Ralton Leaders

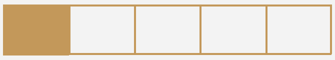
Monthly Portfolio Report | February 2023

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	**-2.67%**	**-1.56%**	**8.92%**	**9.70%**	**8.28%**	**9.21%**	**7.53%**
Income	*0.19%*	*0.47%*	*3.42%*	*3.31%*	*3.74%*	*3.90%*	*4.28%*
Growth	*-2.85%*	*-2.03%*	*5.50%*	*6.39%*	*4.54%*	*5.31%*	*3.25%*
Index[2]	**-2.41%**	**0.33%**	**8.53%**	**8.45%**	**8.44%**	**8.24%**	**6.48%**
Outperformance	**-0.25%**	**-1.89%**	**0.39%**	**1.25%**	**-0.16%**	**0.97%**	**1.05%**

[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 Performance

The Ralton Leaders Portfolio underperformed the ASX100 Accumulated Index in February, returning -2.67%, versus the -2.41% 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.

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Portfolio Performance

Contributors	Comment
Rio Tinto Limited (RIO) -7.8%	RIO released its full year results during the month which was a slight miss on market expectations particularly its free cashflow line. This led to no special dividends being declared which disappointed analyst expectations somewhat. RIO declared a profit after tax of USD12.6 billion representing earnings per share of USD8.19 and dividend per share of USD4.92 fully franked. This result included a large tax write down and payment for Turquoise Hill. It was pleasing to see their Pilbara Iron Ore costs for 2023 remained in line with their previous guidance. The current Iron Ore price compares favourably with the USD93 that RIO received in the six months to December 2022 which could lead to analyst upgrades if these prices are maintained. In addition the company reiterated its Copper cost guidance for the year with the aim of doubling production by 2030.
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%.
Mineral Resources Limited (MIN) -7.2%	"The market was disappointed with MIN's H1 results on account of higher operating costs, higher D & A, weaker cashflow & higher interest costs. On the positive the dividend of $1.20 was comfortably above consensus expectations. Looking forward into H2, cashflow will improve with higher volumes forecast. The weak cashflow reflected a $410 million rise in receivables and a buildup in inventory which will unwind over the next month or so. Capex guidance for FY23 has been raised. Looking into FY24 cashflow is expected to improve considerably when the Wodgina tolling and processing of spodumene to hydroxide rises to nameplate production. We used the recent fall to increase our position size in MIN.

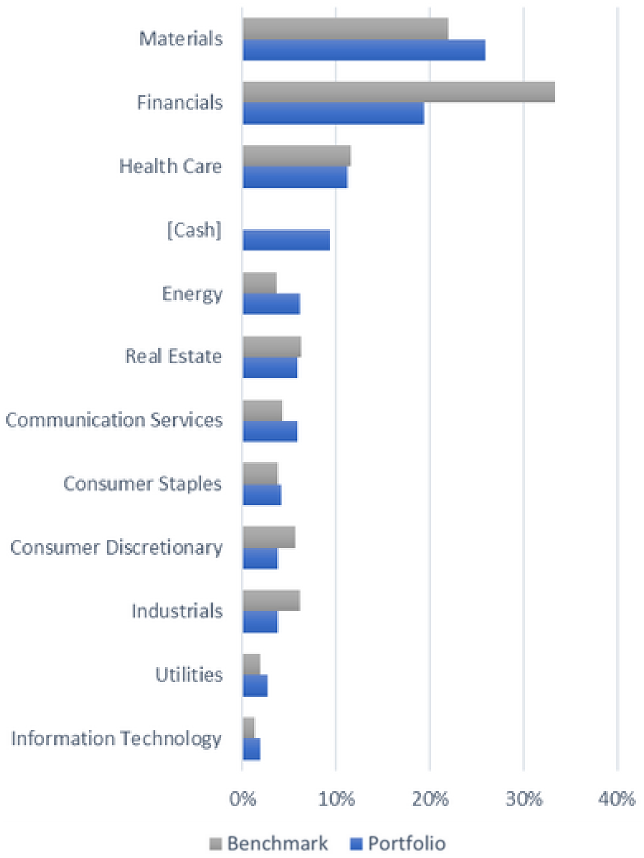
Portfolio Activity

BUY	
N/A	
SELL	
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)

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

Sector Positioning



Portfolio metrics*

	Ralton	XTOAI^
# of Securities	*27*	*98*
Market Capitalisation	*70,850.5*	*83,553.1*
Active Share	53.0	--
Tracking Error	3.05	--
Beta	0.90	*1.00*
Est 3-5 Yr EPS Growth	7.7	4.0
ROE	18.2	*18.5*
Dividend %	4.46	4.56
P/E using FY2 Est	13.7	14.6
Price/Cash Flow	8.0	9.1

* 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.