Ralton Leaders

Portfolio Report | February 2022

RALTON ASSET MANAGEMENT EST 2005

Key facts

Income versus growth target

Income Growth

Market cap bias

Large Small

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 | Coles Group Limited (COL)

Coles holds the no.2 position in the Australian supermarket industry. Post its separation from Wesfarmers, the company has embarked on a dual pronged growth strategy to drive online growth through supply chain efficiency and cost out through its "smarter selling" program. The 1H21 result illustrated Coles strong operational execution with COVID related costs being offset the higher price of sold goods due the emergence of food inflation as excellent management of controllable costs. The next two to three years should see Coles growth accelerate with the benefit of shoppers returning to their destination stores and the Ocado partnership delivering an online competitive advantage. Post a pullback Coles now trades below intrinsic value and with yield greater than 4% and a minimum 20% expected return we add to the current position with a view to strong value realisation.

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	**3.02%**	**1.76%**	**11.98%**	**8.90%**	**8.67%**	**10.89%**	**7.48%**
Income	*0.29%*	*0.45%*	*3.91%*	*3.47%*	*3.91%*	*4.00%*	*4.35%*
Growth	*2.74%*	*1.31%*	*8.07%*	*5.42%*	*4.75%*	*6.88%*	*3.14%*
Index[2]	**2.36%**	**-1.12%**	**11.02%**	**8.82%**	**8.57%**	**9.87%**	**6.33%**

[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 100 Accumulation Index.

Portfolio Performance

Post a large pullback in January, the Australian market delivered a strong rebound in February, against the trend of continued weakness in global markets. The Ralton Leaders portfolio returned +3.02% over the month, strongly outperforming it's the ASX100 index which returned +2.36%. The ASX benefited from surging commodity prices as the war in Ukraine stocked global concern over the supply of oil and other raw materials, moreover the reporting season proved better than expected with encouraging signs reflecting our positive view on the domestic economy. As we transition to a higher rate environment its is no surprise that markets will remain volatile. However history has shown that markets settle after the fits rate rise and we view the current volatility as an opportunity to tilt the portfolio more towards inflation and growth beneficiaries with the team using the current reporting season to scour the market for long term winners.

Contributors	Comment
Northern Star Resources Ltd (NST) +24.37%	Northern Star delivered a robust 1H22 result with a higher dividend that expected supporting investor confidence in NST's operational capability. NST has a unique combination of production, exploration and earnings growth that will deliver upside independent of the external environment.
Wesfarmers Limited (WES) -7.06%	As inflation continues to drive consumer caution relating to the higher cost of living we have turned more cautious on discretionary spending in the Australian economy, a factor that has seen WES fall from recent highs. Wesfarmers has a suite of attractive retail operations, we look to acquire at a lower entry price.
Westpac Banking Corporation (WBC) +12.36%	Westpac rebounded following a quarterly update which demonstrated solid progress on cost cutting, reversing recent operational missteps from management. We see a valuation discount to peers with a sector leading 5.3% fully franked yield will to further support.
Detractors	**Comment**
Mineral Resources Limited (MIN) -18.37%	While reporting an inline result at the revenues line, the 1H22 result missed versus consensus, driven by higher costs in the iron ore division largely attributed to COVID related restrictions on labour mobility. We see the miss as reflective of short term issues, while we are increasingly confident on the long term outlook.
Aristocrat Leisure Limited (ALL) -7.63%	ALL's bid to acquire UK listed iGaming operation Playtech failed in February with the company committing to grow its exposure organically. ALL will continue invest in its leadership position in land based and online gaming operations. We see strong value at current share prices however, inflation's impact on consumer spending is likely to see the market remain cautious.
South32 Ltd. (S32) +24.94%	South 32 continues to transform its asset mix, with the recent move into large scale copper through its Sierra Gorda acquisition and the Russia/Ukraine situation tightening the supply side in key commodities Nickel and Aluminium. We are currently undertaking a deep dive review and across the sector with S32 a key focus for the Mining research team.

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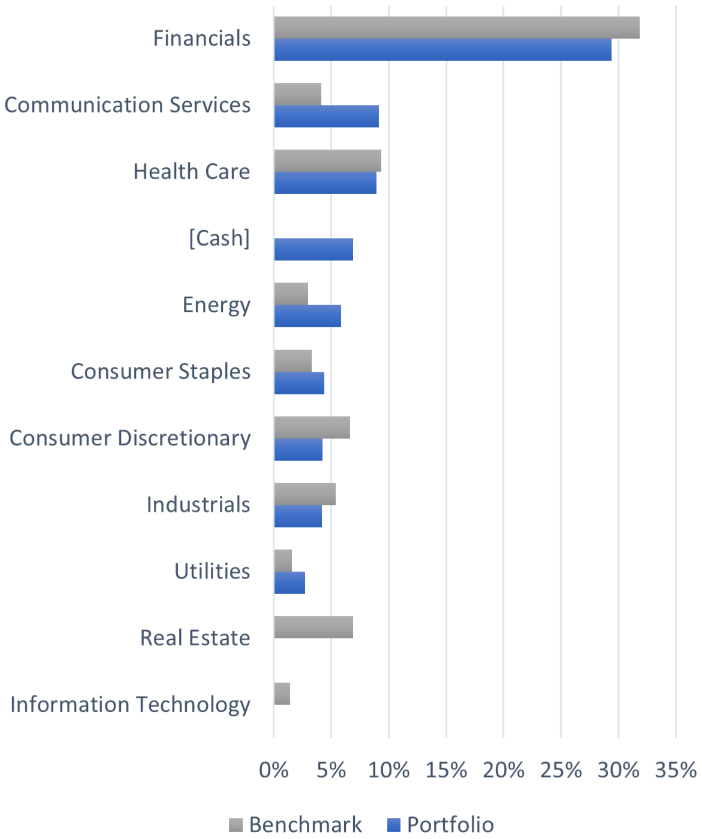
Sector Positioning



Top 10 holdings (alphabetical)

Aristocrat Leisure Limited
BHP Group Ltd
Coles Group Ltd.
Commonwealth Bank of Australia
CSL Limited
National Australia Bank Limited
Northern Star Resources Ltd
QBE Insurance Group Limited
Telstra Corporation Limited
Westpac Banking Corporation

Portfolio metrics*

	Ralton	XTOAI^
# of Securities	*23*	*99*
Market Capitalisation	*69,731*	*78,404*
Active Share	**58**	**--**
Tracking Error	*3.17*	--
Beta	*0.97*	*1.00*
Est 3-5 Yr EPS Growth	**7.12**	**5.70**
ROE	*15.57*	*16.40*
Dividend %	**4.11**	**4.11**
P/E using FY2 Est	**15.10**	**15.77**
Price/Cash Flow	**9.34**	**11.22**

* Source: FactSet

^ XTOAI means the S&P/ASX 100 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 an in index.

Portfolio Activity

BUY

Coles Group Limited (COL)

The 1H21 result illustrated Coles strong operational execution with COVID related costs being offset the higher price of sold goods due the emergence of food inflation as excellent management of controllable costs. The next two to three years should see Coles growth accelerate with the benefit of shoppers returning to their destination stores and the Ocado partnership delivering an online competitive advantage.

SELL

Woolworths Group Limited (WOW)

Woolworths has been a strong example of Ralton's disciplined process to invest corporate turnarounds, driving strong returns for investors. We see WOW moving to a more mature growth path with better upside from Coles which is exhibiting stronger growth, a higher dividend at a more attractive valuation.