Ralton Dividend Builder

Portfolio Report | March 2022

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

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	**5.26%**	**5.35%**	**14.17%**	**7.13%**	**6.94%**	**11.08%**	**7.87%**
Income	*0.86%*	*1.13%*	*4.51%*	*4.41%*	*4.64%*	*4.72%*	*4.94%*
Growth	*4.40%*	*4.23%*	*9.67%*	*2.72%*	*2.30%*	*6.37%*	*2.93%*
Index[2]	**6.90%**	**2.08%**	**15.21%**	**10.85%**	**9.38%**	**10.10%**	**6.48%**

[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 Commentary

The start to 2022 felt like a watershed moment for markets with the US Federal reserve raising rates for the first time since late 2018, an extraordinary event in the invasion of Ukraine by Russia amongst a backdrop of high inflation. The impact on markets has been material with the global technology sectors down over 40%, conversely commodities have surged as supply constraints, largely attributable to the Russian conflict, meets robust global growth. While international markets continued to faulter, the Australian market outperformed by an extraordinary 9% over the last quarter, reflective of the positive impact of higher commodities on Australia's terms of trade.

At Clime we are positioning for a continuance of the current environment with higher interest rates and commodity prices. Favouring financials and resource sectors while equally understanding that further challenges are still to come particularly for high growth companies including technology names and companies with low earnings history. In the commodity space our preference is for companies exposed to future facing metals such as copper and lithium with portfolio holdings performing strongly over the quarter. While we have actively reduced remaining exposure to technology and less liquid names, ensuring the portfolio remains exposed to benefit from the current environment whilst also being resilient to any further volatility.

While ever vigilant, we do not see any emerging indication of stress in the global economy, largely evident in functioning credit markets. However, the greatest challenge remains around how central bankers balance the need to temper inflation through raising rates with the risk that they slow the economy too far i.e., before the recovery takes hold. To ensure we meet our target to deliver long term returns ahead of the market, while offering downside protection, we balance our growth exposures with a set of leading global companies, an allocation to gold, non-cyclical companies as well an allocation to cash, which we will look to actively deploy in the event of future volatility.

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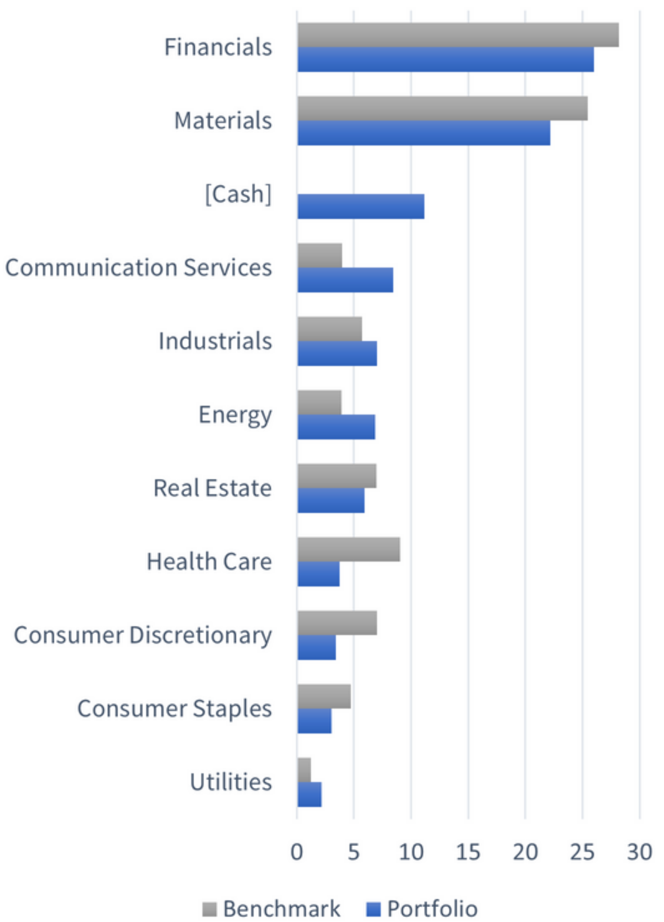
Portfolio Performance

Contributors	Comment
Woodside Petroleum Ltd (WPL) +19.77%	Woodside has outperformed its peer group since the start of the year and a better than expected 1H22 result in February should continue to support its outperformance. With a number of catalysts including the finalisation of the BHP Petroleum merger in June 22, a sustainable 7-8% FF dividend yield we see WPL to continue to perform strongly.
Smartgroup Corporation Limited (SIQ) +17.23%	Smart Group performed strongly in February as a strong result and a bumper special dividend of $30c per share offset continuing concerns about vehicle supply. Further upside as new car sales return with the group offering growth and defensive characteristics in a volatile environment.
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**
Sonic Healthcare Limited (SHL) -7.54%	The 1H22 result brought to an end an 18-month upgrade cycle for SHL. While COVID related earnings set to decline, core business growth & a strong balance sheet places the company in a strong position to weather the current volatility and increase earnings through M&A.
Amcor PLC SHS Chess Depository Interests (AMC) -4.74%	Amcor delivered a solid result for 1H22 with NPAT growing 5% and reiterate its guidance for 7-11% EPS growth. The risk of continued rising input prices is weighing on the share price, however contracted cost pass through mechanisms will maintain its ROIC and margins, supporting our investment thesis.
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. The Russia/Ukraine situation will likely tightening 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.

Sector Positioning



Top 10 holdings (alphabetical)

Amcor PLC
BHP Group Limited
Commonwealth Bank of Australia
Incitec Pivot Limited
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	*24*	*300*
Market Capitalisation	*76,407.4*	*80,073.6*
Active Share	**61.3**	**-**
Tracking Error	*4.2*	*0.0*
Beta	*0.9*	*1.0*
Est 3-5 Yr EPS Growth	**2.9**	**4.7**
ROE	*14.9*	*15.7*
Div% NTM	**4.7**	**4.0**
P/E using FY2 Est	**14.1**	**15.9**
Price/Cash Flow	**8.8**	**11.6**

* Source: FactSet

^ XKOAI 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 an in index.

Portfolio Activity

BUY	
Incitec Pivot Ltd (IPL)	IPL continues to benefit from surging fertiliser prices and buoyant farming conditions. Global fertiliser companies weakened in the March as the de-escalation in the Russia/Ukraine conflict was perceived to offer some reprieve in shortages. We disagree and took advantage of the sell-off to increase out IPL position.
BHP Group Limited (BHP)	During the quarter we added to the BHP position. We see a number of catalysts ahead including the Petroleum demerger as well as continued strong commodity prices given demand is unlikely to be met by supply in key commodities. Trading at single digit PE's with a strong 7% yield the absolute return outlook remains positive.
SELL	
Insurance Australia Group Ltd (IAG)	The original investment thesis for the purchase of IAG was based on 3 core growth drivers. 1. higher premium rates, 2. exposure to higher interest rates and 3. improved margin outlook as provisioning for CAT events and COVID business interruption was very conservative. We have seen the first two drivers play out however the recent string of CAT events, marked by the current flooding in central and northern Australia place a high risk that costs will need to be increased. We removed IAG from the portfolio and look to positive thematics highlighted in the recent reporting season.
Inghams Group Ltd (ING)	We exited Inghams from the portfolio in the quarter as we expected contunued high wheat prices will impact the profitability of the group. We will revisit once margin risk has abated.