Ralton Dividend Builder

Monthly Portfolio Report | October 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	**6.93%**	**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 Dividend Builder Portfolio outperformed the ASX300 Accumulated Index in October, taking the total return over the last year to 0.97%, +0.51% ahead of the 0.46% 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
CSL Limited (CSL) -1.6%	CSL holds an unparalleled position in the collection, manufacture and sale of plasma derived therapies. CSL's strong competitive advantage, enables the investment of capital to drive sustainable returns. The recent FY22 result showed an improving outlook for the company with opening economies driving increased plasma collections and higher earnings growth. Moreover, the stock as de-rated from over 40x PE to a more reasonable 30x with potential catalysts evident from its R&D pipeline in the near term.
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**
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.
Downer EDI Limited (DOW) -1.7%	Despite detracting in the month, DOW is in a good position due to the focus on decarbonisation by industry. Given its tight profit margins, contract execution is crucial in an environment of elevated material costs and labour skills shortages. The company is winning new contracts and extending existing ones which is a positive. Management believes the stock price is significantly undervalued which is encouraging. Given its dominant market position, ongoing cashflow certainty is assured but growth will depend on contract execution.
Macquarie Group Ltd (MQG) 11.0%	While MQG's FY22 result exhibited strong growth, we see a sustained tougher outlook ahead. MQG is leveraged to markets, which face significant headwinds including persistently high inflation, tightening liquidity and slowing economic activity. MQG remains a quality company, having illustrated a track record of value creation.

Portfolio Activity

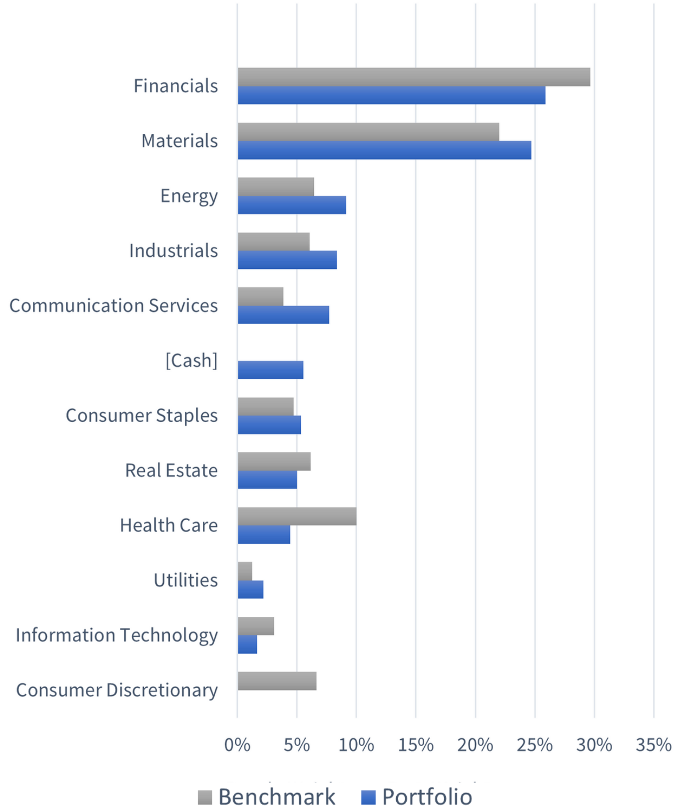
BUY

N/A

SELL

N/A

Sector Positioning



Top 10 holdings (alphabetical)

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

Portfolio metrics*

	Ralton	XKOAI^
# of Securities	*27*	*300*
Market Capitalisation	*62,598.1*	*68,073.4*
Active Share	62.7	--
Tracking Error	*4.61*	--
Beta	*0.84*	*1.00*
Est 3-5 Yr EPS Growth	2.8	4.6
ROE	*14.7*	*15.6*
Div% NTM	5.60	4.54
P/E using FY2 Est	11.8	12.9
Price/Cash Flow	8.8	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.