Ralton Leaders

Monthly Portfolio Report | August 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	**2.06%**	**-2.40%**	**1.31%**	**8.14%**	**8.41%**	**10.55%**	**7.41%**
Income	*0.51%*	*0.68%*	*2.94%*	*3.18%*	*3.72%*	*3.90%*	*4.28%*
Growth	*1.55%*	*-3.08%*	*-1.62%*	*4.96%*	*4.69%*	*6.65%*	*3.13%*
Index[2]	**1.25%**	**-2.38%**	**-2.07%**	**5.88%**	**8.45%**	**9.62%**	**6.22%**
Outperformance	**0.81%**	**-0.02%**	**3.38%**	**2.26%**	**-0.03%**	**0.93%**	**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

August shaped up as a test case for whether the recent decline in market valuations was to be the harbinger of earnings downgrades, as increasing interest rates look to slow global activity. Much like the US reporting season which comes directly before the Australian reporting season, company results failed to give the bears the evidence they needed for a further fall in markets.

The better than feared results season was reflected in the ASX100 increasing 1.3% for the month, with more companies beating estimates than missing. The beats were largely driven by revenues, reflecting the effect of inflation on the price of goods, while margins came in lower than expected as companies struggled to pass on higher input costs and wages. Looking into 2023 the market is forecasting 5.7% earnings per share growth.

Evidence that developed economies are holding up better than feared supported resource and energy sectors in August, with Financials, Real Estate, and Staples lagging. Evidence of economic resilience, combined with Jerome Powell confirming the US Fed's intention the squash inflation saw rates move higher again, weighing on the interest rate sensitive parts of the market.

The investment team incorporates a top-down and bottom-up approach to investing and as such is cognisant of economic themes. We utilise these insights to understand the impact at a company level. Within the Energy and Materials sectors, portfolios benefited from higher oil prices and surging Lithium exposures. Conversely, given our view that market will remain volatile we have looked for companies that can deliver sustainable growth in the event of a slowdown as well as hold strong market positions to pass on prices. Additionally, our exposures in the Healthcare and Staples delivered high quality results.

Looking ahead, we believe that current valuations are reflecting a slowing outlook with the risk of a sharp downturn in growth and value unlikely. Markets should stabilise in the fourth quarter as inflation continues to ease to long term levels, allowing the Fed to become less aggressive. We are selectively taking advantage of mis-priced opportunities we are seeing in the market which are a result of the current volatility and with a focus on companies with competitive positions and strong management teams with the ability to maintain or improve returns on capital.

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 August, taking the total return over the last year to +1.31%, +3.38% 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.

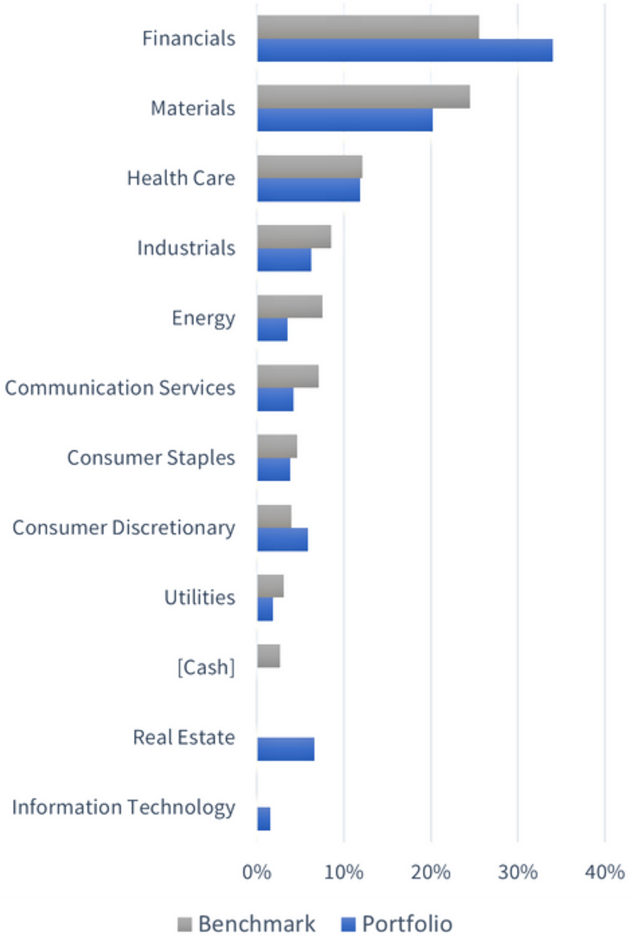
Contributors	Comment
Mineral Resources Ltd (MIN) 19.0%	MIN returned 19% in August as strong lithium prices aided earnings expectations for its rapidly growing and vertically integrated lithium mining and processing business. MIN's FY22 results were pleasing, and its sizable growth project pipeline was reinforced by the approved investment decision to go ahead with the Onslow Red Hill JV iron ore project.
Qantas Airways Ltd (QAN) 16.7%	Qantas responded positively to a robust result that indicated the company is on track to benefit from surging demand for leisure travel. The confidence in the outlook was supported by the announcement of a buyback by the board, despite the company being under fire from poor customer service. A more rational Virgin underpins Qantas no.1 position in the Australian airline industry. We back Alan Joyce to deliver strong returns ongoing.
Incitec Pivot Ltd (IPL) 8.9%	IPL performed strongly in August as brokers upgraded their earnings as fertiliser prices remain high. Incitec continues to benefit from surging prices and buoyant farming conditions as well as resurgent mining capex driven by robust commodity markets. Furthermore IPL is uniquely positioned to make super profits in the near term as global Ammonia prices remain elevated due to high EU gas input prices. Upside remains with over 20% return available, supported by a 4%+ dividend yield.
Detractors	
Coles Group Ltd (COL) -6.4%	CBA share rose in July as bank shares rallied post their June quarter sell off. Strong economic data in July supported bank shares as investor concerns relating to loan defaults lessened as spending and employment remained robust.
APA Group (APA) -4.8%	As rates moved higher in August, interest rate sensitive sector including Utilities underperformed. We remain attracted to APA's long term structural growth from continued expansion and importance of gas pipeline infrastructure in a less carbon intensive economy.
Downer EDI Ltd (DOW) -6.3%	Downer sold off post its FY22 result as guidance for FY23 came in less than market expectations. This was the first time DOW has given guidance in two years and as such we see it having a level of conservatism. Labor access and cost continue to impact volumes in the contracting industry, however DOW is successfully passing on any escalation in cost given strong contracts. We see the 20% growth estimate in FY23 as attractive given the 14x PE and 4.5%+ dividend yield.

