Ralton Leaders

Portfolio Report | March 2022

RALTON ASSET MANAGEMENT

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

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	**5.76%**	**3.90%**	**13.96%**	**10.79%**	**8.86%**	**11.29%**	**7.81%**
Income	*0.49%*	*0.78%*	*3.75%*	*3.41%*	*3.87%*	*4.03%*	*4.35%*
Growth	*5.28%*	*3.13%*	*10.21%*	*7.38%*	*4.99%*	*7.26%*	*3.46%*
Index[2]	**7.11%**	**2.99%**	**15.99%**	**11.03%**	**9.36%**	**10.49%**	**6.81%**

[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 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.

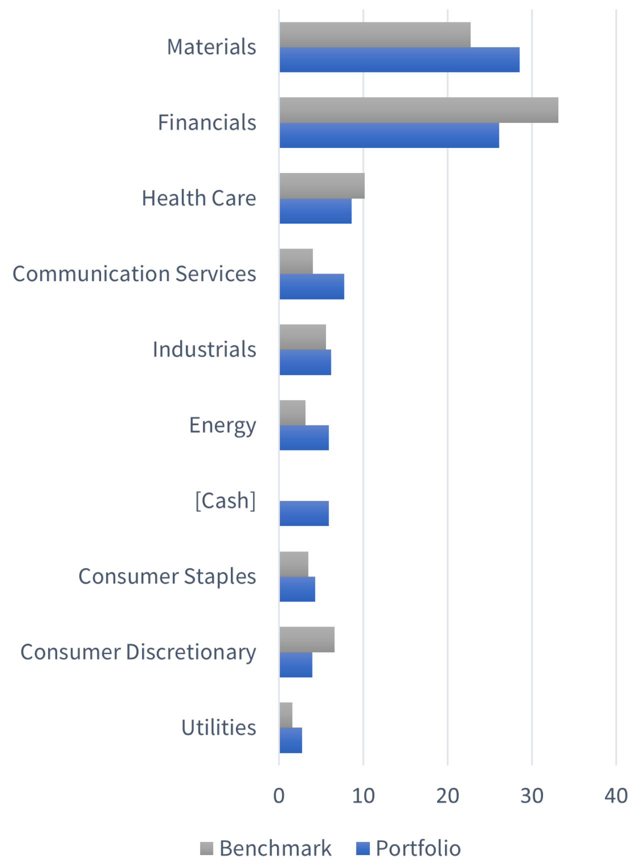
While ever vigilant, we do not see any emerging indication of stress in the global economy, largely evident in functioning credit markets. However, the greatest challenge remains around how central bankers balance the need to temper inflation through raising rates with the risk that they slow the economy 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.

CONTACT Ralton AM 0425 725 800 info@raltonam.com.au raltonam.com.au

Portfolio Performance

Contributors	Comment
Incitec Pivot Limited (IPL) +7.30%	IPL continues to benefit from surging fertiliser prices and buoyant farming conditions. The Russia/Ukraine situation and subsequent shortages is driving high commodity prices, converting to strong earnings. We expect further upsid from current levels as the market moves to factor these higher earnings as we do not see any short term solution to ongoing supply constraints.
National Australia Bank Limited (NAB) +10.45%	NAB returned 12.2% in the March quarter, reflecting an environment of relatively strong credit growth, low impairment charges and the prospect of a near term increase in the RBA cash rate with attendant relief to net interest margins. Over the quarter NAB delivered a standout 1Q result and also announced further capital management, with another $2.5 billion of shares to be bought back.
Worley Limited (WOR) +9.06%	WOR's share price continues to perform strongly as high commodity prices continue strengthen the outlook for the company. However, looking past the short term, we view the move from corporates and countries to diversify away from fossil fuels and Russia as a driving force for WOR's work towards decarbonisation. With further upside to our target price, we remain overweight.
Detractors	
James Hardie Industries PLC (JHX) -9.76%	JHX's share price has been impacted as investors remain cautious as to the impact of higher rates on the US housing market. To date, peers are reporting continuing high demand for housing products as the US market remains in short supply. With high inflation prevalent we look for companies with quality characteristics like JHX that will deliver strong returns in any environment.
Woodside Petroleum Ltd (WPL) +0.22%	Woodside performed strongly over the quarter as the war in Ukraine wreaked havoc with comodity markets. We are the view that Energy market will continue to remain tight and see STO as our preferred exposure with a number of near term catalysts.
Aristocrat Leisure Limited (ALL) -5.85%	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.

Sector Positioning



Top 10 holdings (alphabetical)

- Aristocrat Leisure Limited
- BHP Group Limited
- Coles Group Limited
- Commonwealth Bank of Australia
- CSL Limited
- National Australia Bank Limited
- QBE Insurance Group Limited
- Santos Limited
- Telstra Corporation Limited
- Westpac Banking Corporation

Portfolio metrics*

	Ralton	XTOAI^
# of Securities	*24.0*	*99.0*
Market Capitalisation	*76904.8*	*87704.4*
Active Share	**56.5**	**-**
Tracking Error	*3.3*	*-*
Beta	*1.0*	*1.0*
Est 3-5 Yr EPS Growth	**7.8**	**4.7**
ROE	*15.7*	*16.6*
Dividend %		
P/E using FY2 Est	**14.7**	**16.1**
Price/Cash Flow	**10.0**	**11.8**

* 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 competitve advantage.
South32 Limited (S32)	The current Ukraine/Russia situation is exacerbating the supply related issues and for S32, its exposure to effected commodities Aluminium and Coal looks set to positively impact as shortages move commodity prices higher. The company has also just completed the Sierra Gorda acquisition and with copper now 10% of group profit S32 has become a more attractive, diversified mining exposure.
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.
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.