

Ralton Australian Equity Ex 50

Monthly Portfolio Report | December 2023

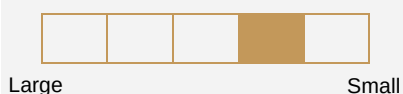


Key facts

Income versus growth target



Market cap bias



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	5.40%	5.41%	5.34%	-3.85%	0.69%	3.01%	5.76%	5.98%
Income	0.10%	0.31%	2.60%	2.57%	2.69%	2.51%	2.75%	3.32%
Growth	5.30%	5.11%	2.74%	-6.43%	-2.00%	0.50%	3.02%	2.66%
Index ²	7.23%	8.52%	7.82%	-6.19%	0.95%	6.40%	6.01%	2.36%
Outperformance	-1.83%	-3.11%	-2.48%	2.34%	-0.26%	-3.38%	-0.25%	3.62%

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 underperformed the ASX Small Ordinaries in December, returning 5.4%, versus the index return of 7.23%. 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

Lycopodium Limited (LYL)
11.9%

LYL won three significant contracts during December that sent the share price 11.85% higher. The contracts include the Lumwana Copper Mine Expansion contract in Zambia worth AUD 19 million, the engineering, procurement, construction management (EPCM) contract for the Yanqul Copper Gold Project in Oman worth AUD 45 million and the EPCM contract for Baomahun Gold project in Sierra Leone worth AUD 100 million. LYL continues to trade at an undermanning multiple with material insider ownership.

Detractors (cont.)

Comment

Praemium Ltd (PPS)

PPS provided the market with a trading update at its AGM in late November. It revealed a significant increase in planned investment, an increase in one-off costs and a slight deterioration in platform revenue margins. This increased investment caught the market by surprise and sent the share price lower. The update was disappointing and calls into question the ability of Praemium to stay competitive with its two larger peers, Hub24 and Netwealth.

Light & Wonder, Inc. Shs Chess Depository Interests Repr 1 Sh (LNW)

Following a strong few months of performance, LNW took a breather in December. We continue to remain attracted to the long-term opportunity on offer by LNW supported by its highly capable management team, refreshed balance sheet, robust consumer and content led portfolio with enviable margins.



Portfolio Activity

BUY

Karoon Energy Ltd (KAR) KAR is a high growth emerging oil and gas producer, which has completed an earnings accretive acquisition in the Gulf of Mexico. The acquisition will increase production by 50% and decrease total costs per barrel by 15%, while reducing geographic risk. We have taken advantage of short term weakness in the oil price and the recent capital raise to initiate a position.

Australian Ethical Investment Ltd (AEF) AEF is strategically positioned to capitalise on the rise in superannuation contributions to 12% by the 2025 financial year. Additionally, strong market performance in 2023 has contributed to an increase in their funds under management (FUM) through consistent inflows. The 2024 outlook further strengthens this position as expectations of rate cuts build up, allowing AEF to enhance their margin and overall financial performance.

Lycopodium Limited (LYL) Our conviction in the outlook for LYL continues to grow, underpinned by a strong study pipeline which is a forward indicator for future contracts. We initiated on LYL in December, ahead of further contract win announcements which has since driven the share price higher. Despite the recent rally, LYL valuation remains undemanding compared to peers. With material insider ownership and currently trading on a near 7% forward dividend yield we are confident in the stocks outlook.

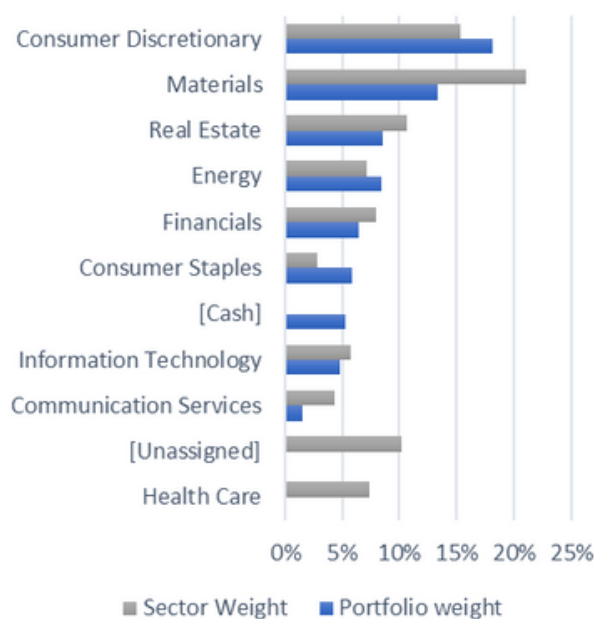
SELL

Praemium Ltd (PPS) Post the trading update provided at its AGM, we have sold our position in Praemium. The poor quality and subsequent read through of the result was all the more evident when comparing flows, margins and operating expenditure growth to its peers, Hub24 and Netwealth. Whilst all three players typically track in a tight, relative range of each other – it now appears that Praemium has slipped in terms of net flows, likely as the result of underinvestment in the platform. Further, with some of PPS's largest clients experiencing company specific issues, we see further downside risk materialising.

IRESS Limited (IRE) Our decision to divest from IRE was guided by the significant appreciation in the stock value during November and December, with returns exceeding 80%. This surge brought the stock's price close to our assessed intrinsic value, leaving limited upside potential. While IRE showed promising operational updates, including the successful divestment of MFA and a reduction in net debt, its forward-looking targets and cost management strategies did not sufficiently counterbalance the limited growth prospects at the current valuation. With the stock's valuation closely aligning with our assessment, we seized the opportunity to realise gains and reallocate capital to potentially more lucrative opportunities.

Sector Positioning

Portfolio Positioning



Top 10 holdings (alphabetical)

Centuria Industrial REIT	Perenti Limited
Hansen Technologies Limited	PEXA Group Limited
IGO Limited	Ridley Corporation Limited
IPH Ltd	Steadfast Group Limited
Nick Scali Limited	Worley Limited

Portfolio metrics*

	Ralton	XSOAI [^]
# of Securities	36	201
Market Capitalisation	3,140.4	3,466.9
Active Share	89.0	--
Tracking Error	5.50	0.00
Beta	0.84	1.00
Est 3-5 Yr EPS Growth	14.3	7.2
ROE	13.7	9.1
Dividend %	2.77	2.69
P/E using FY2 Est	14.2	13.9
Price/Cash Flow	8.5	8.4

* 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 in an index.