Ralton Leaders

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 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	**-1.51%**	**1.89%**	**5.14%**	**3.21%**	**12.32%**	**6.66%**	**8.68%**	**7.26%**
Income	*0.28%*	*0.56%*	*4.25%*	*3.59%*	*3.58%*	*3.71%*	*3.89%*	*4.27%*
Growth	*-1.79%*	*1.32%*	*0.90%*	*-0.38%*	*8.75%*	*2.96%*	*4.79%*	*2.99%*
Index[2]	**-0.70%**	**4.07%**	**10.24%**	**3.91%**	**11.52%**	**7.59%**	**8.21%**	**6.47%**
Outperformance	**-0.81%**	**-2.19%**	**-5.10%**	**-0.70%**	**0.80%**	**-0.93%**	**0.47%**	**0.79%**

[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 August, returning -1.51%, versus the index return of -0.7%. 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
Aristocrat Leisure Limited (ALL) 4.0%	ALL performed strongly through August. The company's market leading position continues to strengthen, driven by the performance of its leading Premium Leased games, uplift in its operator installed base, a more resillient consumer and positive trends in key casino revenues and on-floor gaming capital expenditure.
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.

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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.
APA Group (APA) -10.1%	APA reported largely expected consistent results typical of a diverse energy infrastructure business which has a high proportion of revenues and contracts regulated with inflation escalation protection measures. The business is investing for growth with pipeline expansion both on the east and west coasts in anticipation of increasing gas demand given the intermintancy of renewables that are lagging targetted rollout milestones. The business has recently purchased basslink and has announced purchase of the Alinta Pilbarra renewable asset. The stock was down -10.1% for the month largely on the back of an increase in shares outstanding +7.5% from the $750m equity raise for the Pilbarra asset.

Portfolio Activity

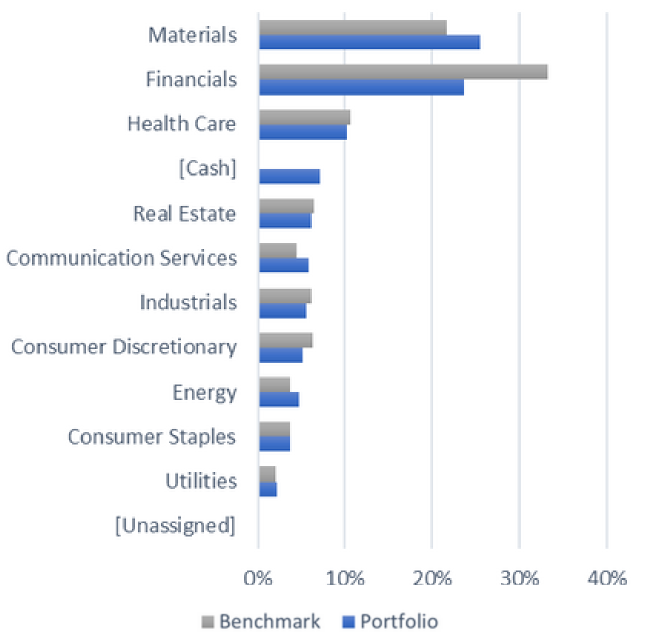
BUY	
Pilbara Minerals Limited (PLS)	PLS reported a strong FY23 result, noting sizable production growth supported by a healthy balance sheet of $3.3billion. Following recent share price weakness on the back of higher than expected capital expenditure numbers and short term softness in the lithium price, 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.
Domino's Pizza Enterprises Limited (DMP)	Following DMP's FY23 result, we took the opportunity to initiate a position as the company appears to have reached an inflection point following a strong rebasing of its costs and a more achievable path to growth as it rebuilds momentum in its network store sales. DMP should be a beneficiary of falling input costs, tighter cost controls following the closure of its non-profitable stores, a reduction in its global workforce and a redefined focus on new product development, value offering, quality and service. Additionally, the risk of a breach on its debt covenants or a capital raise now looks unlikely in FY24 given the estimated cost savings that will come through in FY24 and FY25.
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.
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	
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.
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.
Woodside Energy Group Ltd (WDS)	WDS has performed strongly, increasing 18% this calendar year. The company remains our preferred exposure given strong execution and organic growth driven by the acquisition of the BHP energy asset. However, we lighten the portfolio position into strength with the near term risk that increased capital expenditure might see the high dividend payout ratio may be reduced, disappointing investors.
Mineral Resources Limited (MIN)	The MIN position within the portfolio has been reduced to fund the initiation of a position in Pilbara Minerals Ltd (PLS-ASX). Our conviction in PLS as the preferred lithium pure-play exposure has increased. We continue to see value in holding MIN in portfolios with the successful ramp up of production at Wodgina and progress of the Onslow Iron Ore Project are key catalysts for the company.
Aristocrat Leisure Limited (ALL)	Aristocrat has performed strongly given a resilient consumer and continued evidence of a leading market position. Given the price strength, we reduce ALL to target weight. The company remains a high conviction position.

Top 10 holdings (alphabetical)

ANZ Group Holdings Limited
Aristocrat Leisure Limited
BHP Group Ltd
Coles Group Ltd
Commonwealth Bank of Australia
CSL Limited
Goodman Group
Macquarie Group, Ltd.
National Australia Bank Limited
Telstra Group Limited

Sector Positioning



Portfolio metrics*

	Ralton	XTOAI^
# of Securities	*28*	*98*
Market Capitalisation	*71,476.1*	*81,872.6*
Active Share	53.6	--
Tracking Error	2.75	--
Beta	0.97	*1.00*
Est 3-5 Yr EPS Growth	1.8	2.7
ROE	17.3	*15.7*
Dividend %	4.30	4.49
P/E using FY2 Est	15.0	15.1
Price/Cash Flow	9.1	9.3

* 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.