Ralton Leaders

Monthly Portfolio Report | November 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 for long-term capital growth and some tax-effective income

Investment objective

Outperform index by over 3% p.a.

Benchmark index

S&P/ASX 100 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

Key platforms

Brightday, Linear, OneVue, Praemium

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	**5.77%**	**7.07%**	**11.81%**	**8.62%**	**9.01%**	**10.73%**	**7.77%**
Income	*0.53%*	*1.75%*	*3.40%*	*3.31%*	*3.83%*	*3.95%*	*4.32%*
Growth	*5.24%*	*5.32%*	*8.42%*	*5.31%*	*5.18%*	*6.78%*	*3.45%*
Index[2]	**6.68%**	**6.57%**	**6.96%**	**6.44%**	**8.73%**	**9.70%**	**6.57%**
Outperformance	**-0.92%**	**0.50%**	**4.85%**	**2.18%**	**0.28%**	**1.03%**	**1.21%**

[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 100 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.

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 Leaders Portfolio underperformed the ASX100 Accumulated Index in November, taking the total return over the last year to 11.81%, +4.85% ahead of the index return of 6.57%. A focus on investing in companies with strong competitive advantages and valuation support has held the portfolio in good stead during and extended period of volatility.

Contributors	Comment
Mineral Resources Limited (MIN) 19.5%	NST performed strongly in November largely due to the strong returns seen in gold, as well as other commodities with the USD and long bond yields halting their strong run. Outside of the commodity price, the company delivered a strong quarterly and exploration update which underpins our preference for NST over peers.
Northern Star Resources Ltd (NST) 21.3%	MIN continues to deliver stellar returns for investors as its leading position in the production of lithium sees it as our preferred exposure to the commodity. We do however see tailwinds for its mining services and iron ore division with strong signs from China that they are looking to finally ease COVID restrictions, delivering growth.
Australia and New Zealand Banking Group Limited (ANZ) -0.3%	ANZ finished down 3.21% for the month following investor concerns relating to future investment costs to integrate the Suncorp acquisition. This along with elevated digital investment spend to boost competitiveness and expectations of declining loan volume growth weighed on stock performance despite improvements in the net interest margin and home loan growth.
Detractors	
Aristocrat Leisure Limited (ALL) -4.8%	ALL reported its FY22 results, revealing a strong set of financials, however missing the strong consensus numbers. Standing out was the continued growth of gaming machines in the US, seeing strong outright unit sales growth and margin expansion. The one light area was digital/mobile gaming, with management flagging active users below forecasts and delays to launching a new digital platform.
Fortescue Metals Group Ltd (FMG) 31.8%	FMG led Iron Ore exposed stocks higher in November as the commodity came to life with China indicated they may start to wind back their restrictive COVID policy. Despite FMG not being held, the portfolio benefited from its exposure to the thematic through BHP and MIN.

Portfolio Activity

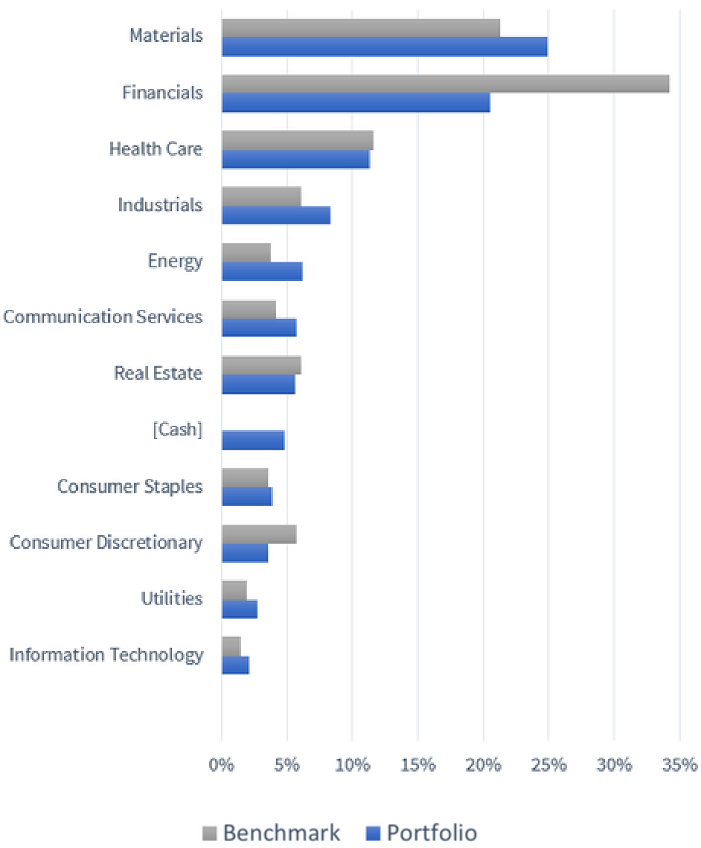
BUY

GPT Group (GPT)	We have been cautious on the listed property sector given increasing interest rates and uncertainty around workers returning to the office. With valuation now reset, reflective of bottom of the cycle discounts to asset value, we see the risk/reward more balanced and look to increase exposure. Property historically performs well in periods of high inflation and GPT's diversified exposure to high quality assets across office, retail, industrial and funds management provide a premium exposure to the sector.
Goodman Group (GMG)	While there are risks around cap rate expansion in the short term, we anticipate continued rental growth, with very low vacancy across the GMG portfolio which is located in highly desirable locations across global capital cities to drive long term earnings. We are very confident in the GMG strategy, and the enormous development pipeline that will generate long term value for shareholders.

SELL

QBE Insurance Group (QBE)	QBE has performed well based on strength of USD earnings, as well as interest rates going up improving their future margins from investment in their reserves. Given its strong relative performance, volatile weather is likely to increase natural perils costs and possible claim inflation from strong commodity prices could offset these positive factors. At the current price, we believe the stock has captured most of its future upside and exited the position.

Sector Positioning



Top 10 holdings (alphabetical)

Aristocrat Leisure Limited
BHP Group Ltd
Coles Group Ltd
Commonwealth Bank of Australia
CSL Limited
National Australia Bank Limited
Northern Star Resources Ltd
Telstra Group Limited
Westpac Banking Corporation
Woodside Energy Group Ltd

Portfolio metrics*

	Ralton	XTOAI^
# of Securities	*29*	*100*
Market Capitalisation	*70,841.2*	*86,070.6*
Active Share	51.5	--
Tracking Error	2.79	*0.00*
Beta	0.93	*1.00*
Est 3-5 Yr EPS Growth	6.8	2.9
ROE	16.8	*16.8*
Dividend %	4.35	4.46
P/E using FY2 Est	14.0	14.7
Price/Cash Flow	10.7	11.2

* Source: FactSet

^ XTOAI means the S&P/ASX 100 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.