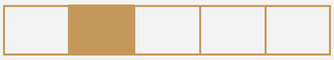
Ralton Dividend Builder

Quarterly Portfolio Report | June 2022

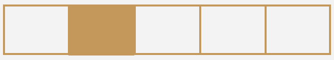
Key facts

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	**-7.10%**	**-8.00%**	**-0.10%**	**2.47%**	**5.25%**	**10.38%**	**7.11%**
Income	*0.18%*	*0.18%*	*4.02%*	*4.16%*	*4.57%*	*4.63%*	*4.86%*
Growth	*-7.29%*	*-8.18%*	*-4.12%*	*-1.69%*	*0.68%*	*5.75%*	*2.25%*
Index[2]	**-8.97%**	**-12.22%**	**-6.78%**	**3.44%**	**6.90%**	**9.24%**	**5.41%**
Outperformance	**1.86%**	**4.22%**	**6.67%**	**-0.97%**	**-1.65%**	**1.14%**	**1.70%**

[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 Clime quality 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.

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Portfolio Performance

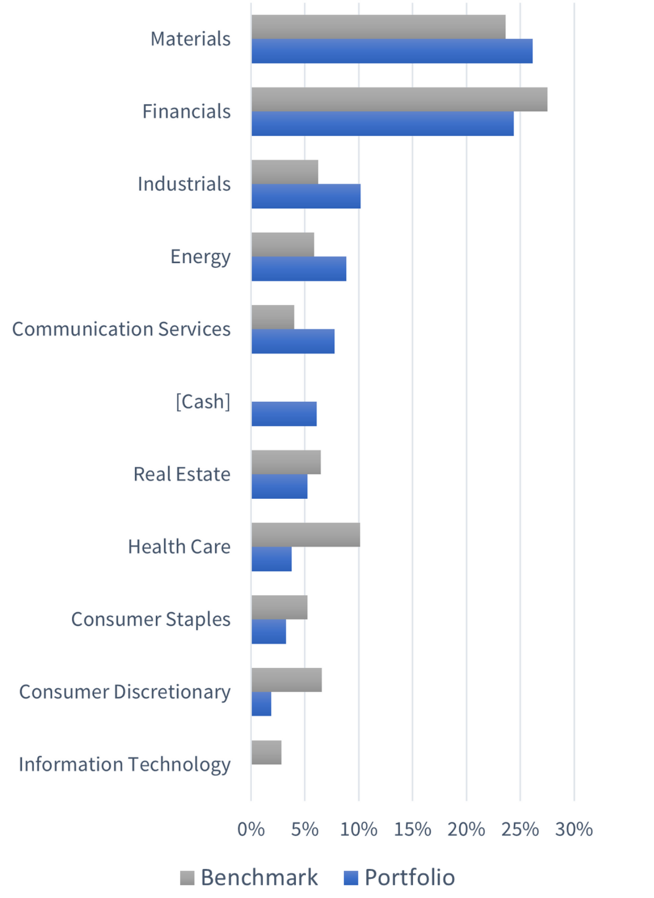
The Ralton Dividend Builder Portfolio outperformed the ASX300 Accumulated Index in the June quarter, taking the total return over the last year to -0.10, +6.67% ahead of the index return. A focus on investing in companies with strong competitive advantages, valuation support and sustainable yields has 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 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.
Worley Limited (WOR) 10.3%	Worley (WOR.ASX) 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.
Woodside Energy Group Ltd (WDS) -0.8%	Woodside held its value in a falling market as tightness in energy supply markets saw global oil prices remain high. We are attracted to the growth outlook for WDS as merger synergies and a strong balance sheet, combined with our positive medium term view on commodity prices should see continued strong returns.
Detractors	**Comment**
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.
Nine Entertainment Co. Holdings Limited (NEC) -38.6%	Nine Entertainment has fallen due to overarching concerns that a slowdown in the Australian economy will impact its advertising and property divisions (Domain.com.au). With strong operating momentum and little evidence of a slowdown, we remain overweight and attracted to the growth and dividend yield.
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.

Portfolio Activity

BUY	
NST	Northern Star delivered a robust 1H22 result with a higher dividend that expected supporting investor confidence in NST's operational capability. The key driver for the strong share price in February was the resurgent gold price as global uncertainty and the resurgent inflation drive the commodity higher. NST has a unique combination of production, exploration and earnings growth that will deliver upside independent of the external environment.
DOW	DOW.ASX is currently in the process of transforming its business to one with lower capital intensity, less volatility in earnings with a mix of operating businesses exposed to broad spending in the Australian economy. Expectations of further stimulus targeting infrastructure sectors where DOW holds a no.1 or no.2 position bolsters our view of a sustainably growing earnings and dividend outlook. In addition to strong valuation support, management has a strong track record of execution with the potential for capital management through the sale of non-core mining and laundries business.
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.
SELL	
RRL	In April we took the opportunity to increased the quality of our gold position in the portfolio in selling RRL and adding NST to the portfolio. RRL has been impacted in similar fashion to the rest of the mining sector with wage increases impacting margins. We see better value and a more sustainable yield in peer NST.
ADH	We exit the position in ADH given out negative view on the ability of the consumer to weather the increasing cost of living and higher interest rates.

Sector Positioning



Top 10 holdings (alphabetical)

Amcor PLC	QBE Insurance Group Limited
Atlas Arteria	Sonic Healthcare Limited
BHP Group Ltd	Telstra Corporation Limited
Commonwealth Bank of Australia	Westpac Banking Corporation
National Australia Bank Limited	Woodside Energy Group Ltd

Portfolio metrics*

	Ralton	**XKOAI^**
# of Securities	*25*	*300*
Market Capitalisation	*60,671.5*	*66,217.4*
Active Share	59.5	--
Tracking Error	*4.01*	*0.00*
Beta	*0.91*	*1.00*
Est 3-5 Yr EPS Growth	5.4	4.4
ROE	*15.2*	*16.2*
Div% NTM	5.71	4.71
P/E using FY2 Est	11.6	12.4
Price/Cash Flow	8.2	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.