Ralton Concentrated Australian Equity

Portfolio Report | May 2022

RALTON ASSET MANAGEMENT EST 2005

Key facts

Income versus growth target

Income

Market cap bias

Large

Investment strategy

A portfolio of ASX-listed equities designed to provide capital growth with some 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	**-0.53%**	**6.34%**	**8.74%**	**7.00%**	**6.58%**	**11.33%**	**7.47%**
Income	*1.65%*	*2.11%*	*4.70%*	*3.67%*	*4.00%*	*3.99%*	*4.23%*
Growth	*-2.18%*	*4.24%*	*4.04%*	*3.33%*	*2.58%*	*7.34%*	*3.24%*
Index[2]	**-2.76%**	**3.08%**	**4.71%**	**8.01%**	**8.98%**	**10.33%**	**6.13%**
Outperformance	**2.23%**	**3.27%**	**4.02%**	**-1.01%**	**-2.40%**	**1.00%**	**1.34%**

[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

Having seen a relief rally post the US Fed's first rate increase in March we now look to whether financial tightening has managed to reduce inflation without sending the US into recession. Early data indicates that inflation may be peaking and if so, we expect the markets to find their bottom and move higher.

We remain focused on the beneficiaries of inflation including key exposures to Resources and Energy as well as to those companies set to benefit from increased sector activity. We expect commodity prices to remain elevated primarily due to ongoing supply tightness, with the result being ongoing inflation. While we are seeing a resurgence in fossil fuel companies, our view is that the elevated prices will drive a faster rotation to the new energy sources. As such, within the portfolio, we are focused on groups that contribute to the creation of a circular economy, provide necessary raw materials, and companies that will build the decarbonized economy.

Our focus on quality means we look to invest in businesses that maintain returns in the face of higher input costs. Moreover, the de-rate of growth stocks to more sustainable valuations is increasing the universe of opportunities where quality and growth are now trading close to intrinsic value. We are selectively adding to several long-term holdings.

We expect continued volatility, however with tempering inflation and signs that China is set to stimulate its economy, we are increasingly positive on the outlook for the portfolio, holding a suite of companies at attractive valuations set to deliver sustainable growth in earnings as well as dividends.

Top 10 holdings (alphabetical)

Amcor PLC	National Australia Bank Limited
BHP Group Ltd	QBE Insurance Group Limited
CSL Limited	Ramsay Health Care Limited
Incitec Pivot Limited	Telstra Corporation Limited
Mineral Resources Limited	Westpac Banking Corporation

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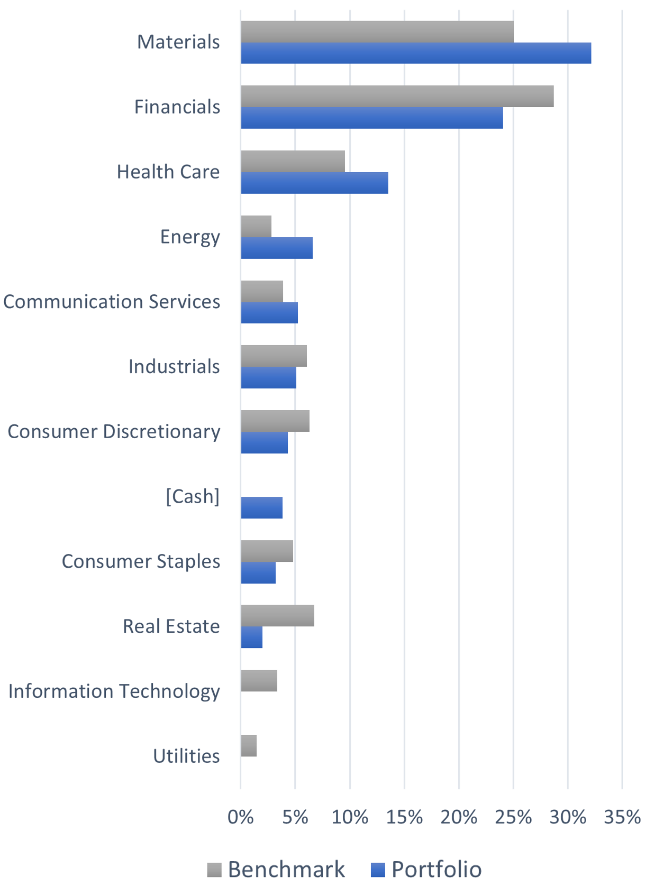
Portfolio Performance

