Ralton Concentrated Australian Equity

Monthly Portfolio Report | May 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	2 yr	3 yr	5 yr	10 yr	Inception
Ralton	**-2.59%**	**-1.62%**	**1.60%**	**5.11%**	**12.51%**	**5.96%**	**8.52%**	**7.08%**
Income	**0.62%**	*1.56%*	*4.31%*	*3.65%*	*3.43%*	*3.69%*	*3.79%*	*4.13%*
Growth	*-3.21%*	*-3.19%*	*-2.71%*	*1.45%*	*9.09%*	*2.27%*	*4.73%*	*2.95%*
Index[2]	*-2.53%*	**-0.96%**	**2.37%**	**3.53%**	**11.33%**	**7.43%**	**8.10%**	**5.88%**
Outperformance	**-0.06%**	**-0.66%**	**-0.76%**	**1.57%**	**1.19%**	**-1.47%**	**0.42%**	**1.20%**

[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 May, returning -2.59%, versus the index return of -2.53%. 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
James Hardie Industries PLC Chess Units of Foreign Securities (JHX) 13.1%	JHX rose 13.1% over the month post a strong FY23 result that showed JHX is performing well in a mixed US housing market. Channel checks had proved insightful in supporting our confidence that US housing has seen its bottom. JHX confirmed as much, targeting a return to growth in the 1Q24. With industry indicators turning up, we expect JHX to continue to outperform peers and the broader market.
Worley Limited (WOR) 8.3%	WOR held an investor day on 9 May 2023 where they indicated that higher gross margin will continue to flow from pipeline into revenue. The company is growing its share of the market and intends to actively prioritise higher margin work and expect the earnings before income tax and amortisation (EBITA) margins to grow in excess of 7.5% by FY24. We see WOR as one of the most attractive stocks exposed to decarbonisation, a structural growth theme that will play out over multiple decades. WOR is 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.

Portfolio Performance

Contributors	Comment
Wesfarmers Limited (WES) -8.3%	During WES' 2023 strategy day in May management flagged that the current operating environment would see a reversion to normalcy, considering the unique circumstances of stimulus measures and record low interest rates. WES' management acknowledged that the current macroeconomic environment has presented challenges, possibly more difficult than the pre-COVID period and was the key driver of the -8.6% performance over the month. However, WES has anticipated these challenges and made preparations accordingly. The company's diversified business model and value orientated product approach should position them better than peers. We see upside in WES' lithium segment and believe the market could be underestimating its true value.

Detractors	Comment
Resmed Inc CHESS Depositary Interests on a ratio of 10 CDIs per ord.sh (RMD) -3.5%	RMD eased in May as the market took stock of a better than expected 3Q earnings result in early May with higher sales offset by higher costs. We believe the risk/reward trade off for RMD is firmly to the upside with the impending release of high margin masks and easing supply chain costs set to see RMD drive strong earnings growth ahead of market expectations.
ALS Ltd. (ALQ) -11.9%	ALQ released full year results during the month indicating margin contraction in its Life Sciences segment, which accounts for 55% of its total revenues, disappointing the market. Margins in this segment contracted -1.59% year on year impacting underlying earnings before income tax (EBIT), which increased by +6%. This was somewhat offset by its better performing Commodities segment with margins expanding +1.55% and EBIT +29.3% compared to the prior comparable period. Overall, EBIT expectations for FY23 was a slight miss, registering +$490 million compared to an expectation of +$495 million.
Amcor PLC Shs Chess Depository Interests (AMC) -7.7%	As flagged in last months report we were expecting a subdued 3Q print from Amcor however the weak volumes discussed by AMC peers were exacerbated by de-stocking in the group's European operations. We see the impacts as largely short term as de-stocking is expected to complete by end of CY23 and with a slowing economic outlook we expect AMC's exposure to defensive healthcare and FMCG categories to support the stock ongoing.

