Ralton Concentrated Australian Equity

Monthly Portfolio Report | August 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	**-1.22%**	**1.47%**	**5.95%**	**3.66%**	**11.51%**	**5.42%**	**8.10%**	**7.06%**
Income	**0.28%**	*0.51%*	*4.25%*	*3.42%*	*3.49%*	*3.62%*	*3.74%*	*4.09%*
Growth	*-1.50%*	*0.96%*	*1.70%*	*0.23%*	*8.01%*	*1.80%*	*4.36%*	*2.97%*
Index[2]	*-0.76%*	**3.88%**	**8.96%**	**2.45%**	**10.51%**	**6.99%**	**7.95%**	**6.04%**
Outperformance	**-0.46%**	**-2.41%**	**-3.01%**	**1.20%**	**1.00%**	**-1.57%**	**0.15%**	**1.02%**

[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 August, returning -1.22%, versus the index return of -0.76%. 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) 7.0%	JHX posted a very strong 1Q result, 16% ahead of expectations driven by a 4% revenue beat. Resurgent demand for new housing sees the company upgrade their estimates for 2Q with single family home starts driving high sales at very strong margins. The company has managed volatility in US housing superbly and is set to grow ahead of a strenghtening US market. JHX continues to exhibit strong quality characteristics. We remain overweight.
Goodman Group (GMG) 13.7%	GMG showed its class in its full year report, with the company reporting strong top line growth and a balance sheet ripe for opportunity. In a tough year for developers, GMG bucked the trend and posted a strong result whilst pleasingly keeping its development pipeline flat over the year. Interestingly, management commented on the strong (30% of work in progress) data centre pipeline and potential for GMG to potentially operate these assets, which we believe would be highly beneficial for shareholders. We continue to be attracted to GMG's exposure to industrial property domestically and internationally.
Northern Star Resources Ltd (NST) 3.5%	NST reported FY23 results in line with market expectations, including a 12 month buyback extension and surprised with a reversal of a $437 million inventory writedown, a positive for the P&L. NST is focusing on controlling capital project costs and the processing mill ramp up at Thunderbox is a positive for Yandal operations. We continue to see value in NST as a high quality gold miner on track to achieve 27 Mtpa at its Kalgoorlie Consolidated Gold Mines (KCGM) operations.

Portfolio Performance

Detractors	Comment
Resmed Inc CHESS Depositary Interests on a ratio of 10 CDIs per ord.sh (RMD) -24.0%	RMD fell sharply in August, initially due to a weaker than expected 4Q23 result due to higher costs offsetting better growth and thereafter due to investor concern as to the unknown impact of weight loss drugs on the future market for obstructive sleep apnea treatment. Our initial view was that the market has materially overreacted to the weaker result. At current levels a significant market loss is factored in, on a 2-3 year view there is unlikely to be any impact and at this stage it looks like a very strong buying opportunity.
Coles Group Ltd (COL) -10.6%	COL's dissapointed with its latest update. Earnings and margins were impacted by cost pressures particularly wages and stock loss, the latter increasing over 20% in the period. Earnings were behind consensus expectations and the Ocado automated customer fulfillment centre implementation was delayed due to electrical grid issues. Inflation on some categories are moderating while inflation on groceries, bakery and dairy are all elevated and stubbornly high.
Telstra Group Limited (TLS) -3.9%	TLS's reported results that beat consensus expectations, aligned with their guidance. While its enterprise and data connectivity segments disappointed, other segments like mobiles performed well. Debt levels increased due to capital expenditure and the acquisition of Digicel Pacific. Debt serviceability is still above threshold levels but decreased by 11%. The company postponed selling InfraCo to focus on dividend growth, leading to a drop in the stock price for the month.

