Ralton Concentrated Australian Equity

Quarterly Portfolio Report | June 2022

RALTON ASSET MANAGEMENT

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	**-8.64%**	**-7.66%**	**-1.29%**	**3.28%**	**4.83%**	**10.23%**	**6.76%**
Income	*0.11%*	*0.11%*	*3.08%*	*3.08%*	*3.67%*	*3.81%*	*4.10%*
Growth	*-8.75%*	*-7.77%*	*-4.37%*	*0.20%*	*1.16%*	*6.43%*	*2.66%*
Index[2]	**-8.97%**	**-12.22%**	**-6.78%**	**3.44%**	**6.90%**	**9.24%**	**5.41%**
Outperformance	**0.33%**	**4.56%**	**5.48%**	**-0.16%**	**-2.07%**	**0.99%**	**1.35%**

[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

As an eventful FY22 came to a close, the bear market that has impacted global markets finally caught up with the Australian market. The ASX300 fell -12.73% over the quarter, led by declines in interest rate sensitive sectors REITS (-18.86%), IT (-27.19%) and Consumer Discretionary (-15.08%). In the June month it was the turn of the Australian banks and resources to turn down as inflationary and interest rate concerns moved to an increasing risk of recession.

In the US and Europe, a recession is a near certainty however valuations appear to now factor in this outcome with the ASX300 trading at 12.5x price to earnings (PE), 2x below long-term averages. With the valuation de-rate done, it appears we are entering the second phase of a bear stock market downturn when earning falls to reset PE's back to normal levels.

With ASX earnings up 25% this year, we now wait to see a move lower in forecast EPS. We are of the view any earnings downturn will be shallow given the strength in the resources and banking sectors in Australia. As such, we are closing in on the share market bottom and are selectively buying a range of companies that have long screened well through the Ralton process, however, over the last five years have carried elevated valuation risk.

We have recently been taking profits in our cyclical exposed names in the resources and commodity activity related sectors, allowing cash to build up for this specific opportunity. At the same time, we have markedly increased the yield of the portfolio so that as investors you are able to extract income while allowing the normal cycle of market to play out and look to our team of experts to rotate the portfolio to positions that will see excess returns in the recovery.

The key drivers of portfolio performance and major portfolio changes are outlined in the tables on the next page.

Top 10 holdings (alphabetical)

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

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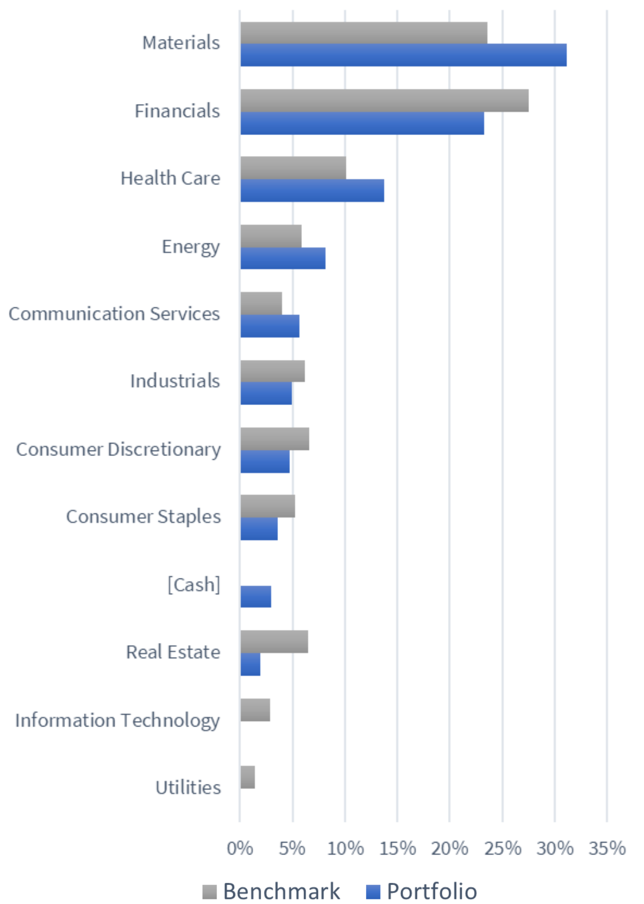
Portfolio Performance

The Ralton Concentrated Portfolio outperformed the ASX300 Accumulated Index in the June quarter, taking the total return over the last year to -1.29%, +5.48% 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) 18.9%	Amcor (AMC.ASX) performed strongly over the quarter. The catalyst was a better than expected 3Q trading update where the group flagged double-digit revenue, allowing 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.
Ramsay Health Care Limited (RHC) 12.4%	Ramsay Healthcare (RHC.ASX) rose 12.4% over the quarter, materially outperforming as a consortium of private equity and super funds look to take Australia's largest private hospital operator out of public hands. We expect the deal to be finalised near the bid price of $88, crystallising further upside.
Worley Limited (WOR) 10.3%	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
Northern Star Resources Ltd (NST) -36.3%	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.
CSL Limited (CSL) 0.3%	CSL performed strongly over the quarter as investors warmed to the company after a marked fall in valuation. We initiated a position in early May and expect continued strong performance as its strong growth outlook is once again increasingly valuable during this period of volatility.
James Hardie Industries PLC Chess Units of Foreign Securities (JHX) -21.0%	James Hardie remains under pressure from higher global interest rates as investors assume higher housing costs will reduce demand. To date data points out of the key US market indicate resilient demand. JHX has historically proven itself as a strong operator in all environments.

Sector Positioning



Portfolio metrics*

	Ralton	XKOAI^
# of Securities	*25*	*300*
Market Capitalisation	*58,029.7*	*66,217.4*
Active Share	58.6	--
Tracking Error	*3.31*	*0.00*
Beta	*0.95*	*1.00*
Est 3-5 Yr EPS Growth	7.7	4.4
ROE	*16.5*	*16.2*
Dividend %	4.68	4.71
P/E using FY2 Est	11.4	12.4
Price/Cash Flow	8.9	9.9

* 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	