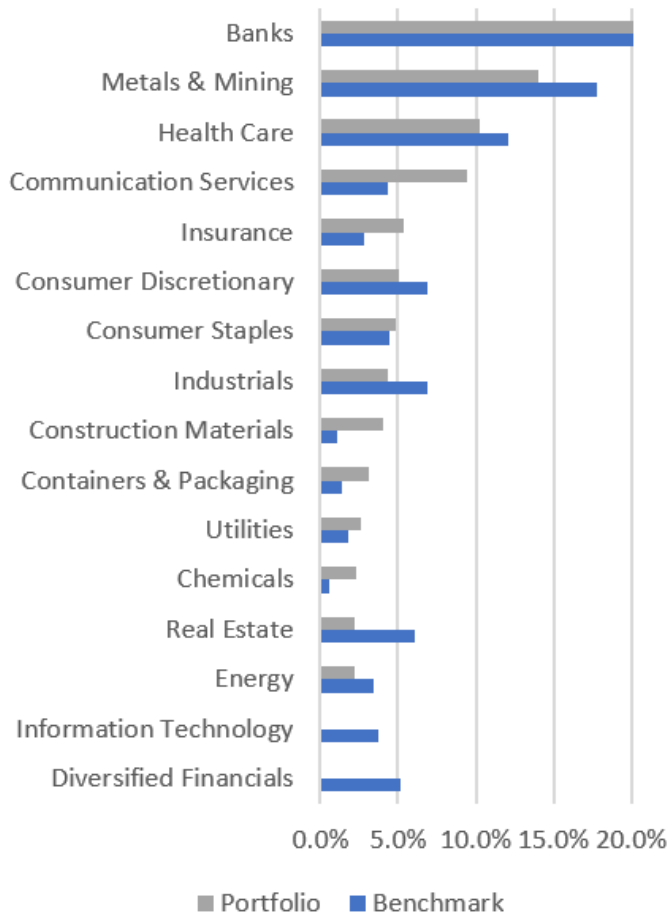
²Index means the S&P/ASX 100 Accumulation Index.

Portfolio Performance

The Ralton Leaders Portfolio (Portfolio) returned +2.86% for December marginally better than a 2.84% return for the 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
Mineral Resources Ltd (MIN) +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.
National Australia Bank Limited (NAB) +3.16%	NAB outperformed the broader bank sector as investors look to the upcoming Bank reporting season. We believe the NAB CEO continues to deliver on the turnaround with the opening economy set to favour its business bank exposure.
APA Group Ltd (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.
Detractors	Comment
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.
Insurance Australia Ltd. (IAG) -13.41%	IAG performance has been impacted by continued weather events driving up cost inflation. We see a continued strong environment for pricing to drive the top line; however, achieving the top end of margins in FY22 no longer looks likely. We continue to see upside and will revisit in the upcoming reporting season for catalysts.
Aristocrat Leisure Ltd (ALL) -6.27%	ALL continues to lead the global digital and land based gaming industry. The weakness over the quarter relates to concern that the Playtech acquisition may not complete, we see this as a low probability, and remain positive.

Sector Positioning



Top 10 holdings (alphabetical)

Aristocrat Leisure Limited
 BHP Group Ltd
 Commonwealth Bank of Australia
 CSL Limited
 James Hardie Industries PLC
 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	66,390.0	76,586.6
Active Share	56.2	--
Tracking Error	3.09	0.00
Beta	1.01	1.00
Est 3-5 Yr EPS Growth	9.0	7.5
ROE	14.0	14.5
Div% NTM	3.85	3.69
P/E using FY2 Est	15.8	16.7
Price/Cash Flow	10.0	11.9

*Source: FactSet

[^]XTOAI means the S&P/ASX 100 Accumulation Index. The comparison with the S&P/ASX 100 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

APA Group (APA) Post a period of corporate uncertainty colored by a failed bid for AusNet Services (AST) we increased the position in APA as the company now trades at a significant discount to similar regulated assets. Superannuation funds continue to be attracted to the long term nature of the cash flows, as such we expect the valuation gap to close through share price accretion or M&A.

Mineral Resources Limited (MIN) MIN is a founder led company that has delivered strong returns for shareholders through the cycle. The iron ore division is set to benefit from expansion projects that will bring on growth at a lower marginal cost, crushing business (mining services) has stable forecast growth and the lithium business is set to accelerate growth post a period of capital expenditure. Having de-rated due to recent iron ore weakness, trading on a single digit PE with material growth ahead, we see the prospect of significant share gains for investors.

SELL

ALS Limited (ALQ) ALS has been a strong performer for the Portfolio, increasing over 70% since its addition. Over the last 18 months we have seen a return to GDP+ growth in lab testing and a strong acceleration in testing volumes in mining, the combination of which has driven revenue and margin strength. While we remain positive on the industry outlook for both segments, ALQ has moved closer to our view of underlying value and we have exited and will reinvest in a number of high conviction investment ideas.