Ralton Leaders

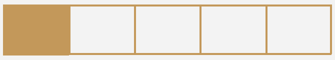
Quarterly Portfolio Report | March 2023

Key facts

Income versus growth target

Income Growth

Market cap bias



Large Small

Investment strategy

A portfolio of ASX-listed equities designed 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	**-0.63%**	**1.51%**	**2.35%**	**17.99%**	**8.86%**	**9.35%**	**7.44%**
Income	*0.92%*	*1.11%*	*3.87%*	*3.39%*	*3.83%*	*3.95%*	*4.32%*
Growth	*-1.55%*	*0.40%*	*-1.52%*	*14.60%*	*5.03%*	*5.40%*	*3.12%*
Index[2]	**-0.18%**	**3.50%**	**1.14%**	**17.07%**	**9.26%**	**8.46%**	**6.43%**
Outperformance	**-0.45%**	**-1.99%**	**1.21%**	**0.92%**	**-0.40%**	**0.89%**	**1.01%**

[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 Index in March, returning -0.63%, versus the index return of -0.18%. 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.
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.
Nine Entertainment Co. Holdings Limited (NEC) 4.4%	NEC share price was partially supported by the ongoing share buy back retiring an additional 3.5 million shares this month following a further 33 million purchased in the half year to February. NEC is maintaining its leading ratings position across key demographics and is growing digital revenues, now accounting for 44% of total. BVOD and 9now continues to grow strongly with revenue growth for the half up 5% and 19% respectively, similarly digital radio streaming is up 122%, Stan is maintaining growth at 12%, publishing is up 5% with a slowdown in Domain expected due to challenging market conditions. However, cost pressures negatively impacted EBITDA and margins for the half, down 8% and 4.5% respectively which is being addressed through prudent cost control measures including increased digitisation.

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.
GPT Group (GPT) -10.0%	Despite the yield on the 10-year Australian Bonds declining from 3.3%, Australian real estate investment trusts (AREITS) underperformed the broader ASX. Asset valuation remains an uncertainty, particularly for Office assets. While GPT has a touch over one third of its portfolio in Office, we believe the implied market capitalisation (cap) rate that has expanded to over 6.1% (versus the last stated cap rate of 4.86%) is excessive and overdone.
Computershare Limited (CPU) -12.9%	CPU is currently highly leveraged to the interest rate environment with its margin income component of total revenues typically ranging from 5-25% of total based on forward interest rate projections. Half of its revenues is sourced from extremely stable core fees with 25% from transaction and event based fees which have been subdued. Our recent analysis revealed a very strong negative correlation of -0.92 to US 10 year bond futures and it is no surprise that the stock price has fallen -12.9% as rates have fallen with Australian 10 year bonds falling 0.56% for the month and US 10 year bond futures rising (price inverse to yields) by a similar magnitude as a result of the recent banking crisis in the US and Switzerland.

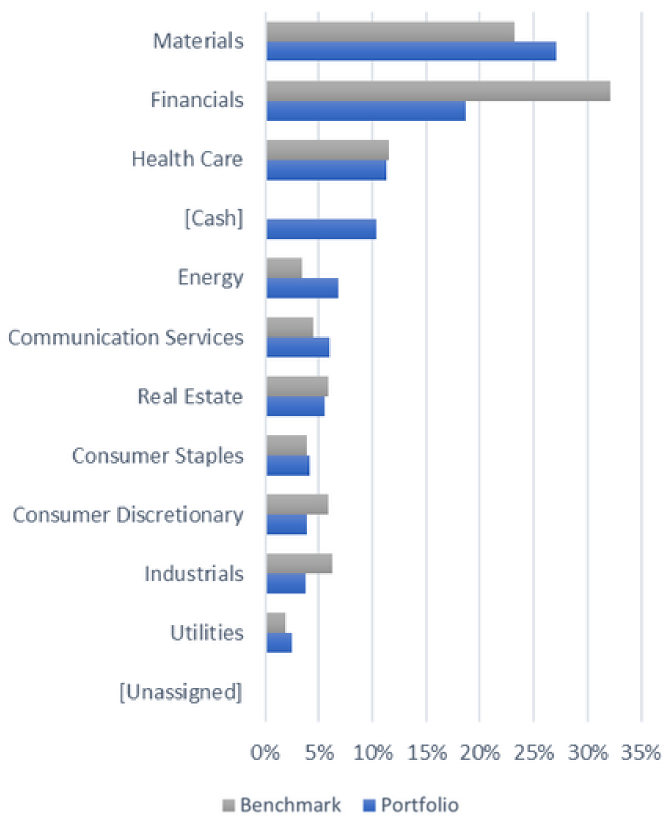
Portfolio Activity

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)

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
Worley Limited

Sector Positioning



Portfolio metrics*

	Ralton	XTOAI^
# of Securities	*26*	*98*
Market Capitalisation	*71,444.4*	*83,754.7*
Active Share	53.7	--
Tracking Error	3.11	*0.00*
Beta	0.91	*1.00*
Est 3-5 Yr EPS Growth	7.0	3.6
ROE	18.4	*18.7*
Dividend %	4.55	4.61
P/E using FY2 Est	13.6	14.4
Price/Cash Flow	7.8	9.0

* 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.