Ralton Leaders

Monthly Portfolio Report | May 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 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	2 yr	3 yr	5 yr	10 yr	Inception
Ralton	**-2.72%**	**-2.09%**	**0.72%**	**4.41%**	**12.98%**	**7.69%**	**9.01%**	**7.25%**
Income	*0.48%*	*1.40%*	*4.36%*	*3.80%*	*3.53%*	*3.77%*	*3.94%*	*4.31%*
Growth	*-3.19%*	*-3.49%*	*-3.64%*	*0.61%*	*9.44%*	*3.92%*	*5.07%*	*2.95%*
Index[2]	**-2.44%**	**-0.93%**	**3.41%**	**4.71%**	**12.25%**	**8.07%**	**8.35%**	**6.30%**
Outperformance	**-0.27%**	**-1.16%**	**-2.68%**	**-0.29%**	**0.73%**	**-0.38%**	**0.66%**	**0.95%**

[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 May, returning -2.72%, versus the index return of -2.44%. 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
CSL Limited (CSL) 1.9%	CSL outperformed in May as the market gains confidence in the outlook for the former market darling. Post a series of earnings upgrades the stock is screening as strong value for the first time in a long period. We expected the combination of defensive earnings, strong growth and near term catalysts from drug trials should see CSL continue to deliver strong returns.
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.
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.

Portfolio Performance

Detractors	Comment
National Australia Bank Limited (NAB) -7.1%	NAB released half year results early in May indicating net interest income up +11.2% from both margin (higher rates) and higher volume across most segments. This was offset by cost increases of +11% so overall NAB registered flat income growth on the underlying business for the half, however, net interest margin increased 0.14%. NAB which is the leader in business banking is facing competitive pressures in this higher margin segment as its competitors chase market share.
Westpac Banking Corporation (WBC) -4.9%	WBC released half year results early in the month which was overall positive as it continues to strip out structural costs by closing out the selling process of its non core businesses. Cost to income was down 7% compared to the prior comparable period and is now at 45.9%. The company reported its net interest income was up 10%, average interest earning assets was also up 7% as the bank competed aggressively for new business. Similar to its competitors which reported, overall credit quality remained robust and was yet to experience distress given the lagged effect of rate rises.
BHP Group Ltd (BHP) -5.4%	BHP completed it $9 billion acquisition of Oz Minerals (OZL) during the month and gave guidance to increase its output volumes by 13% by FY30 driven by growth at its WA Iron Ore, Jansen stages 1 and 2 in Canada, West Musgrave Nickel in WA and Oz Minerals South Australian assets. Copper is one of BHP's preferred growth commodities and in addition to OZL's portfolio has identified further brownfield growth options at their two Chilean copper assets at Escondida and Pampa Norte. BHP also is now contemplating the concept of raising their long term WA iron ore output to 330 mtpa from the current rate of 292 mtpa.

Portfolio Activity

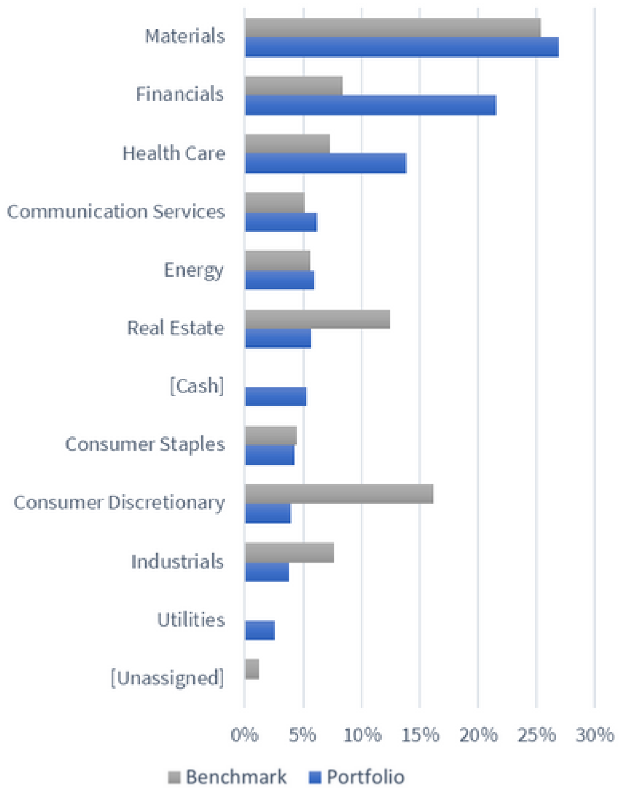
BUY	
ANZ Group Holdings Limited (ANZ)	We decided to increase the weight of ANZ given its higher weighting in the lower risk institutional banking space which we see as lower risk from a credit quality and recurring revenue point of view as well as having a lower overall funding requirement relative to the other major banks. ANZ continues to execute well delivering risk adjusted returns above the cost of capital in all of its five segments, which are almost equally weighted, providing additional diversification benefits. The roll out of ANZPlus is delivering solid growth. The potential for the Suncorp Bank acquisition remains in the regulators hands.
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	
Westpac Banking Corporation (WBC)	Although WBC is showing continual improvements in reducing its cost base by offloading non core businesses, we are concerned about its aggressive writing of new business with question marks around overall credit quality. The bank has been embroiled in controversy in its recent past, due to system failures in the spheres of counter terrorism financing and anti-money laundering and has replaced a wide array of its higher level executive team, requiring further proof of execution in terms of mitigation of these system failures in order to increase our confidence in the stock.
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.

SELL (Cont.)	
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 will provide LT growth well beyond this decade. Post a strong result where the company reiterated that all of its business activities are on track, the share price has increased materially. As we move close to our view of intrinsic value we trim the position and re-invest across the portfolio.

Top 10 holdings (alphabetical)

ANZ Group Holdings Limited
Aristocrat Leisure Limited
BHP Group Ltd
Coles Group Ltd
CSL Limited
Macquarie Group Ltd
Mineral Resources Limited
National Australia Bank Limited
Northern Star Resources Ltd
Telstra Group Limited

Sector Positioning



Portfolio metrics*

	Ralton	XTOAI^
# of Securities	*28*	*201*
Market Capitalisation	*71,581.4*	*2,330.6*
Active Share	100.0	--
Tracking Error	10.90	--
Beta	0.57	*1.00*
Est 3-5 Yr EPS Growth	1.3	6.2
ROE	19.4	*9.7*
Dividend %	4.63	3.08
P/E using FY2 Est	13.9	13.6
Price/Cash Flow	8.1	7.7

* 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.