Ralton Concentrated Australian Equity

Monthly Portfolio Report | October 2022

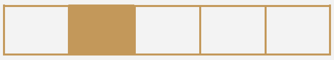
RALTON ASSET MANAGEMENT EST 2005

Key facts

Income versus growth target

Income Growth

Market cap bias



Large Small

Investment strategy

A portfolio of ASX-listed equities designed to provide capital growth with some 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	**6.93%**	**4.04%**	**4.95%**	**6.05%**	**5.74%**	**9.82%**	**7.19%**
Income	**0.00%**	*1.69%*	*3.08%*	*3.23%*	*3.71%*	*3.79%*	*4.12%*
Growth	*6.93%*	*2.35%*	*1.87%*	*2.82%*	*2.03%*	*6.03%*	*3.07%*
Index[2]	*5.96%*	**0.46%**	**-2.61%**	**4.86%**	**7.23%**	**8.69%**	**5.73%**
Outperformance	**0.97%**	**3.58%**	**7.56%**	**1.19%**	**-1.48%**	**1.13%**	**1.46%**

[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

October witnessed a strong rebound in global share markets. Investors are again looking for signs of easing inflation with bond markets starting to reflect expectations.

So far, the US reporting season is supporting markets with the Industrial sector showing strength, while clouds gather around the US Information Technology sector as companies show the strain of higher costs and slowing top lines. In Australia to date, the mini-Bank reporting season has delivered strong outcomes for the sector, with net interest margin expansion to date outpacing the slowing property market. AGM updates were also a feature with Woodside delivering a standout production update sending the stock to new highs.

Reflective of the changing external environment we have looked to gain exposure to the Australian economy as households appear to be weathering higher interest rates well. In a global context we continue to believe structural shortages in commodities when met with increasing demand are delivering pockets of opportunity. Reflective of this we have remained overweight Energy and Lithium while being cautious Iron Ore due to the clouded outlook for China demand as COVID-19 cases again surge. At a portfolio level we are seeing the benefits of active positioning through strong portfolio performance.

In October key drivers included exposure to the Banking sector which led the market up +14.5% and the Energy sector which was up +9.5%. Quite often in funds management its more about what you don't own and while extremely hard to predict, we avoided the significant decline in Medibank as the company reported a large hack by international actors.

We are of the belief that the current rally in markets can continue with the likelihood that the elevated concern around the Fed's pace of tightening will continue to ease. Key risks to the outlook continue to include sharper slowing economic activity in China and Europe as well as irrational action from the Fed.

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Portfolio Performance

The Ralton Concentrated Portfolio outperformed the ASX300 Accumulated Index in October, taking the total return over the last year to 4.95%, +7.56% ahead of the -2.61% 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
National Australia Bank Limited (NAB) 12.5%	NAB rallied in the month as the entire banking sector benefitted from increased positive investor sentiment as a 'higher rates for longer' scenario took centre stage. The bank is showing great progress in terms of rolling out its digital infrastructure translating to increasing market share particularly in its strong segment of business and institutional banking. It is improving Net Promoter Scores across most of its segments and is focusing on continued digital investment with an eye on cost control.
Westpac Banking Corporation (WBC) 16.8%	WBC rallied in October as a rising rate environment improved investor sentiment given margin expansion expectations on long term assets. Credit quality remains excellent but will most likely come under increasing pressure given a rising repayment profile. Management remains not overly concerned but has stressed increased attention on SME loans exposed to the discretionary sectors which are already showing signs of stress.
Fortescue Metals Group Ltd (FMG) -12.6%	FMG produced 48mt of iron ore in the September quarter and again reiterated annual production guidance of around 190mt. They achieved 84% of the benchmark price which is a significant increase from last year where they were only achieving around 75%. The stock trades on a free cashflow yield of 6% using conservative commodity price assumptions.