Portfolio Activity

BUY	
Computershare Ltd (CPU)	CPU is an Australian technology company that is the world's largest share registry business and only provider with a global footprint. CPU is a play on higher interest rates as it generates income on cash held on behalf of its customers. CPU's price relative to its growth forecasts are attractive, supported by earnings which are defensive, recurring and enjoying a strong tailwind over the next 12-18 months.
Sonic Healthcare (SHL)	Sonic Healthcare (SHL) offers exposure to the defensive health care sector and geographical diversification, along with a meaningful dividend yield. The recent 1H22 result indicated the company is strongly positioned to continue to growth post the COVID testing period with underlying volumes recovering. In addition, the strong balance sheet supports the company's stated objective of M&A which has historically strengthened its competitive position and delivered an immediate earnings uplift. Valuation is attractive, trading at discount to healthcare peers and similar defensive growth names.
Woodside Energy Group Ltd (WDS)	Woodside is Australia’s leading independent E&P company with exposure to rapidly growing Asian LNG demand based on its growing tier one (high quality and low-cost) diversified LNG project production base. WPL generates strong FCF, growing production and earnings, and has the sector leading dividend yield. 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.
SELL	
Ansell Ltd (ANN)	Ansell has bounced strongly off its lows as expectations of raging inflation have given way to hope that the next CPI print may be lower than the last. We believe that inflation will remain a challenge for manufacturers and for Ansell, its exposure a weakening European economy increases the risk of near term negative surprise.
Santos Ltd (STO)	We exit Santos post a period of strong performance and concentrate our exposure to the buoyant energy sector through Woodside (WDS). We are attracted the sector and see the diversified asset base as well positioned to extract value.

SELL (Continued)	
QBE Insurance Group Ltd (QBE)	QBE has performed strongly amid a backdrop of rising rates and 10% premium price increases. We reduce the position and use proceeds to fund an initial position in CPU that similarly benefits from higher interest rates.
Telstra Corporation (TLC)	Telstra's recent result delivered on a number of fronts with the mobile segment returning to growth and the outlook now forecasting improving return on equity profile. With a number of catalysts met, the valuation has moved higher and we reduce the position back to target and reinvest profits in a number of attractive opportunities.

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*	*99*
Market Capitalisation	*64,768.4*	*77,116.7*
Active Share	53.4	--
Tracking Error	3.20	*0.00*
Beta	0.97	*1.00*
Est 3-5 Yr EPS Growth	7.0	4.8
ROE	16.35	*16.82*
Dividend %	4.26	4.44
P/E using FY2 Est	16.8	19.7
Price/Cash Flow	9.5	10.8

* 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.