Ralton Australian Equity Ex 50

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 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	**-8.52%**	**-0.89%**	**-18.10%**	**-1.99%**	**0.78%**	**7.44%**	**5.59%**
Income	*0.48%*	*0.97%*	*2.29%*	*2.34%*	*2.50%*	*2.90%*	*3.39%*
Growth	*-9.00%*	*-1.87%*	*-20.39%*	*-4.33%*	*-1.72%*	*4.54%*	*2.20%*
Index[2]	**-11.20%**	**-0.47%**	**-22.56%**	**-0.80%**	**4.07%**	**4.58%**	**1.53%**
Outperformance	**2.67%**	**-0.42%**	**4.46%**	**-1.19%**	**-3.30%**	**2.86%**	**4.06%**

[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

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

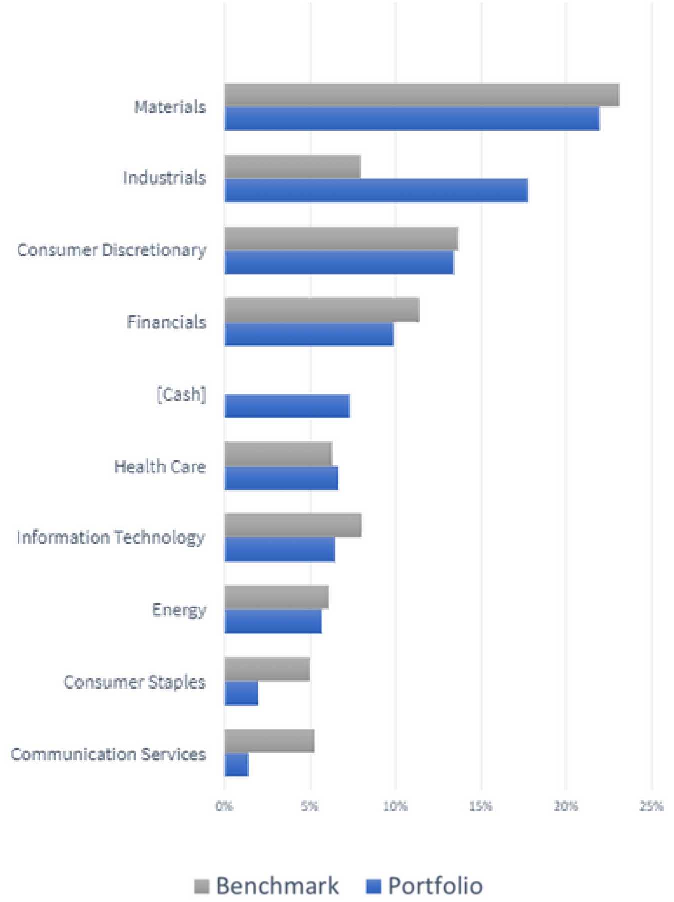
The Ralton Ex-50 Portfolio underperformed the ASX Small Ordinaries Index in September, taking the total return over the last year to -18.10%, +4.46% ahead of the a -22.56% index return. A focus on investing in companies with strong competitive advantages and valuation support has held the portfolio in good stead during the period of volatility.

Contributors	Comment
IGO Ltd (IGO) 38.3%	IGO delievered a high quality FY22 result with earnings and cash flow, plus a better than expected dividend. Lithium prices remain strong with supply shortages and EV ramp up set to maintain a strong outlook.
Perenti Global Ltd (PRN) 41.2%	PRN positive share price momentum continued well into September, benefiting from historically elevated commodity prices and new project starts. The FY22 results demonstrated the company is tracking in the right direction with improving earnings quality, margins and strong cash conversion. Despite the share price rally, we believe PRN remains an attractive position within the portfolio.
Detractors	**Comment**
TPG Telecom Ltd (TPG) -17.3%	TPG was impacted by its half year results announcement in August which missed consensus estimates by a fair bit. Revenue on a full year basis was lagging by around 19% and earnings before income tax, depreciation and amortisation by ~9.6%. Stock fell 12.4% on the day and has fallen a further 17.5% since versus a 9% fall for the telecommunications sector. We believe the company represents good value trading at 3% of its 3 year high/low range with positive tailwinds for the sector focused on lifting prices/returns for mobiles, fixed line price increases and potential uplift from tower sales.
Jumbo Interactive Ltd (JIN) -14.2%	JIN has a largely defensive lottery revenue stream, yet the market remains focussed on the influence of jackpot lotteries on earnings in the short term, which make the share price quite volatile. The risk of competition has also increased with Lottery Corporation now its own separate entity.
Steadfast Group Ltd (SDF) -6.4%	SDF delivered a strong result but the benefits of the recent acquisition are more likely ot flow through in 2024, leaving 2023 a transitional year. We continue to see the strong premium growth environment as positive for earnings and the AGM to confirm our positive outlook.

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.
Iress Ltd (IRE)	Although IRE's September announcement was disappointing we believe the business and is on track to achieve its target of at least doubling net profits by FY25 from FY20 levels.
Pexa Group Ltd (PXA)	We are attracted to PXA's defensive earnings and long-term structural growth via the UK expansion opportunity. PXA launched its UK digital remortgaging solution in September 2022 and should have additional lenders onboard through CY23 with revenue expected in CY24. The share price has been under pressure due to weakness in residential property as well as uncertainty around the failed Dye & Durham acquisition of major shareholder LNK. We think the ramifications of these fears are overdone, with the current share price presenting excellent value for investors.
SELL	
Incitec Pivot Ltd (IPL)	IPL has performed strongly in a volatile environment as both soft and fertiliser commodity prices remain high. We take profits and re-allocate to GNC.
Steadfast Group Ltd (SDF)	SDF has materially outperformed its small cap index peers and as such we take profits to realign the position with the target weight.

Sector Positioning



Top 10 holdings (alphabetical)

Bapcor Ltd	Perenti Global Limited
IGO Limited	PEXA Group Limited
Incitec Pivot Limited	Regis Resources Limited
IPH Ltd	Seven Group Holdings Limited
Nufarm Limited	Steadfast Group Limited

Portfolio metrics*

	Ralton	**XSOAI^**
# of Securities	*36*	*204*
Market Capitalisation	*2,804.6*	*2,064.9*
Active Share	86.7	--
Tracking Error	*6.76*	0.00
Beta	*0.82*	*1.00*
Est 3-5 Yr EPS Growth	7.0	5.2
ROE	*9.58*	*10.74*
Dividend %	3.13	3.36
P/E using FY2 Est	15.8	33.9
Price/Cash Flow	8.3	8.2

* 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.