The Ralton Concentrated Portfolio outperformed the ASX300 Accumulated Index in May, taking the total return over the last year to +8.74%, +4.02% ahead of the index return. A focus on investing in companies with strong competitive advantages and valuation support has held the portfolio in good stead during the period of volatility.

Contributors	Comment
Amcor PLC Shs Chess Depository Interests (AMC) 9.46%	Following on from a strong April, AMC again outperformed a weak market in May. The catalyst was a better than expected 3Q trading update where the group flagged double-digit revenue allowed the company to upgrade its earnings guidance. AMC continues to play a key role in the delivery of earnings growth and dividends for investors in the strategy.
Mineral Resources Limited (MIN) 9.07%	Strong lithium prices and tightening price discounts for low grade iron ore has supported stronger price realisation expectations for the diversified miner. MIN achieved its first lithium sale at its Wodgina lithium train during the month. We see further upside to its significant Perth Basin gas discovery.
Worley Limited (WOR) 5.97%	Worley continues to perform strongly we see an improving outlook driven by high commodity prices and global supply chain disruption quickening global incentives to invest in new energy markets. We remain overweight.

Detractors	Comment
Incitec Pivot Limited (IPL) -8.81%	Despite a continuing strong growth outlook IPLs share price declined in May as the market took a negative view of the merits of the announced separation of its fertiliser and explosives business. We continue to see IPL as a beneficiary of strong agriculture and commodity markets, the supply chain issues driving these are unlikely to recede.
Northern Star Resources Ltd (NST) -8.86%	The gold miner's share declined as gold suffered from a stronger USD amid unfavourable macro environmental factors. We see strong value in NST with a sector leading FCF of over 10%, with likely upside from gold commodity prices as inflation expectations moderate.
James Hardie Industries PLC Chess Units of Foreign Securities (JHX) -12.30%	South32 decline in April, in line with the broader resource industry. Further lockdowns in China and elevated fears over aggregate demand from a recession in Europe and the US has seen market sentiment decline. We see continued strong dividends and supply shortages to support share prices going forward.

Sector Positioning



Portfolio metrics*

	Ralton	XKOAI^
# of Securities	*24*	*300*
Market Capitalisation	*63,595.50*	*72,969.80*
Active Share	**59.7**	**--**
Tracking Error	*3.5*	--
Beta	*0.93*	*1*
Est 3-5 Yr EPS Growth	**10.2**	**6.4**
ROE	*16.5*	*15.8*
Dividend %	**4.13**	**4.22**
P/E using FY2 Est	**12.9**	**14.1**
Price/Cash Flow	**9.8**	**10.9**

* 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	
JHX	JHX has derated significantly as expectations of higher interest rates in the US looks to slow the tight housing market. Fundamentally, JHX offers attractive margins and structural share growth. The current macro backdrop presents challenges, but we are attracted to quality companies with exposure to repair and remodel and share growth potential. Now trading at a significant discount its historical range we add to the position.
CSL	CSL continues to hold an unparalleled position in the collection, manufacture and sale of plasma derived therapies. The COVID period has provided challenges for CSL as declining collections of its raw material, Plasma has resulted in lower volumes as well as higher costs. We see an improving outlook for the company with opening economies driving increased Plasma collections and higher earnings growth. Moreover the stock as de-rated from over 40x PE to a more reasonable 30x with potential catalysts evident from its R&D pipeline in the near term.
SELL	
No trades	