Ralton Concentrated Australian Equity

Quarterly Portfolio Report | December 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 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	**-2.87%**	**9.21%**	**6.33%**	**6.26%**	**5.74%**	**9.59%**	**7.26%**
Income	**0.27%**	*0.77%*	*3.25%*	*3.26%*	*3.74%*	*3.79%*	*4.13%*
Growth	*-3.14%*	*8.44%*	*3.09%*	*3.01%*	*2.01%*	*5.79%*	*3.13%*
Index[2]	*-3.29%*	**9.13%**	**-1.77%**	**5.51%**	**7.10%**	**8.61%**	**5.87%**
Outperformance	**0.42%**	**0.09%**	**8.10%**	**0.75%**	**-1.36%**	**0.97%**	**1.38%**

[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

Looking back on the 2022 year, it was one of meaningful change as interest rates finally lifted, reversing a 30-year trend. The resulting impact on markets was seismic with fundamental changes in sector performance and valuations.

Breaking down the market drivers for the calendar year the sectors that once drove the market namely technology (-33.7%), healthcare (-7.2%) and retail (-20.8%) performed poorly while cashflow and earnings sustainability, often referred to "value" and "quality" drove the market. In 2022 it was important to be different to the market, with Banks (+5.6%), Energy (+48.5%) and Materials (+13.5%) the sectors to invest in. Fertile ground for active investment.

Looking back across the December quarter, performance was largely driven by strong stock selection. The investment team sought to minimise portfolio volatility in increasingly uncertain markets by focusing on companies with strong business models and structural themes. The portfolio's exposure to Materials and Energy lifted returns, key stock drivers were Northern Star (+39.3%), Mineral Resources (+17.41%) Worley (+17.83%) and Woodside (+11.94%).

Our cash holding, while detracting from performance, was not excessive. We use the cash holding to allow us to react quickly to market opportunities. In addition, with rates again moving higher in December our holding in James Hardie (-14.4%) detracted. With rates nearing an inflexion point we are reviewing our exposure to key rate sensitive sectors.

In response to the ever-changing investment environment, we took the opportunity to position the portfolio during the quarter to take advantage of mispricing and changes in macro and policy. Post an extended period of being underweight resources we added to our exposure to allow the portfolio to benefit from the reopening of China. Moreover, with rates nearing a peak we added to REITS funded through profit taking in names which have performed strongly including Mineral Resources.

The portfolio now is more exposed to global growth as China opens post its COVID lockdown and should continue to deliver robust performance in an environment of slowing inflation. Key risks to continued performance would be a sharp return to inflation exacerbated by China policy changes and a sharper than expected recession in the US. At this point there is limited evidence of either of these events in key indicators and company commentary.

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Portfolio Performance

The Ralton Concentrated Portfolio outperformed the ASX300 Accumulated Index in December and over the quarter, taking the total return over the last year to 6.33%, +8.10% ahead of the -1.77% 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
Northern Star Resources Ltd (NST) 39.3%	NST continues to grow its output across four high quality gold operations in Australia and Canada. Yandal is expected to grow from 450k oz pa to 600k oz pa by 2024 and Pogo from 220k oz pa to 300k oz pa also in 2024. NST is a low cost gold producer with costs of circa $US1100 per oz and is a clear beneficiary of the currently rising gold price. The company is fully funded for its future growth projects and has excess cash on its balance sheet. We remain overweight.
Mineral Resources Limited (MIN) 17.4%	MIN has been a stellar performer with a surging lithium price and strong operational execution within its mining and services operations delivering significant growth in earnings, with earnings expected to further accelerate as projects come on stream. We see the potential for additional upside in the event that the group does progress with the proposed listing of its Lithium assets.
Qantas Airways Limited (QAN) 19.7%	QAN lifted strongly over the quarter as the company posted two consecutive positive earnings updates reflecting QAN's position in relation to the positive travel demand. A surge in leisure and corporate demand was not able to be met with capacity and as such prices rocketed. We look to another strong update at 1H23.
Detractors	**Comment**
James Hardie Industries PLC Chess Units of Foreign Securities (JHX) -14.4%	JHX traded weaker as the market reacted negatively to an update from the company flagging a weaker outlook. In the quarter JHX downgraded guidance by 10% as they are seeing a rapid deterioration in the US housing outlook due to higher interest rates. We had factored in a tough outlook, but the pace of the decline surprised. We see material upside however this will unlikely be met until interest rates plateau.
Aristocrat Leisure Limited (ALL) 6.6%	ALL reported its FY22 results in the quarter, 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.
Rio Tinto Limited (RIO) 24.6%	Rio Tinto performed strongly over the quarter in response to positive news flow out of the Chinese central government that they will embark on a re-opening, reversing 3 years of COVID lockdown. Iron Ore commodity price moved higher driving the broad commodity complex. We added to our preferred positions, BHP and S32 which were also up strongly, given their diversified asset base and exposure to copper.

