Ralton Leaders

Quarterly Portfolio Report | June 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	**-8.54%**	**-8.44%**	**-1.37%**	**5.34%**	**7.06%**	**10.64%**	**7.01%**
Income	*0.17%*	*0.17%*	*3.34%*	*3.16%*	*3.79%*	*3.96%*	*4.29%*
Growth	*-8.71%*	*-8.60%*	*-4.71%*	*2.18%*	*3.27%*	*6.68%*	*2.72%*
Index[2]	**-8.45%**	**-11.13%**	**-4.97%**	**3.86%**	**7.17%**	**9.63%**	**5.82%**
Outperformance	**-0.09%**	**2.69%**	**3.59%**	**1.48%**	**-0.11%**	**1.01%**	**1.19%**

[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

As an eventful FY22 came to a close, the bear market that has impacted global markets finally caught up with the Australian market. The ASX100 fell -11.90% over the quarter, led by declines in interest rate sensitive sectors REITS, IT and Consumer Discretionary. 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 ASX100 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.

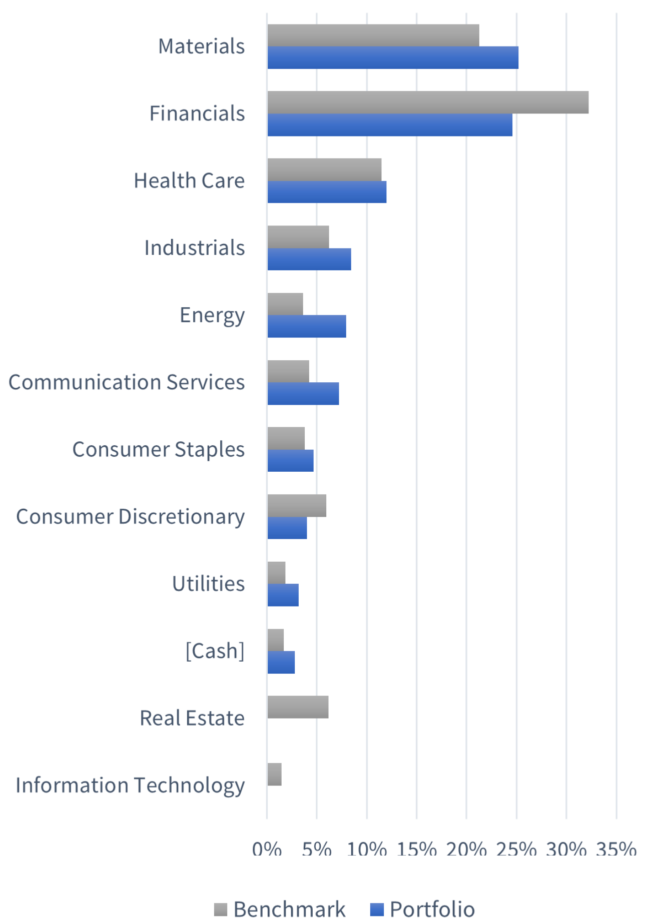
The key drivers of portfolio performance and major portfolio changes are outlined in the tables on the next page.

Portfolio Performance

The Ralton Leaders Portfolio outperformed the ASX100 Accumulated Index in the June quarter, taking the total return over the last year to -1.37%, +3.59% 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
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.
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.
Coles Group Ltd (COL) -0.6%	As many companies struggle with higher input prices, the supermarkets, including Coles is benefiting from its bargaining power given the concentrated nature of the industry. Defensive earnings stream continues to be attractive within the market volatility.
Detractors	
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.
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.
Qantas Airways Limited (QAN) -14.2%	Elevated concerns of a slowing economy impacted the Qantas share price over the quarter despite all indications that tourism and corporate travel continues to recover strongly. We believe consumers will increase travel spend and cut back on goods in any economic slowdown.

Sector Positioning



Top 10 holdings (alphabetical)

Amcor PLC
Aristocrat Leisure Limited
BHP Group Ltd
Coles Group Ltd
Commonwealth Bank of Australia
CSL Limited
National Australia Bank Limited
QBE Insurance Group Limited
Telstra Corporation Limited
Westpac Banking Corporation

Portfolio metrics*

	Ralton	XTOAI^
# of Securities	*26.0*	*99.0*
Market Capitalisation	*62874.5*	*73936.1*
Active Share	53.1	0.0
Tracking Error	*3.1*	*0.0*
Beta	*1.0*	*1.0*
Est 3-5 Yr EPS Growth	7.6	5.5
ROE	*16.3*	*16.9*
Dividend %	4.7	4.8
P/E using FY2 Est	11.9	12.8
Price/Cash Flow	9.1	10.2

* 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	
Qantas Airways Ltd (QAN)	The global airline industry has been one of the hardest hit during pandemic. However as an astute CEO once said, "never waste a crisis". Not only does the domestic airline industry look to be a more rational duopoly under the new virgin, but under Alan Joyce, Qantas has emerged a more efficient business by which the rapid expected increase in revenue should see material upside to earnings. Trading below 10x PE, at a discount to global peers, with arguably a better industry structure and a loyalty business that conservatively represents half of a SOTP valuation, we take advantage of recent weakness from "Omicron" to initiate a position.
CSL Limited (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	
Mineral Resources Limited (MIN)	The team took the opportunity to reduce Mineral Resources given the company's strong performance and an intention to reduce overall portfolio risk.