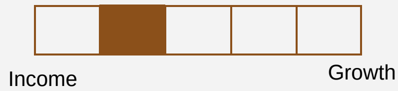
Ralton Dividend Builder

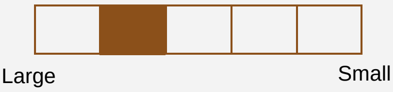
Monthly Portfolio Report | August 2023

Key facts

Income versus growth target



Market cap bias



Investment strategy

A portfolio of ASX-listed equities designed to provide attractive 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	**-3.08%**	**2.64%**	**4.48%**	**2.79%**	**10.75%**	**4.59%**	**7.92%**	**7.19%**
Income	*0.43%*	*0.76%*	*5.30%*	*4.41%*	*4.57%*	*4.60%*	*4.62%*	*4.88%*
Growth	*-3.51%*	*1.87%*	*-0.82%*	*-1.62%*	*6.18%*	*0.00%*	*3.30%*	*2.31%*
Index[2]	**-0.76%**	**3.88%**	**8.96%**	**2.45%**	**10.51%**	**6.99%**	**7.95%**	**6.04%**
Outperformance	**-2.32%**	**-1.24%**	**-4.48%**	**0.34%**	**0.24%**	**-2.40%**	**-0.03%**	**1.15%**

[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 Dividend Builder Portfolio underperformed the ASX300 Accumulated Index in August, returning -3.08%, versus the index return of -0.76%. We continue to focus on investing in companies with strong competitive advantages and valuation support which 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.
National Australia Bank Limited (NAB) 1.9%	NAB's recent report showed slower growth in impairment charges and non performaing loans, which is better than usual for the banking industry due to lagging impact from rising interest rates. Their net interest margins (NIMs) decreased because of tough competition in retail banking, but NAB chose to focus on its core, business lending capacbility, which saw growth. As a result, NAB's stock increased in the month, while other major banks declined. This suggests NAB's strategic focus is paying off amidst challenging market conditions.

Portfolio Performance

Detractors	Comment
IRESS Limited (IRE) -38.3%	IRE had a very disappointing August, with its 1H23 results coming in much softer than expected and leading to a downgrade of its FY23 guidance. Soft revenue, higher than expected costs and a suspension to its dividend were the key drivers. It wan't all negative news with its core Australian businesses performing and maintaining their dominant market positions. IRE expects to deliver further cost-out into FY24, with the potential sale of its 'non-core' businesses reducing pressure on its balance sheet. A clear business transformation is underway, however, it won't happen overnight.
Sonic Healthcare Limited (SHL) -8.5%	SHL has performed strongly, outperforming healthcare peers into its August result. The FY23 result marginally disappointed sending the stock lower in the month with higher costs from labour shortages impacting margins. SHL remains a high quality exposure to structural drivers with healthcare spend to grow year on year. With the balance sheet now deployed and valuation closing in on our estimate of fair value, the stock is under review.
Graincorp Limited Class A (GNC) -9.8%	GrainCorp saw some steam come out of its share price after ongoing machinations in the global grain market. August saw a steep correction in the commodities price on speculation around the Ukraine grain deal as well as a larger than forecast wheat crop forecast from Russia. We remain attracted to GNCs balance sheet optionality and, in our view, undervalued assets.

Portfolio Activity

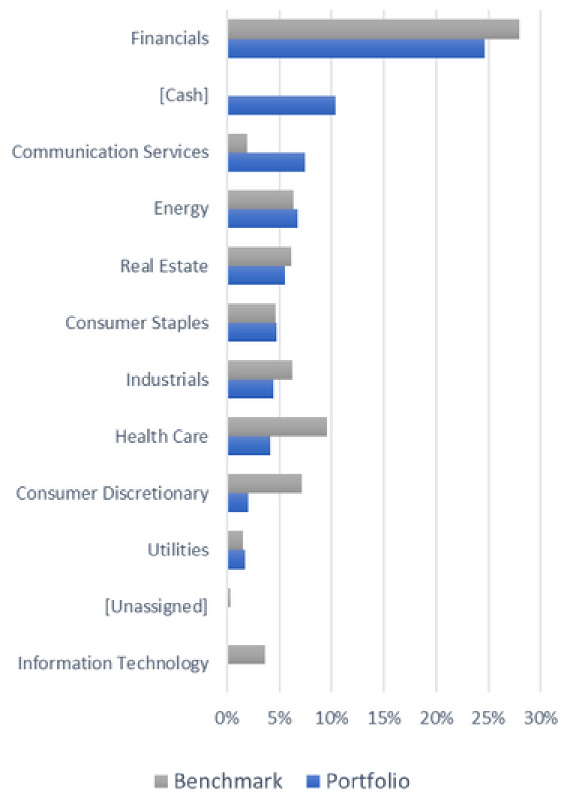
BUY	
GQG Partners, Inc. Shs Chess Depository Interests Repr 1 Sh (GQG.)	GQG is a founder led funds management group based in the US that specialises in active global equity strategies, with over USD98 billion in funds under managment (FUM). GQG's experienced investment team have a clear focus on investing in high quality companies with long-term earnings, minimising downside risk which has seen strong and consistent peformance. We took the opportunity during August to add a position in GQG as we view the company as structurally well positioned to benefit from FUM growth and fund performance as market conditions improve over time. The growth outlook is supported by a clean balance sheet with no debt, an undemanding valuation and an attractive ~8% dividend yield.
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.
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.
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.
Ampol Limited (ALD)	ALD has been added to the portfolio on the basis of its continued expansion through its renewable focused energy segment, possessing a fully franked dividend yield north of 5.5% along with its sustainably high free cash flow on the back of fuel demands and in line with the increasing price of crude oil on global supply cuts. ALD is a dominant player in the wholesale market with a 29% market share and a 15% share of the Australian retail fuel market.
SELL	
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.

SELL	
Worley Limited (WOR)	We trimmed our position to realise some profits on the basis of strong capital appreciation and dividend yield below our 4% threshold. Despite this, we remain positive on the stock which now has 41% sustainability related revenues, 77% of new sales pipeline in the renewable space and continued margin expansion (+6.5%). As a result we have upgraded our price target and consensus has similarly increased one year forward earnings per share expectations by 23%.
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.
James Hardie Industries PLC Chess Units of Foreign Securities (JHX)	JHX has surged in over the last quarter as the company delivered excellent operational execution amid a challenging US housing market. Post capital appreciation, we recycle capital into higher income paying opportunities, seeking a minimum 4% forward dividend yield, with associated franking.

Top 10 holdings (alphabetical)

- Amcor PLC Shs Chess Depository Interests
- ANZ Group Holdings Limited
- BHP Group Ltd
- Mineral Resources Limited
- National Australia Bank Limited
- QBE Insurance Group Limited
- Rio Tinto Limited
- Sonic Healthcare Limited
- Telstra Group Limited
- Woodside Energy Group Ltd

Sector Positioning



Portfolio metrics*

	Ralton	XKOAI^
# of Securities	*29*	*297*
Market Capitalisation	*65,831.7*	*72,992.3*
Active Share	64.2	--
Tracking Error	*3.55*	0.00
Beta	*0.88*	*1.00*
Est 3-5 Yr EPS Growth	1.7	2.5
ROE	*19.3*	*15.9*
Div% NTM	5.53	4.37
P/E using FY2 Est	13.4	14.8
Price/Cash Flow	7.7	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.