Portfolio Activity

BUY	
Sonic Healthcare Ltd (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. Valuation is attractive, trading at discount to healthcare peers and similar defensive growth names.
Goodman Group (GMG)	We added GMG to the portfolio to increase our exposure to high quality industrial property. 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.
ALS Ltd (ALQ)	ALQ is leveraged to the testing, inspection and certification sectors in mining and mineral exploration, equipment maintenance and food and pharmaceutical quality assurance. The 1HFY23 results released in the quarter outlined solid performance driven by the strong contribution from both its Life Sciences and its Commodities divisions reaffirming our thesis.

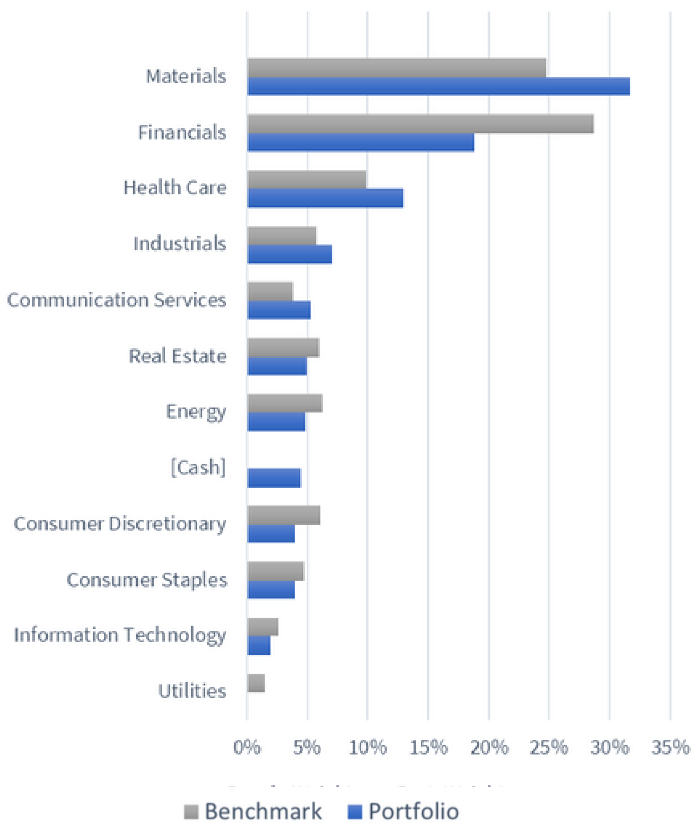
Portfolio Activity

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. We believe the stock has captured most of its future upside and exited the position.
Healius Ltd (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. Increasing government scrutiny which often coincides with a weakening economy is a risk to near term returns. We exited the position in the quarter and rotated into the more diversified Sonic Healthcare.
Commonwealth Bank of Australia (CBA)	For the quarter, CBA outperformed the Banking subsector index (+9.6%) registering a 13.1% gain emphasising its quality attributes favoured by investors. Whilst CBA is the clear leader in most categories including deposits and home loans there are elevated concerns relating to funding pressures, slowdown in loan growth, increase in non-performing loans/provisions and elevated price competition.

Top 10 holdings (alphabetical)

Amcor PLC Shs Chess Depository Interests	Incitec Pivot Limited
Australia & New Zealand Banking Group Ltd TEMP	National Australia Bank Limited
BHP Group Ltd	Northern Star Resources Ltd
Coles Group Ltd	Telstra Group Limited
CSL Limited	Westpac Banking Corporation

Sector Positioning



Portfolio metrics*

	Ralton	XKOAI^
# of Securities	*28*	*201*
Market Capitalisation	*63,582.8*	*77,224.5*
Active Share	58.7	--
Tracking Error	*3.12*	--
Beta	*0.90*	*1.00*
Est 3-5 Yr EPS Growth	5.8	2.3
ROE	*19.1*	*19.1*
Dividend %	4.62	4.55
P/E using FY2 Est	13.1	13.6
Price/Cash Flow	7.4	8.9

* 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.