Portfolio Activity

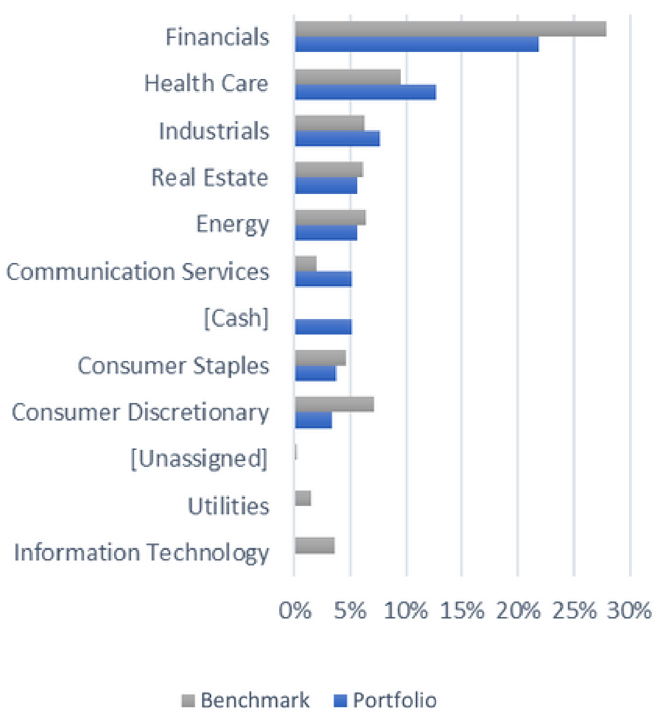
BUY	
Commonwealth Bank of Australia (CBA)	CBA continues to showcase resiliency, excelling in internal IT innovations and customer app developments. It maintains its preferred bank status across all segments and is making strides in high-margin business lending. Despite trading at a premium compared to its peers, this reflects market confidence in the stock due to its strong performance and alignment with overall market trends and was added to portfolios on this basis.
IPH Ltd. (IPH)	IPH is the largest intellectual property filer in Asia-Pacific, of which volumes are fairly consistent through the economic cycle. We are attracted to itsdefensive, reliable earnings stream and the long tenure of clients. The share price has been trading at a discount since a cyber incident in March, and post the full year result which beat consensus, management revealed there were no customer losses associated with the incident so we initiated a position within the portfolio.
Pilbara Minerals Limited (PLS)	PLS reported a strong FY23 result, noting sizable production growth supported by a healthy balance sheet of $3.3billion. Following recent share price weakness on the back of higher than expected capital expenditure numbers and short term softness in the lithium price, Clime has added to the position in portfolios. We continue to see value in PLS a pure-play lithium miner and view its P680 and P1000 project as significant medium term drivers of growth for the business.
Resmed Inc CHESS Depositary Interests on a ratio of 10 CDIs per ord.sh (RMD)	RMD has been sold off due to concerns relating to weak gross margins in the 4Q23 result and moreover the potential long term impact of weight loss drugs on the market size for its sleep apnea solution. We believe, the gross margin weakness was due to one-off factors and strong growth should be delivered over the next few quarters. Unfortunately, we will have to wait until March 2024 for the outcome of the Eli Lilly phase 3 trials assessing the weight loss drugs ability to combat sleep apnea related issues. At current levels close to 100% of the potential impact is factored in and we see the stock trading at decade lows relative to peers and market as a unique opportunity.
Macquarie Group, Ltd. (MQG)	We added to the MQG position as the medium and long term outlook continues to be supported by growth in both private and public markets particularly in its renewable related commodity global markets trading (CGM) and infrastructure and asset management (MAM) businesses. CGM which accounts for half of the groups profitability experienced solid growth of 54% in its FY23 results. Similarly MAM which drives a quarter of the groups profits reported a delay in realisation of profits in its infrastructure funds towards the second half of FY24 citing currently difficult market conditions.

SELL	
South32 Ltd (S32)	In S32's FY23 results, the company has reported significant cost and capital expenditure inflation across the business, with guidance indicating that this will continue into FY24. This is causing forecast margins to contract. The company's outlook is also facing headwinds from lower growth expectations out of China, which negatively influences the price of the key metals S32 produces. Given this outlook, we are exiting the S32 position from the portfolio and will reallocate capital towards investments with superior valuation upside.
Westpac Banking Corporation (WBC)	WBC featured in the press recently as ASIC launched legal action against the company for failing to respond to hundreds of customer requests for hardship assistance. Although not a large impact in terms of customer numbers, it emphasises concerns regarding system failures which follows on from their well publicised money laundering and fees for no service scandals in the recent past. The company reported disappointing cost outcomes in its recent full year results prompting an exit from the portfolio.
Sonic Healthcare Limited (SHL)	SHL has outperformed its healthcare peers, delivering a 9% increase in its share price. The group has benefited from recent merger and acquisition (M&A) activity, utilising excess debt capacity. With balance sheet capital now deployed, we look for organic growth to drive the share price, with headwinds from labour cost increases the outlook remains clouded. Trading at the upper end of its historical price earnings range we exit the position, seeing very attractive opportunities elsewhere in Australian healthcare.

Top 10 holdings (alphabetical)

ANZ Group Holdings Limited
BHP Group Ltd
Coles Group Ltd.
CSL Limited
James Hardie Industries PLC Chess Units of Foreign Securities
Macquarie Group, Ltd.
National Australia Bank Limited
Resmed Inc CHESS Depositary Interests on a ratio of 10 CDIs per ord.sh
Telstra Group Limited
Worley Limited

Sector Positioning



Portfolio metrics*

	Ralton	XKOAI^
# of Securities	*26*	*297*
Market Capitalisation	*71,541.0*	*72,992.3*
Active Share	58.5	--
Tracking Error	*2.81*	*0.00*
Beta	*0.91*	*1.00*
Est 3-5 Yr EPS Growth	1.8	2.5
ROE	*18.0*	*15.9*
Dividend %	4.15	4.37
P/E using FY2 Est	15.0	14.8
Price/Cash Flow	9.1	9.2

* 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.