Ralton Concentrated Australian Equity

Quarterly Portfolio Report | March 2023

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	**-0.52%**	**1.54%**	**3.84%**	**18.44%**	**6.92%**	**8.90%**	**7.24%**
Income	**0.93%**	*1.05%*	*3.67%*	*3.24%*	*3.70%*	*3.78%*	*4.13%*
Growth	*-1.45%*	*0.49%*	*0.17%*	*15.21%*	*3.22%*	*5.12%*	*3.11%*
Index[2]	*-0.24%*	**3.33%**	**-0.57%**	**16.59%**	**8.64%**	**8.13%**	**6.00%**
Outperformance	**-0.29%**	**-1.79%**	**4.41%**	**1.86%**	**-1.72%**	**0.77%**	**1.24%**

[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 March, returning -0.52%, versus the index return of -0.24%. 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) 19.8%	NST rose 18.7% in the month benefitting from the 9.3% rise in the gold price. The company, which is rated Investment Grade by external credit rating agencies, issued USD600 million of long maturity debt securities at a very favourable interest rate of 6.1%. This capital raising could be a sign that the company will go ahead with the expansion of the operations at KCMG in West Australia. The company announced that their operations at Pogo in Alaska will be suspended which will cost them 30,000 ounces of gold production in FY23. This represents only 2% of the annual production and at this stage their FY24 forecasts remain unchanged.
Telstra Group Limited (TLS) 3.5%	TLS is finalising its T22 strategy of simplifying its business and reducing its cost base and is now embarking on its T25 strategy of improving its technological stack across its segments including the 5G and associated technology rollout. TLS has since completed its corporate restructure with a view to maximise future shareholder value with the stock benefitting from heightened investor demand due to its defensive attributes including a S&P/ASX200 matching annual volatility of just 15%. The stock is up 1.4% for the month at 5 year highs.
Sonic Healthcare Limited (SHL) 9.5%	SHL's 1H23 result, released in February, was below our top of the market expectations but exceeded consensus forecasts. Management revealed base business activity has continued to grow strongly with January 2023 revenues increasing 14% year on year and being 10% higher than pre-COVID levels. While SHL's stock price enjoyed a strong bounce, we continue to believe it is undervalued.

Portfolio Performance

Detractors	Comment
National Australia Bank Limited (NAB) -7.6%	Banks were heavily impacted by the US banking failures as well as the Credit Suisse takeover by UBS. Positively, Australian banks are well insulated from a liquidity and capital perspective but are incurring well known pressures affecting funding, competitive asset and liability growth pressures. All banks are in a similar position with the majors winning the largest share in refinancings. Positively, NAB being more heavily skewed to the higher margin business loan segment, is not chasing retail loans as hard as its competitors, maintaining margins. Although the competitive pressures in business banking have grown materially as competitors attempt to close the gap. The NAB share price was 7.6% lower for March compared to -3.2% for the Bank subsector.
ANZ Group Holdings Limited (ANZ) -7.0%	Banks were heavily impacted by the US regional banking failures as well as the Credit Suisse takeover by UBS. Positively, Australian banks are well insulated from a liquidity and capital perspective but are incurring well known pressures affecting funding, competitive asset and liability growth pressures which are crimping net interest margins. Refinancing activity is up 65% which now accounts for more than 50% of flows as customers transition from fixed to variable loans or attempt to find a better deal. All banks are in a similar position with the majors winning the largest share in refinancings. Positively for ANZ, it is gaining market share in loans and deposits, it has the lowest funding requirement out of the big four and has the best online deposit rate under its ANZPlus banner. ANZ's share price was 7% lower in the month below the Banks subsector performance of -3.2%.
Incitec Pivot Limited (IPL) -9.0%	IPL continues to decline amid a relatively strong market as its key product ammonia declined. Ammonia demand has remained depressed after the warmer than expected European winter. A key catalyst for release of value should crystallise over the next quarter with approval for the sale of the US ammonia plant. Furthermore, we expect commodity prices to stabilise and the strong farming demand environment to drive strong growth going forward.

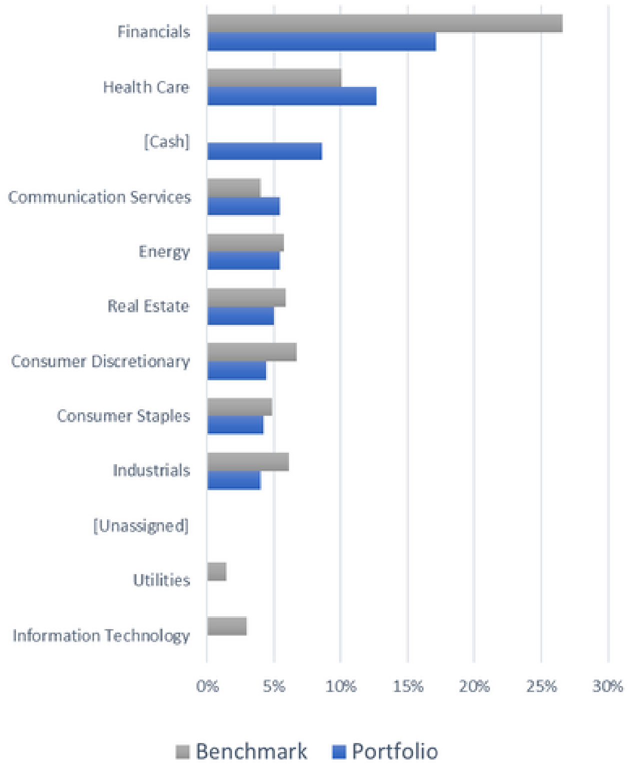
Portfolio Activity

BUY	
Worley Limited (WOR)	We see WOR as one of the most attractive stocks exposed to decarbonisation, a structural growth theme that will play out over multiple decades. The dual tailwinds of commodity price driven capital expenditure and energy transition investment which we believe are currently being missed by the market. WOR's recent result reiterated that all of its business activities are on track, reaffirming its FY23 guidance. We view WOR as well positioned to meet the opportunities and challenges of the current market, in addition to the geopolitical environment elevating the need for energy independence and security of supply. It is a high quality, global business with strong cyclical and structural tailwinds exposed to the emerging trend of decarbonisation of the global energy matrix. The company operates with attractive cash flow generation, supportive of a +3.5% dividend yield. Given the outlook, we have added to our position within the portfolio.
SELL	
Computershare Limited (CPU)	We entered CPU as a play on higher interest rates, which occurred at the fastest rate in history throughout 2022. Our analysis shows CPU's earnings are highly sensitive to long duration US Government bonds and whilst the outlook for interest rates remains volatile, we view the tightening cycle as closer to the end, than the middle, thus limiting the potential for further earnings upgrades. We exit the position to take advantage of alternative opportunities and offering greater upside potential.

Top 10 holdings (alphabetical)

- Amcor PLC Shs Chess Depository Interests
- ANZ Group Holdings Limited
- BHP Group Ltd
- Coles Group Ltd
- CSL 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	*25*	*307*
Market Capitalisation	*68,166.7*	*74,886.8*
Active Share	57.0	--
Tracking Error	*3.15*	--
Beta	*0.89*	*1.00*
Est 3-5 Yr EPS Growth	5.8	3.6
ROE	*19.2*	*18.9*
Dividend %	4.61	4.48
P/E using FY2 Est	13.2	14.0
Price/Cash Flow	7.8	8.7

* 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.