Ralton Australian Equity Ex 50

Monthly Portfolio Report | August 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 high capital growth

Investment objective

Outperform index by over 4% p.a.

Benchmark index

S&P/ASX Small Ordinaries Accumulation

Portfolio Manager

Will Riggall

Inception date

February 2008

Management fee

0.75% p.a. (may vary across platforms)

Number of stocks

20-35

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	**-0.58%**	**-1.82%**	**-11.50%**	**2.53%**	**2.77%**	**8.67%**	**6.27%**
Income	*0.46%*	*0.70%*	*2.64%*	*2.46%*	*2.54%*	*2.94%*	*3.38%*
Growth	*-1.04%*	*-2.52%*	*-14.13%*	*0.07%*	*0.23%*	*5.73%*	*2.89%*
Index[2]	**0.58%**	**-2.59%**	**-14.66%**	**4.10%**	**6.85%**	**6.29%**	**2.37%**
Outperformance	**-1.16%**	**0.77%**	**3.17%**	**-1.57%**	**-4.08%**	**2.38%**	**3.90%**

[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 Small Ordinaries 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 ASX Small Ordinaries Accumulation Index increasing 0.6% 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

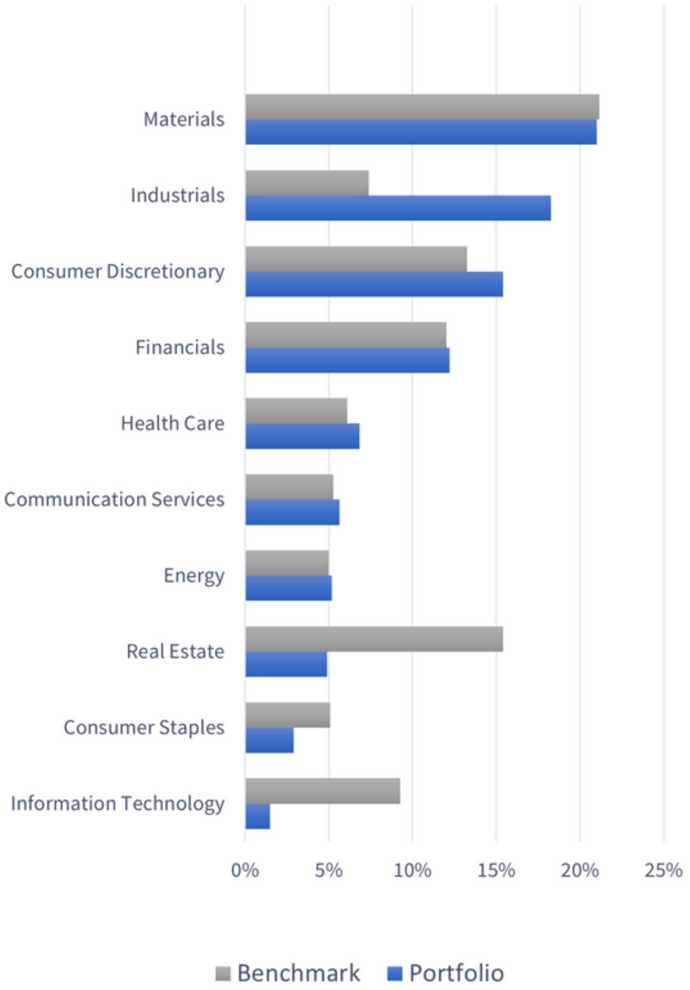
The Ralton Ex-50 Portfolio underperformed the ASX Small Ordinaries Index in August, taking the total return over the last year to -11.50%, +3.17% ahead of the a -14.66% index return. A focus on investing in companies with strong competitive advantages and valuation support has held the portfolio in good stead during the period of volatility.

Contributors	Comment
IGO Ltd (IGO) 21.7%	While strong Lithium prices were the main share price driver, IGO met consensus expectations on its FY22 results, with impressive low costs at Nova and strong EBITDA margins across the business. Key catalysts going forward are the Kwinana ramp up, train 2 build + production qualification and synergies at Forrestania.
Perenti Global Ltd (PRN) 35.7%	PRN reported positive FY22 result, delivering very strong 2H22 cash conversion, and improving margins across each operating segment. With a backdrop of elevated commodity prices we see improved earnings quality, and remains attractively valued in our view, with an FY23 PE of 5.9x.
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	**Comment**
TPG Telecom Ltd (TPC) -15.6%	TPG declined in August as the FY22 result continued to show the impact of lower margin NBN resale margins against an improving mobile market. 2023 holds a number of catalysts including the TLS roaming infrastructure agreement and the acceleration fixed wireless as the group looks to offset NBN low margins. Stock is under review due to EPS downgrades.
Regis Resources Ltd (RRL) -11.3%	A weakening gold price was the main driver of RRL underperformance in August, unable to be offset by a that was in line with expectation plus a surprise 2cps dividend. We look to an update of regulatory approval of key gold asset McPhillamys to drive further upside.
Inghams Group Ltd (ING) -11.9%	Ingham's FY22 result indicated that despite a strong market position, the company faces a challenge to pass on prices to the large supermarkets. The stock is currently under review with a number of strong opportunities emerging from reporting season.

Portfolio Activity

BUY	
Hansen Technologies Ltd (HSN)	The sharp sell off in HSN following the publication of its FY22 results gave us an opportunity to initiate in the Ralton Ex 50 portfolio. In line with our expectations the company guided for weaker margins which concerned the market. HSN is a very well managed high quality company, and remains a long term conviction call due to its predictable revenues from tier 1 clients, very little debt, strong cashflows. The revenue outlook and momentum appears strong, given recent contract wins. With ~$350m of debt capacity, and excellent track record of integrating businesses.
SELL	
NO TRADES	

Sector Positioning



Top 10 holdings (alphabetical)

Bapcor Ltd	Nufarm Limited
IGO Limited	Regis Resources Limited
Incitec Pivot Limited	Seven Group Holdings Limited
Jumbo Interactive Limited	Steadfast Group Limited
Nickel Industries Limited	TPG Telecom Limited

Portfolio metrics*

	Ralton	XSOAI^
# of Securities	*34*	*199*
Market Capitalisation	*3,434.2*	*2,269.1*
Active Share	86.4	--
Tracking Error	*6.67*	0.00
Beta	*0.81*	*1.00*
Est 3-5 Yr EPS Growth	6.9	3.3
ROE	*11.97*	*10.80*
Dividend %	3.43	2.96
P/E using FY2 Est	17.5	22.1
Price/Cash Flow	8.3	9.4

* Source: FactSet

^ XSOAI means the S&P/ASX Small Ordinaries 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.