Portfolio Activity

BUY

Resmed Inc CHESS Depositary Interests on a ratio of 10 CDIs per ord.sh (RMD)	Following RMD's positive 3Q23 result, we have initiated a position within the portfolio. The company primarily provides cloud-connectable medical devices for the treatment of sleep apnea, chronic obstructive pulmonary disease, and other respiratory conditions. The result showed a strong recovery with revenue increasing 29% largely driven from the US where supply was focused. Gross margin was subdued though as devices grew at two times mask growth. Mask margins are double those of devices. The valuation looks fair at 2x and we believe earnings are likely to see upgrades as margins surprise and leverage is achieved. We introduce the RMD holding using proceeds from the sale of RHC. Whilst we are starting to see early signs of the long awaited turnaround with RHC and we see an improving outlook for solid growth and improving costs as immigration improves, our conviction in RMD is greater.

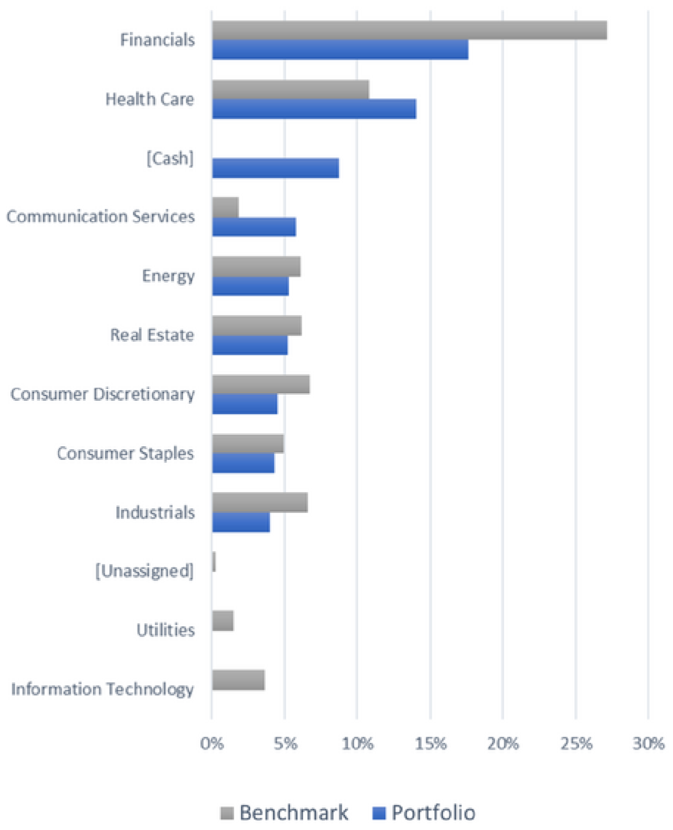
SELL

Ramsay Health Care Limited (RHC)	RHC is the largest private hospital operator in Australia, with an expanding international footprint. The Australian business remains the growth engine with an aging population and site expansion delivering structural top line growth. With post COVID rates of surgery occurring the major challenge facing the group is stagnating private health insurance membership and labour challenges. Consensus is now forecasting a return to pre-COVID growth and margins, we see this as overly aggressive and have sold out of this position reallocating proceeds by introducing Resmed (RMD) to the portfolio.

Top 10 holdings (alphabetical)

Amcor PLC Shs Chess Depository Interests
ANZ Group Holdings Ltd
BHP Group Ltd
Coles Group Ltd
CSL Ltd
James Hardie Industries PLC Chess Units of Foreign Securities
Mineral Resources Limited
National Australia Bank Limited
Northern Star Resources Ltd
Telstra Group Limited

Sector Positioning



Portfolio metrics*

	Ralton	XKOAI^
# of Securities	*26*	*298*
Market Capitalisation	*66,384.9*	*69,772.2*
Active Share	59.1	--
Tracking Error	*2.89*	*0.00*
Beta	*0.89*	*1.00*
Est 3-5 Yr EPS Growth	1.0	2.9
ROE	*19.8*	*18.4*
Dividend %	4.49	4.45
P/E using FY2 Est	13.7	13.8
Price/Cash Flow	7.9	8.6

* 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.