Ralton Concentrated Australian Equity

Monthly Portfolio Report | February 2023

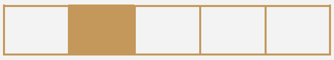
RALTON ASSET MANAGEMENT

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	**-2.81%**	**-0.86%**	**9.83%**	**8.58%**	**6.22%**	**8.82%**	**7.32%**
Income	**0.11%**	*0.38%*	*3.17%*	*3.17%*	*3.61%*	*3.73%*	*4.09%*
Growth	*-2.93%*	*-1.24%*	*6.66%*	*5.41%*	*2.62%*	*5.09%*	*3.23%*
Index[2]	*-2.55%*	**0.17%**	**6.54%**	**7.94%**	**7.87%**	**7.91%**	**6.05%**
Outperformance	**-0.26%**	**-1.03%**	**3.29%**	**0.64%**	**-1.65%**	**0.91%**	**1.27%**

[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 Performance

The Ralton Concentrated Portfolio underperformed the ASX300 Accumulated Index in February, returning -2.81%, versus the -2.55% of the 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
Commonwealth Bank of Australia (CBA) -6.6%	CBA posted solid results although it appears its net interest margin (NIM) reached a maximum in October 2022 as competitive pressures in loans and deposit growth materialise. Recent APRA statistics indicate that it is back to growing loans following a period of limited growth as it did not compromise price for volume growth. Its lucrative business banking division continues to impress with lending and deposits both growing as it chases NAB's dominance with a corresponding uplift in NIM of 298 basis points (bp) to 363bp. Excluding dividends, for the month, CBA was down -8.5% versus the sector return of -3.9%.
Aristocrat Leisure Limited (ALL) 7.6%	ALL was a meaningful contributor in February, rising approximately +6.5% and significantly outperforming the ASX All Ordinaries (-2.78%). The outperformance was driven by reaffirmation of its FY23 guidance and expectations to deliver net profit after tax growth, underpinned by its market leading position and resilient recurring revenue drivers. ALL's balance sheet strength of $3.8 billion in liquidity was reflected in the company's decision to extend its on-market share buyback to $500 million, which we expect to provide further support for the share price over the next 12 months.
Coles Group Ltd (COL) 2.4%	COL reported a revenue gain of +3.9% compared to the prior comparable period despite cycling elevated COVID-19 availability and challenges from floods and major rail outages. Similarly underlying earnings before income tax increased 9.9% and gross margins expanded by 0.43% from a reduction in elevated covid related costs and continued benefits from smarter selling initiatives. COL is on track to deliver its planned distribution centres from mid 2024 with its first, Witron in QLD, beginning to receive inbound inventory deliveries in January. The stock was up 2.4% for the month.

Portfolio Performance

Detractors	Comment
Northern Star Resources Ltd (NST) -17.4%	NST released its first half results which showed earnings before income tax and amortisation of $622.9 million with an 11 cents per share fully franked dividend. However, the company flagged the next three dividends will be unfranked on account of nil tax payments in this period. Costs per ounce of gold came in $1,766 which was a little higher than expected due to industry wide inflationary pressures. This is expected to fall in the second half to around $1,660. Cashflow was weak on the $157 million of stamp duty that NST paid. The company will decide later this year if it will proceed with the expansion of the Kalgoorlie Consolidated Gold Mines which would raise output substantially. Even without this expansion the company reiterated it is still on track to organically raise output to 2 million ounces per annum by 2026.
Aurizon Holdings Ltd (AZJ) -8.4%	AZJ has faced headwinds from ESG conscious investors due to its significant haulage of coal in both its above rail and network operations. Its recent release indicated significant underperformance versus consensus due to declining coal volumes from weather impacts, 3rd party derailments and the acceleration of the green energy transition. Subsequently the company reduced full year earnings before income tax and amortisation guidance by 4%. We believe ESG headwinds will remain in the near to medium term as the company transitions to double its bulk business this decade. Positively, it announced its biggest non coal revenue contract win with Team Global Express which will contribute to this transition. Excluding dividends, AZJ was down -10.3% while the Industrial Transportation sector was up +0.7% and Industrials overall was up +1.6%.
Ansell Limited (ANN) -2.7%	ANN reported a soft first half FY23 result. Revenue was 5% below expectations while at the profit line the result was a 14% miss. The company downgraded its FY23 earnings per share guidance from USD1.25 to USD1.15. The weakest division was healthcare that recorded a 22% drop in sales partly on account of exiting its Russian business. On the positive cashflow was strong and margins increased on account of customers restocking which should ultimately lead to higher sales in the medium term. Gearing remains modest but will grow on account of the on market buy back and current dividend payment. Long term we like the sector the company operates in which also provides exposure to the growing emerging markets.

