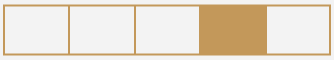
Ralton Australian Equity Ex 50

Quarterly Portfolio Report | June 2023

RALTON ASSET MANAGEMENT

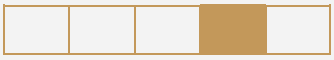
Key facts

Income versus growth target



Income Growth

Market cap bias



Large Small

Investment strategy

A portfolio of ASX-listed equities designed to provide high capital growth

Investment objective

Outperform index by over 4% p.a.

Benchmark index

S&P/ASX Small Ordinaries Accumulation

Portfolio Manager

Will Riggall

Inception date

February 2008

Management fee

0.75% p.a. (may vary across platforms)

Number of stocks

20-35

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	**0.18%**	**1.01%**	**8.35%**	**-2.80%**	**4.14%**	**-0.07%**	**7.05%**	**5.93%**
Income	*0.06%*	*0.17%*	*2.57%*	*2.60%*	*2.47%*	*2.49%*	*2.78%*	*3.33%*
Growth	*0.12%*	*0.84%*	*5.78%*	*-5.40%*	*1.67%*	*-2.55%*	*4.27%*	*2.59%*
Index[2]	**0.03%**	**-0.54%**	**8.45%**	**-6.58%**	**5.16%**	**2.25%**	**6.81%**	**2.02%**
Outperformance	**0.16%**	**1.55%**	**-0.10%**	**3.78%**	**-1.02%**	**-2.32%**	**0.25%**	**3.90%**

[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 Small Ordinaries Accumulation Index

Portfolio Performance

The Ralton Ex 50 Portfolio outperformed the ASX Small Ordinaries in June, returning 0.18%, versus the index return of 0.03%. 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
Credit Corp Group Limited (CCP) 16.2%	CCP, the Australian debt collection company, reaffirmed its FY23 guidance of $90-97 million. With domestic debt buying volumes remaining subdued, the company continues to focus on cost management initiatives to maintain the Australian business profits. Operations in their American business are improving as are industry-wide conditions, a clear upside for the company. Australian and US consumer debt levels continue to rise materially which should lead to a more favourable pricing environment and improved results for FY24.
Smartgroup Corporation Ltd (SIQ) 9.1%	SIQ has continued its recent run of good performance, with reports of easing supply chain constraints with regards to new cars adding to enthusiasm around the company. Recent management presentations revealed very strong enquiry levels around electric vehicles. Further, management stated that demand was coming from industries that previously had little interest in salary packaging, such as FIFO workers. We remain holders of SIQ and see further improvements to new car delivery times materially uplifting the company's profitability.
NRW Holdings Limited (NWH) 16.1%	NRW saw strong performance in June on the back of ongoing contract win momentum. The strong run up into the end of the month was in anticipation of the tender for Northern Star's KCGM tender, estimated to be close to $1 billion in contract value. This was subsequently awarded to NRW's subsidiary, Primero, at the beginning of July. This is a significant win for NRW, and whilst execution risks exist, it will be the largest project the company has participated in and could predicate more deals with major miners.

Detractors	Comment
Perenti Limited (PRN) -12.8%	PRN underperformed in June following the proposed acquisition of exploration drilling services peer DDH1 Ltd. From PRN's perspective, the merger should increase earnings per share and free cash flow, as DDH is a higher margin business. Additionally, the transaction unlocks substantial tax and listing synergies, and the pro forma group's debt position will improve. On the downside, the acquisition does increase the cyclicality of the business. All in all we think the current PRN share price presents attractive value to investors.
Peoplein Limited (PPE) -18.7%	We think consensus expectations for PPE are wrong to price in such substantial earnings declines in FY24. While the economic slowdown, as well as the political contention surrounding labour hire are headwinds, we think high immigration, and a recovery in the Health & Community segment will see management grow earnings this FY. We think PPE presents compelling value at current levels.

Portfolio Activity

BUY	
Qube Holdings Ltd (QUB)	QUB operates a portfolio of port and logistic assets across Australia which together provide the only end to end logistics solution for global companies. With the acquisition of Asciano, the former Patricks team under Chris Corrigan and now Paul Digney QUB offers shareholders exposure to operating assets with high barriers to entry and in our view increasing pricing power. The key near term risk is a slowing in logistic volumes however recent market diligence has uncovered evidence of increasing pricing power. Monopolistic like assets exposed to GDP growth with margin upside provides a strong investment proposition, with forecast 10% compound annual growth and a 3% fully franked dividend.

SELL	
Bapcor Ltd (BAP)	BAP owns the largest distribution network for vehicle parts and accessories in Australia. While the end demand for servicing of the aging fleet of cars on the road has low cyclical volatility, 20% of group earnings is exposed to the retail channel which is under increasing pressure from higher rates and inflation. We see near term risk to earnings growth and potential the planned BTB (better than before) cost out strategy to cost more than expected. The result is lower earnings before income tax (EBIT) and return on capital meaning BAP is unlikely to trade back to recent highs.
Incitec Pivot Limited (IPL)	IPL informed the market early in June of an earnings downgrade on the back of gas shortages for its Phosphate Hill fertiliser plant, with costs expected to be $15-20 million more than previously estimates. Further, the downgrade came in tandem with the CEO announcing she was stepping down from her role with only three weeks' notice, which pushes the potential corporate activity around the demerger out at least 6 months. We exited the position due to these factors complicating the management's ability to execute on strategic objectives key to our valuation.
MMA Offshore Limited (MRM)	Vessel contractor MRM services the offshore oil, gas and renewable energy industry. While earnings are diversified across wider maritime industries, the share price can be impacted by day traders reacting to moves in the oil price, which marginally rose over June. There was no new news during the month. MRM is a beneficiary of offshore energy capital expenditure which in turn is influenced somewhat by commodity prices. The prevailing demand and undersupply of vessels is underpinning the company's earnings profile and our investment thesis in the stock.

Portfolio metrics*

	Ralton	XSOAI^
# of Securities	*32*	*201*
Market Capitalisation	*3,300.8*	*2,319.7*
Active Share	87.3	--
Tracking Error	*6.49*	--
Beta	*0.77*	*1.00*
Est 3-5 Yr EPS Growth	14.5	7.2
ROE	*11.3*	*10.2*
Dividend %	2.71	3.08
P/E using FY2 Est	10.7	13.8
Price/Cash Flow	8.4	7.7

* Source: FactSet

^ XSOAI means the S&P/ASX Small Ordinaries 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.

Top 10 holdings (alphabetical)

Credit Corp Group Limited	Reliance Worldwide Corp. Ltd
IGO Limited	Seven Group Holdings Limited
Perenti Limited	Smartgroup Corporation Ltd
PEXA Group Limited	Steadfast Group Limited
Regis Resources Limited	Worley Limited

Sector Positioning