Ralton Dividend Builder

Quarterly Portfolio Report | September 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 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	**-6.35%**	**-1.68%**	**-4.39%**	**1.61%**	**5.02%**	**9.27%**	**6.86%**
Income	*1.23%*	*1.93%*	*3.87%*	*4.36%*	*4.63%*	*4.63%*	*4.91%*
Growth	*-7.58%*	*-3.61%*	*-8.26%*	*-2.75%*	*0.39%*	*4.63%*	*1.95%*
Index[2]	**-6.29%**	**0.45%**	**-8.00%**	**2.73%**	**6.83%**	**8.38%**	**5.35%**
Outperformance	**-0.06%**	**-2.13%**	**3.60%**	**-1.12%**	**-1.81%**	**0.89%**	**1.51%**

[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

The -1.45% move in the ASX200 over the September quarter masks the volatility and change in narrative over the period.

The Australian market made a very strong start to the FY23 financial year led by the Resources, Energy and IT sectors as the market took the view that the Fed may begin to ease its tightening cycle. As has been the case, the bond market gave context with the 10-year US and Australian yield moving lower. However, as we were cheering an August result period that showed consumers continuing to spend and general resilience in economic and corporate health, bonds moved aggressively higher as this same strong economic data and stubborn inflation forced the Fed's hand.

For a period now we have taken the view that we are best served seeking out strong businesses, with low debt levels that are less sensitive to economic headwinds and higher interest rates. A strong balance sheet is a material competitive advantage.

Reporting season brings an opportunity to review and test our assumptions and identify mispricing opportunities where short term earnings mask long term structural growth. We seek to buy and sell with conviction, with changes to the portfolio and rationale set out in the table below.

We expect the final quarter of the year to be marked by falling EPS expectations, weaker economic data with politics and policy taking centre stage as global and country leaders meet at a range of roundtables. Ever watchful of systematic risk showing itself in the functioning of credit markets, we believe we are closer to the bottom, with valuations well below decade long averages and the market to deliver a 4.50% yield in the next 12 months. History show that markets generally bottom 6 months before earnings do and we are positioning the portfolio to benefit from upside ahead.

Portfolio Performance

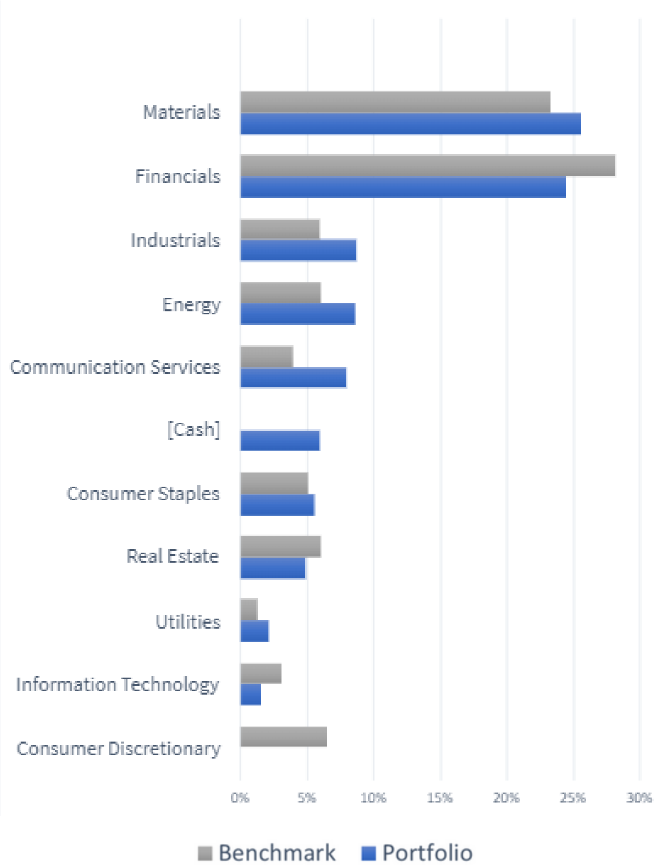
The Ralton Dividend Builder Portfolio underperformed the ASX300 Accumulated Index in September, taking the total return over the last year to -4.39%, +3.60% ahead of the a -8.00% index return. A focus on investing in companies with strong competitive advantages, valuation support and sustainable yields has held the portfolio in good stead during the period of volatility.

Contributors	Comment
Northern Star Resources Ltd (NST) 16.3%	NST is one of Australia's leading gold producers with a strong capital position (net cash) and a proven track record of operational execution and delivery of exploration success that adds value to its assets. Its impressive production growth is self funded, and is diversified across multiple projects. We think NST's acquisition of Saracen will continue to provide material synergies for the combined group, which now include complete ownership of the Kalgoorie Superpit Operation.
Mineral Resources Ltd (MIN) 38.5%	MIN performed well over September due to its strong position for the demands of the battery industry, as well as rumours of a potential NYSE listing that emerged, which we view as a positive catalyst for the stock.
Detractors	**Comment**
Atlas Arteria Group (ALX) -14.7%	ALX has been impacted by the IMF announcing in July that it was acquiring a 15% stake in the company, the stock fell 6.1% on the day. Subsequently ALX announced in September that it was purchasing a majority interest (66.67%) in Chicago Skyway against IMFs wishes as the battle for ownership increased. The stock f has continued to fall as investors are concerned about the company maintaining its dividend policy from debt funding instead of from 100% free cashflow.
Iress Ltd (IRE) -21.4%	Although a disappointing return, we believe there has been no fundamental change in the underlying business and is on track to achieve its target of at least doubling net profits by FY25 from FY20 levels.
National Australia Bank Ltd (NAB) 5.2%	Major banks outperformed in September but remained negative. While rising rates faster and further than previously anticipated is supportive of near term net interest margins, investors remain increasingly concerned about the impact of higher rates on highly leveraged consumers.

Portfolio Activity

BUY	
Graincorp Ltd (GNC)	GNC looks set to continue to benefit from strong crop volumes as farm economics remain robust with weak weather and high commodity prices supported by disruptions in Europe. With the share price having returned to attractive levels, the strong yield and positive earnings outlook deliver the opportunity for further upside.
Sonic Healthcare Ltd (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.
SELL	
National Australia Bank Ltd (NAB)	Major banks outperformed the ASX200 but remained negative for the month. While rising rates faster and further than previously anticipated is supportive of near term net interest margins, investors remain increasingly concerned about the impact of higher rates on highly leveraged consumers.
Super Retail Group Ltd (SUL)	SUL reported a robust result during the August reporting season, while consumer expenditure has remain resilient in the face of rising interest rates and cost of living we believe spending will moderate, clouding the outlook for consumer names.

Sector Positioning



Top 10 holdings (alphabetical)

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

Portfolio metrics*

	Ralton	**XKOAI^**
# of Securities	*26*	*299*
Market Capitalisation	*59,466.2*	*65,670.8*
Active Share	59.9	--
Tracking Error	*4.40*	--
Beta	*0.89*	*1.00*
Est 3-5 Yr EPS Growth	3.3	4.3
ROE	*14.86*	*16.05*
Div% NTM	5.68	4.77
P/E using FY2 Est	12.9	18.6
Price/Cash Flow	8.1	9.7

* 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.