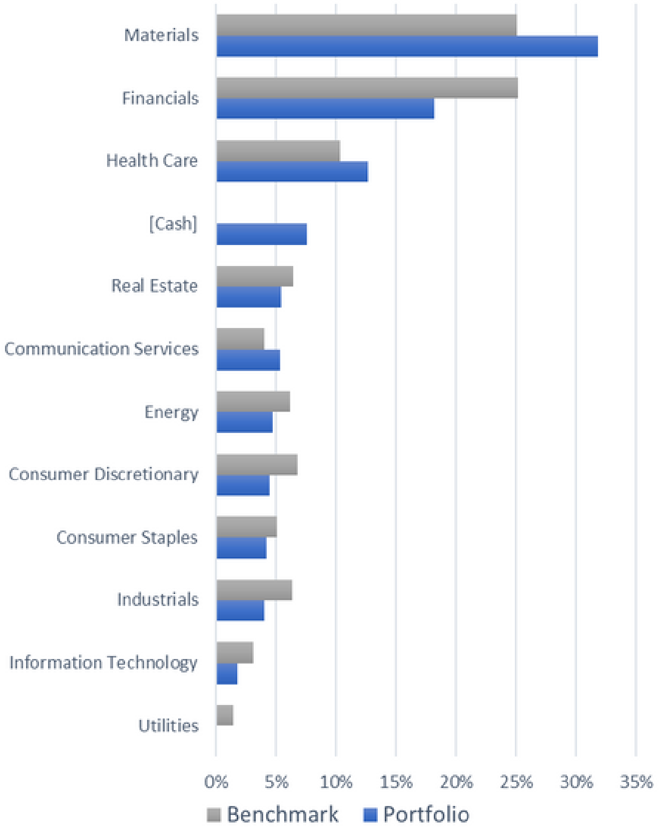
Portfolio Activity

BUY	
CSL Limited (CSL)	CSL outperformed the broad market in February following a solid half year result release. The company is well positioned to earn 15% profit growth in FY24 and beyond from its extensive research and development portfolio. Given the positive outlook and position of the company, we have increased the portfolio allocation.
SELL	
Ansell Limited (ANN)	ANN reported a soft first half FY23 result. Revenue was 5% below expectations while at the profit line the result was a 14% miss. The company downgraded its FY23 earnings per share guidance from USD1.25 to USD1.15. The weakest division was healthcare that recorded a 22% drop in sales partly on account of exiting its Russian business. Whilst we like the sector the company operates in, given the latest results, we decided to exit the position.
Aurizon Holdings Ltd (AZJ)	AZJ has faced headwinds from ESG conscious investors due to its significant haulage of coal in both its above rail and network operations. Its recent release indicated significant underperformance versus consensus due to declining coal volumes from weather impacts, 3rd party derailments and the acceleration of the green energy transition. Subsequently the company reduced full year earnings before income tax and amortisation guidance by 4%. We exit the position to take advantage of alternative opportunities offering greater upside potential.

Top 10 holdings (alphabetical)

ANZ Group Holdings Limited
BHP Group Ltd
Coles Group Ltd
CSL Limited
Incitec Pivot Limited
Mineral Resources Limited
National Australia Bank Limited
Northern Star Resources Ltd
Telstra Group Limited
Westpac Banking Corporation

Sector Positioning



Portfolio metrics*

	Ralton	XKOAI^
# of Securities	*28*	*297*
Market Capitalisation	*68,487.2*	*80,675.5*
Active Share	58.6	--
Tracking Error	*3.41*	--
Beta	*0.88*	*1.00*
Est 3-5 Yr EPS Growth	6.8	4.3
ROE	*18.7*	*19.2*
Dividend %	4.52	4.17
P/E using FY2 Est	13.5	14.7
Price/Cash Flow	8.1	9.1

* 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.