Ralton Australian Equity Ex 50

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 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	**-2.38%**	**7.76%**	**-12.24%**	**0.40%**	**0.31%**	**7.55%**	**6.03%**
Income	*0.25%*	*0.43%*	*2.55%*	*2.43%*	*2.55%*	*2.90%*	*3.37%*
Growth	*-2.63%*	*7.33%*	*-14.79%*	*-2.03%*	*-2.24%*	*4.65%*	*2.65%*
Index[2]	**-3.73%**	**7.54%**	**-18.38%**	**1.38%**	**2.92%**	**5.13%**	**2.00%**
Outperformance	**1.35%**	**0.22%**	**6.14%**	**-0.98%**	**-2.61%**	**2.41%**	**4.02%**

[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

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.

Portfolio Performance

The Ralton Ex-50 Portfolio outperformed the ASX Small Ordinaries Index in December and in the quarter, taking the total return over the last year to -12.24%, +6.14% ahead of the -18.38% 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.

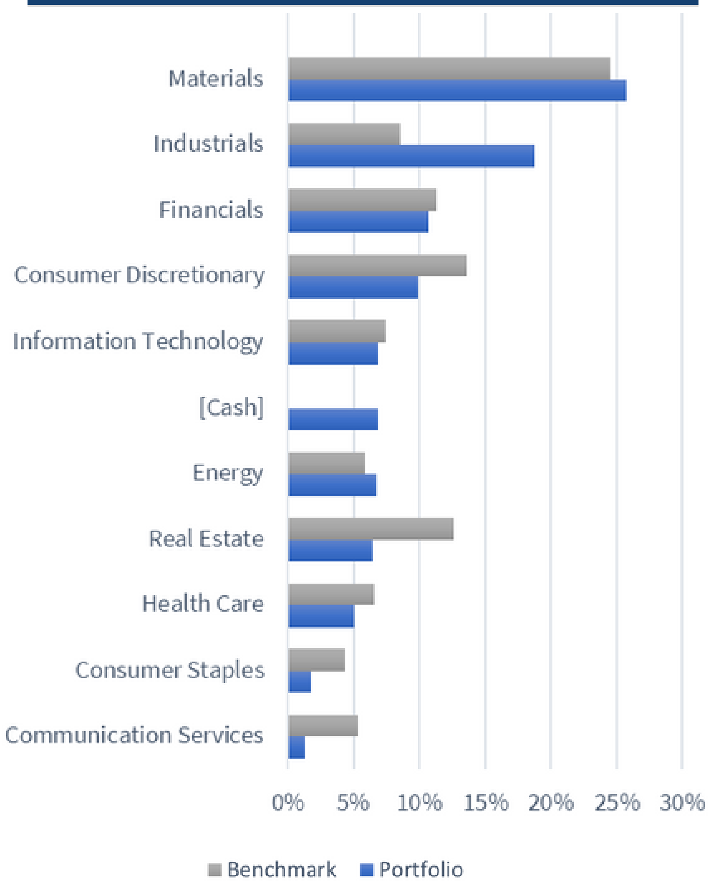
Contributors	Comment
Perenti Limited (PRN) 42.2%	Perenti continued its stellar run increasing 42% over the quarter. With a large part of their business exposed to gold the company was likely to outperform however a November upgrade to guidance was cheered by the market. It is clear that the headwinds form labor cost is starting to abate and work remains strong.
MMA Offshore Limited (MRM) 38.4%	MRM had a very positive trading update in Dec, with earnings far higher than expected thanks to strong vessel utilisation rates. The group upped 1H23 EBITDA guidance from 'above $18m ' to $30-$32m. The upgrade further improves the strong balance sheet position, we see potential for buybacks or asset acquisitions. The outlook for MRM is very positive and we remain holders at current levels.
Regis Resources Limited (RRL) 33.7%	Regis Resources (RRL) increased 38% over the quarter due to a strong gold price as well as a well received company announcement. The DPE (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.

Detractors	Comment
Downer EDI Limited (DOW) -18.8%	Downer declined in December post a disappointing earnings update. While we were cognisant of the impact of weather on contractors, the 15% downgrade to FY23 NPAT guidance was worse than expected. What caused the sharp move lower was the additional information that DOW management had overstated booked earnings from a maintenance contract. Given the uncertainty we are reviewing the investment thesis and outlook.
PEXA Group Limited (PXA) -11.5%	PXA sold off over the quarter on the back of low new property listing volumes, which came in 12% below the previous 5-year average. We have already accounted for softer listing volumes in our valuation, and think the market is missing the extent of the UK growth story which is showing promising initial signs. We retain high conviction in the outlook for PXA over the medium and long term.
IGO Limited (IGO) -1.8%	IGO traded flat over the quarter with a mixed set of announcements. The company's 1Q23 update was solid with spodumene production better than expected continuing IGO's strong operating track record. However later in the quarter some of the shine came off with operations at Nova halted in December due to a fire. The issues should be resolved quickly and expect the strong growth outlook in earnings and dividends to drive the stock higher.

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 Oct continued through into early Nov. The reaction to the loss of funding was overblown and not material to our investment thesis, the sell off provides an opportunity to gain exposure to a very exciting green business, with long term drivers.
Arena REIT No 1 (ARF)	ARF's portfolio facilitates access to essential community services with positive social impact. With strong demand for early learning centres (ELC) ongoing, the federal government contunues to support the sector. With a solid 3.5% yield, the stellar growth outlook and recent NAV upgrade sees the company as a high quality defensive.
Smartgroup Corporation Ltd (SIQ)	SIQ is the domestic leader in salary packaging and novated leasing. We see an easing of headwinds to lease volumes as new car availability increases. Furthermore, the re-contracting of the NSW Health contract significantly de-risks the outlook. With the stock trading well below long-term averages, an 8% fully franked yield, and a strong balance sheet we see upside from current levels.
SELL	
Mach7 Technologies Ltd (M7T)	While we are attracted to M7T's technology platform we believe early stage businesses with limited earnings track record to struggle in the current environment.
Downer EDI (DOW)	We have been long time supporters of the turnaround Grant Fenn has undertaken at Downer. However, the recent update from the company which talked to an overstatement of contracted earnings raises questions relating to risk controls, lowering our conviciton. We exit the position, allowing us to reinvest capital into other opportunities identified by the team.
Collins Foods Ltd (CKF)	CKF delivered a poor outlook at its 1H23 results and downgraded its guidance for FY23. CKF is experiencing margin compression across all of its business segments in KFC Aus. & Europe and Taco Bell Australia. In line with market forecasts, we have downgrade our earnings expectations and will revisit the name at a time where input costs are a tailwind and the outlook for the consumer improves.

Sector Positioning



Top 10 holdings (alphabetical)

IGO Limited	Perenti Limited
Incitec Pivot Limited	Regis Resources Limited
IPH Ltd	Seven Group Holdings Limited
MMA Offshore Limited	Steadfast Group Limited
Nufarm Limited	Worley Limited

Portfolio metrics*

	Ralton	XSOAI^
# of Securities	*37*	*202*
Market Capitalisation	*2,930.6*	*2,298.0*
Active Share	86.0	--
Tracking Error	*6.73*	--
Beta	*0.80*	*1.00*
Est 3-5 Yr EPS Growth	4.3	6.4
ROE	*10.2*	*11.9*
Dividend %	3.01	3.16
P/E using FY2 Est	12.5	13.3
Price/Cash Flow	8.1	7.9

* 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.

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