Detractors	Comment
Commonwealth Bank of Australia (CBA) 15.4%	CBA remains the premier Australian bank, a market leader in all segments including business banking growing its market leading share to 23.3% as of June 2022. It leads the pack in terms of digital innovation, is ranked number one for both consumer and business digital banking experiences and has been ranked as the number one digital bank by Canstar for 13 years in a row. This operational efficiency gained by technology advancement has translated to a higher return on equity over time versus peers. CBA doesn't come cheap, trading at a significant premium to peers. The stock price rallied in October as investors warmed to a more favourable net interest margin environment.
Coles Group Ltd (COL) -0.6%	Coles failed to keep up with the broader strength in the market as 1Q23 sales growth illustrated slowing sales amid very strong food inflation with flood induced cost inflation muting the opportunity for margin expansion. The company expects costs to remain elevated while recent capital investments seeing higher depreciation holding back EPS growth. Supply chain induced inflation is expected to remain a sector wide headwind, hover post the pullback we see value in the sector.
Australia and New Zealand Banking Group Limited (ANZ) 12.1%	The financial sector performed well in October with ANZ ahead of the index as investor sentiment warmed to an improved net interest margin outlook given the rising rate environment offsetting asset quality concerns. ANZ released full year results on 27 October indicating an increase in return on equity, dividend per share and net interest income. Capital ratios remain elevated at 12.3% with impairments and non-performing loans at low levels given the low average interest rates during the year.

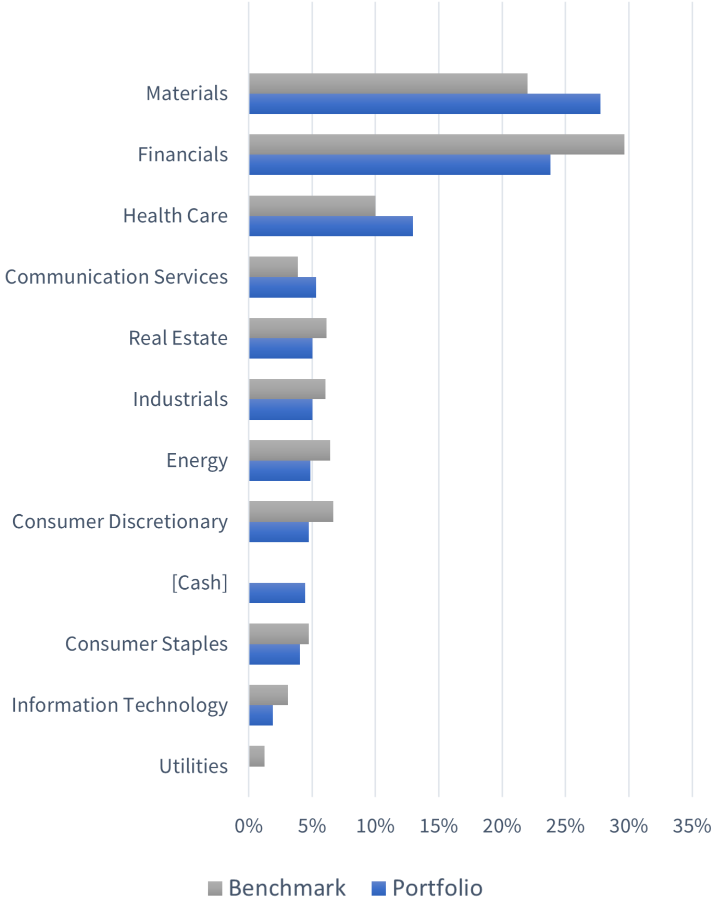
Portfolio Activity

BUY	
Sonic Healthcare (SHL)	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	
Healius (HLS)	HLS has the offsetting forces of a recovery in core pathology volumes as well as the ongoing efficiency programs balanced by the unwinding of COVID testing and the increased spectre of a review of GP referral volumes. Increasing government scrutiny which often coincides with a weakening economy is a risk to near term returns. We exit the position and rotate into the more diversified SHL.

Top 10 holdings (alphabetical)

Amcor PLC Shs Chess Depository Interests
BHP Group Ltd
Coles Group Ltd.
Commonwealth Bank of Australia
CSL Limited
Incitec Pivot Limited
National Australia Bank Limited
QBE Insurance Group Limited
Telstra Corporation Ltd TEMP
Westpac Banking Corporation

Sector Positioning



Portfolio metrics*

	Ralton	XKOAI^
# of Securities	*28*	*300*
Market Capitalisation	*60,659.0*	*68,073.4*
Active Share	59.1	--
Tracking Error	*3.40*	--
Beta	*0.88*	*1.00*
Est 3-5 Yr EPS Growth	6.0	4.6
ROE	*17.5*	*15.6*
Dividend %	4.37	4.54
P/E using FY2 Est	12.2	12.9
Price/Cash Flow	10.0	10.3

* 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.