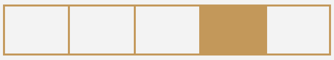
Ralton Australian Equity Ex 50

Monthly Portfolio Report | November 2022

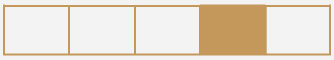
Key facts

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	**3.41%**	**0.97%**	**-7.95%**	**1.37%**	**1.45%**	**8.22%**	**6.23%**
Income	*0.10%*	*0.75%*	*2.49%*	*2.40%*	*2.53%*	*2.90%*	*3.37%*
Growth	*3.31%*	*0.22%*	*-10.43%*	*-1.03%*	*-1.08%*	*5.32%*	*2.86%*
Index[2]	**4.92%**	**-0.81%**	**-14.03%**	**2.57%**	**4.36%**	**5.87%**	**2.28%**
Outperformance	**-1.51%**	**1.78%**	**6.08%**	**-1.20%**	**-2.91%**	**2.35%**	**3.96%**

[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

Global markets extended the October rally in November with Europe leading global equity indices, paced by the DAX up +8.6% and Euro Stoxx +9.6%. Australian equity investors also benefited with the ASX200 increasing 6.1% leading the S&P500 which gained +5.4%. These stellar returns were dwarfed by the Hang Seng index which was up +26.6%. Bond prices sold off again with US 10-year yields now at 3.60% after peaking above 4%.

The key drivers of the strong month were further indications that central banks may begin to slow the pace of rate rises along with indications of a shift in China domestic policy, primarily an easing of the COVID-zero policy and property market stimulus. Despite commentary from the US Federal Reserve (Fed) Chair Jerome Powell that the central bank, "still had a way to go", markets took the lead from a weaker than expected inflation print in the US as well as recent lower than expected rate rises in the UK and Australia. In the US, core inflation slowed more than expected with October CPI coming in below expectations at 7.7%, declining from 8.2% in September.

Global markets have been looking for a 'pivot' in central bank policy. In prior periods where a pivot has been characterised by a move to cut rates, however, given investor concerns largely on the Fed's pace of rate rises, todays pivot is marked by a reduction in the expected pace of increases. This easing has seen markets breathe a sigh of relief and with fund manager positioning remaining bearish it did not take much for markets to rally.

Locally, the RBA again delivered a 0.25% rise, however weakening data including:

- Housing finance dropping 8.2% in September
- Domestic CPI decelerated to 6.9% from 7.3% the previous month – in line with the US experience.

Conversely, labour data continues to illustrate strength with wage growth finally accelerating, increasing by 1% in the September quarter with unemployment now at 3.4%.

The outlook for Australia remains robust, which underpins our ongoing confidence that the ASX can continue to deliver returns ahead of its global counterparts. The dual positive news out of China of central government support for the property sector and early indications of an easing in COVID policy should provide further support for Australia's terms of trade as we see commodity prices supported.

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This support allowed the Materials sector to lead the ASX higher in November as China exposed iron ore players Rio Tinto (RIO) and BHP Limited (BHP) both increased over 20%. In further support of the resources sector tempering US rate expectations saw the US dollar sell off, with the Australian dollar up 6% versus the worlds reserve currency. This supported gold names with the sector up in line with the broader resource sector. Moreover, lower forecast bond yields saw the REIT and Utility sector continue their march higher.

Looking forward we remain constructive on markets and see tempering interest rate expectations supporting further gains through increased certainty. Factors that would cause us to rethink our positive thesis would be the combination of inflationary risks as China re-opens, and a greater than expected downturn in company earnings. The market price to earnings (PE) did touch a 5-year, two standard deviation low of 13 times and bounced strongly to a current 1-year forward valuation of 15 times earnings.

Given the strong bounce off the lows we are of the view that the “Santa” rally did come a bit early this year, however we are increasingly positive on the number of opportunities emerging for active managers like Clime to drive strong returns over the next 12 months given the reset of valuations over the last year.

Portfolio Performance

The Ralton Ex-50 Portfolio underperformed the ASX Small Ordinaries Index in November, taking the total return over the last year to -7.95%, +6.08% ahead of the -14.03% index return. A focus on investing in companies with strong competitive advantages and valuation support has held the portfolio in good stead during an extended period of volatility.

