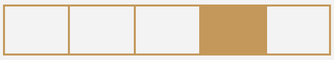
Ralton Australian Equity Ex 50

Monthly Portfolio Report | October 2022

RALTON ASSET MANAGEMENT

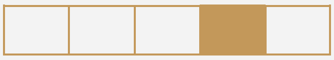
Key facts

Income versus growth target



Income — Growth

Market cap bias



Large — Small

Investment strategy

A portfolio of ASX-listed equities designed to provide 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	**6.74%**	**-2.93%**	**-11.75%**	**0.17%**	**1.26%**	**7.80%**	**6.03%**
Income	*0.08%*	*1.12%*	*2.41%*	*2.37%*	*2.53%*	*2.90%*	*3.39%*
Growth	*6.66%*	*-4.04%*	*-14.16%*	*-2.21%*	*-1.27%*	*4.89%*	*2.64%*
Index[2]	**6.46%**	**-4.91%**	**-18.31%**	**1.46%**	**4.16%**	**5.10%**	**1.96%**
Outperformance	**0.28%**	**1.99%**	**6.56%**	**-1.30%**	**-2.90%**	**2.69%**	**4.07%**

[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

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

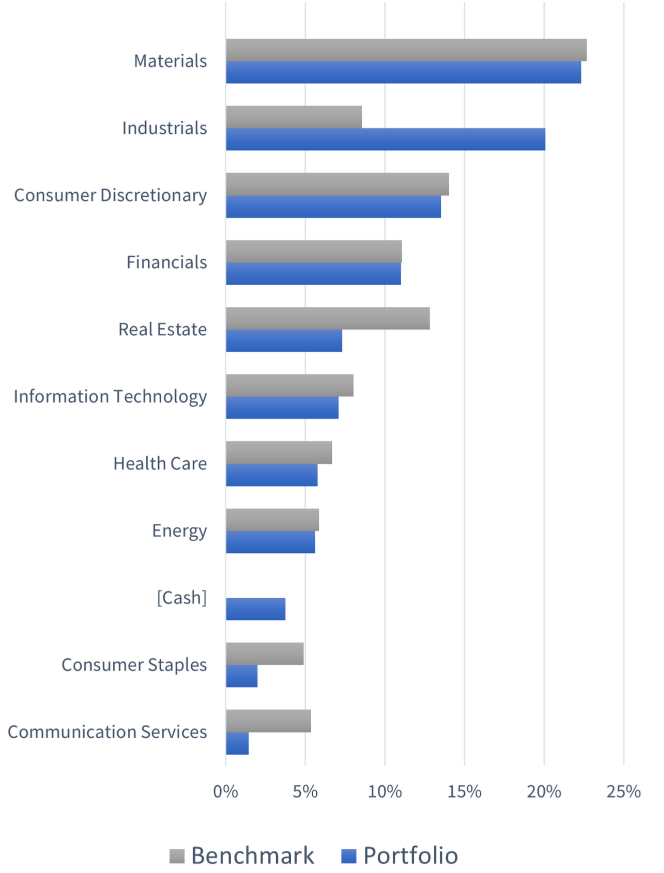
The Ralton Ex-50 Portfolio outperformed the ASX Small Ordinaries Index in October, taking the total return over the last year to -11.75%, +6.56% ahead of the -18.31% index return. A focus on investing in companies with strong competitive advantages and valuation support has held the portfolio in good stead during the period of volatility.

Contributors	Comment
Praemium Ltd (PPS) 24.6%	PPS's quarterly update revealed a reacceleration of fund flows onto the independent platform. Pleasingly, the rate of growth was between its two bigger rivals - HUB24 and Netwealth. Cash spreads are increasing with rate hikes and should continue to be a tailwind.
Omni Bridgeway Ltd (OBL) 19.6%	OBL recovered strongly in October, following a weak share price movement in September on the back of no significant news. OBL has high ROE and earnings growth that is uncorrelated to economic activity, a particularly valuable trait at present. OBL's solid platform for growth has seem the group achieve strong operational momentum that we expect will drive the business to achieve its FY23 goals, including increasing FUM to $4bn - $4.5bn.
NIB Holdings Ltd (NHF) -10.2%	NIB acquired Maple Plan a NDIS plan management business with 7,000 participants which was funded by a $135m placement. The company has stated its goal to grow to 50,000 participants by 2025. They also gave a September quarterly update which saw underlying operating profit (UOP) of $64.3m a modest increase from the previous quarter of $63.8m. The share price was soft in the month as the there is concern as to how they can achieve the 50,000 target in the next two years. We remain positive on the company’s long term prospects as they have successfully acquired and integrated a series of companies since their listing in 2007.
Detractors	**Comment**
Liontown Resources Limited (LTR) 26.5%	Liontown had very positive news flow in the month with its flagship Kathleen Valley Lithium Project in Western Australia now has received all its major approvals. The company was able to award Power Supply and Electronic Procurement & Construction Management (EPCM) contracts to Lycopodium. This is a large step forward in the full scale commercial development of the next lithium mine in Australia. We continue to view the company as attractive given its $400 million cash balance and offtake agreements with Tesla, Ford and LG (Korea).
Nickel Industries Limited (NIC) -7.6%	The company recorded a strong September quarterly with production of 20,275 tonnes a 30% rise from the June quarter. Reported EBITDA was $US 45.3m. Costs of production fell 5% over the quarter which is a very positive outcome given cost pressures throughout the industry. The company now has liquids of almost $800m which compares favourably with its maket capitalization of $2.4b. The company increased it ownership in Oracal Nickel to 70%.
Reliance Worldwide Corporation Ltd (RLLWF) -5.4%	Reliance gave a trading update which indicated earnings pressure from lower demand in the US and Europe as rates start to slow economic activity as well as input cost inflation, plunging its EBITDA margins from 26.6% (1QFy21) to 20.9%(1QFy22). It is also battling the closure of its factory in the Chinese city of Ningbo as well as having to contend with supply chain bottlenecks. This is in contrast to the period in lock down where demand for its products boomed on the back of elevated construction and home renovation activity. The stock price was down -5.3% for the month and is down 53% for the recent one year period.

Portfolio Activity

BUY
N/A
SELL
N/A

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	*39*	*204*
Market Capitalisation	*3,015.8*	*2,243.5*
Active Share	89.2	--
Tracking Error	*7.00*	--
Beta	*0.80*	*1.00*
Est 3-5 Yr EPS Growth	7.5	5.6
ROE	*10.1*	*10.6*
Dividend %	3.06	3.21
P/E using FY2 Est	12.4	10.8
Price/Cash Flow	8.9	8.6

* 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.