Contributors	Comment
Nickel Industries Limited (NIC) 33.6%	NIC performed strongly in November increasing 33% as the Nickel price increased over 20%. The strong move was in line with other commodities in response to China's initial signs of re-opening. NIC also delivered a positive surprise in November with the early start of operation from Oracle, the companies first project with exposure to battery metals.
Regis Resources Limited (RRL) 26.6%	RRL increased 26% in November due to a strong gold price as well as a well-received company announcement. The Department of Planning & Environment had a strong indication that the long awaited McPhillamy's project will progress, with a commendation that it is "approvable". Final approval should be coming before end of 2022.
Perenti Limited (PRN) 14.6%	PRN continued its stellar run increasing 14% in November. With a large part of their business exposed to gold, the company was likely to outperform however a mid month upgrade to guidance was cheered by the market. It is clear that the headwinds from labor costs is starting to abate, and work remains strong.

Detractors	Comment
Collins Foods Limited (CKF) -18.6%	CKF released its HY23 results on 29 November, indicating that inflationary pressures have impacted margins and in turn negatively affecting profitability particularly for its leading KFC franchises in both Australia and Europe. The stock price plummeted 19.8% on the day, finishing down 18.62% for the month compared to the Consumer discretionary sector of +2.3%.

Portfolio Activity

BUY

Calix Ltd (CXL)

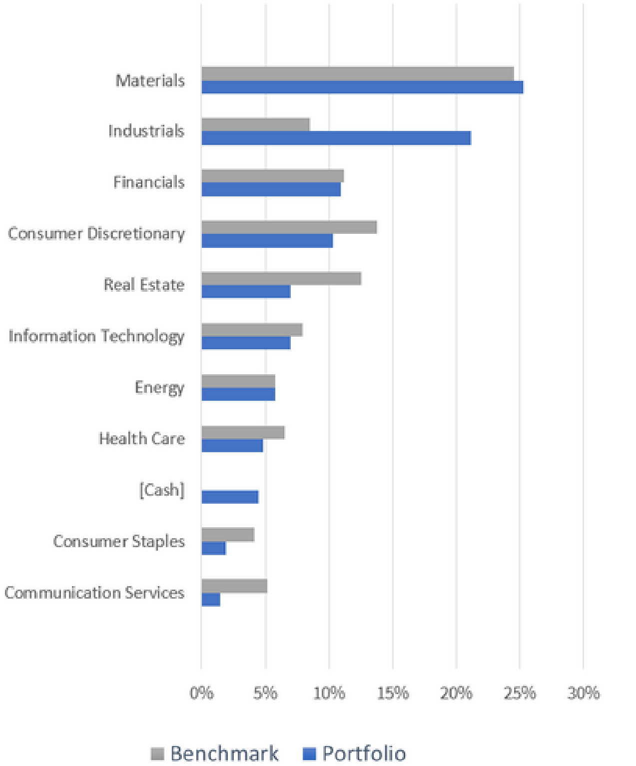
We added CXL to the portfolio, as a negative shareholder reaction to the loss of a Federal Govenment funding grant in late October continued through into early November. While dissapointing, the loss of the grant was part of the Australian Labour Party's removal of the previous government grants. The reaction to the loss of funding was overblown and not material to our investment thesis. The sell off gave an opportunity to gain exposure to a very exciting green business, with a lot of long term drivers.

SELL

Bapcor Ltd (BAP)

BAP has demonstrated the high quality nature of its business throughout 2022, outperforming its relative sector index by approximately 26%. Its trade and wholesale market segments continue to maintain robust growth, whilst its New Zealand and retail segments are beginning to feel the impact of rising input costs and slowing consumer demand. Given the outlook for 2023 remains unclear, we utilised the market strength in November to reduce our position in BAP.

Sector Positioning



Top 10 holdings (alphabetical)

Bapcor Ltd	Nufarm Limited
Centuria Industrial REIT	Perenti Limited
IGO Limited	Regis Resources Limited
Incitec Pivot Limited	Seven Group Holdings Limited
IPH Ltd	Steadfast Group Limited

Portfolio metrics*

	Ralton	XSOAI^
# of Securities	*39*	*203*
Market Capitalisation	*3,140.5*	*2,363.0*
Active Share	86.3	--
Tracking Error	*6.83*	0.00
Beta	*0.81*	*1.00*
Est 3-5 Yr EPS Growth	6.8	6.5
ROE	*9.6*	*10.8*
Dividend %	2.92	3.06
P/E using FY2 Est	13.0	11.5
Price/Cash Flow	9.5	9.0

* 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.