Ralton Concentrated Australian Equity

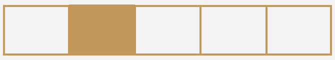
Monthly Portfolio Report | January 2024

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	**1.37%**	**12.04%**	**0.78%**	**8.05%**	**8.66%**	**7.30%**	**8.18%**	**7.13%**
Income	**0.11%**	*0.90%*	*3.75%*	*3.50%*	*3.70%*	*3.57%*	*3.76%*	*4.08%*
Growth	*1.26%*	*11.14%*	*-2.97%*	*4.55%*	*4.97%*	*3.73%*	*4.41%*	*3.04%*
Index[2]	*1.10%*	**13.89%**	**6.66%**	**9.11%**	**9.27%**	**9.67%**	**8.36%**	**6.29%**
Outperformance	**0.27%**	**-1.85%**	**-5.88%**	**-1.06%**	**-0.61%**	**-2.38%**	**-0.18%**	**0.83%**

[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 outperformed the ASX300 Accumulated Index in January, returning 1.37%, versus the index return of 1.1%. 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.

Macro Comment

After a very strong Santa rally in December, markets consolidated to end January a touch higher. Good performance in asset markets was driven by inflation falling faster than expectations, recession forecasts subsiding, bond market yields retreating, and central banks pivoting from raising rates to thinking about when rates might be lowered. The AUD slipped lower over the month, from around USD 0.68 to close at around USD 0.657.

The ASX 200 Accumulation Index rose by +1.18% during January, somewhat less than most other developed markets. The US economy has shown surprising strength, with US shares achieving all-time record highs. European markets generally rose, while Japan’s Nikkei 225 climbed +8.44% over the month. In contrast, the MSCI China index fell close to -12%, reflecting the crisis in the Chinese real estate sector and disappointment with their economic recovery post the pandemic.

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Key themes in January

Oil prices moved +5% in January on the escalating tension in the Red Sea. As a result, the energy sector was the strongest performer, up +5.2%. The portfolio benefited from its overweight position in Woodside (ASX: WDS).

Financials returned +4.9%, led by Insurance names +5.9%. The gains were broad-based across the sector, with portfolio holdings QBE and MPL both returning over +7% for the month. We believe the strength for Insurers was a mean-reversion, since the sector performed poorly in late 2023, when lower bond yields drove a rotation out of the sector.
Healthcare was strong and Resmed (ASX: RMD), a key overweight, surged +14.78% in January. A combination of RMDs key competitor Philips' continuing to struggle in the home ventilator market, and the fading GLP-1 narrative has refocuses attention on RMD seeing the stock re-rate.

The Metals & Mining sector was the worst performer in January, down -5.7%. Weak China sentiment and a stronger US Dollar were headwinds for commodities. Gold performed particularly poorly, with our exposure to gold miner Newmont (ASX: NEM) detracting from performance for the month. Lithium producers, including portfolio holding Mineral Resources (ASX: MIN) continued to face challenges, as the price of the commodity remains under pressure.
Resilient consumer behavior is proving advantageous for high-quality consumer discretionary companies. Some retailers have released strong trading updates, featuring margin expansions which urprised a more conservative market expectation. Portfolio holding Jumbo Interactive (ASX: JIN) has found recent momentum from the $200 million jackpot, which places the company in a good position to keep growing for the remainder of FY24.

Investors are increasingly favouring cyclical stocks, whose performance is linked to the economic cycle, as concerns about the macro-outlook wane. Falling interest rate expectations have caused valuations on high growth stocks to increase, as a result Australian growth marginally outperformed value for the month.

Looking ahead

We remain optimistic for the domestic economy, supported by strong migration and signs that the housing market has started to recover. We anticipate company earnings to benefit from an improvement in economic confidence. As we enter the February reporting season, we are confident in the positioning of the portfolio. We have conducted extensive fundamental research on our watchlist and believe that it may lead to some promising additions.

Portfolio Performance

Contributors	Comment
Resmed Inc CHESS Depositary Interests on a ratio of 10 CDIs per ord.sh (RMD) 14.8%	RMD, a key overweight across our portfolios surged in January. Despite a modest earnings beat, its prior weak trading position amplified the positive impact of even slight outperformance. The fading GLP-1 narrative refocuses attention, crucial for the stock re-rating to its historical price to earnings (PE). Competitor Philips' exit from the home ventilator market further benefits RMD, potentially increasing its FY25 net profit after tax (NPAT) forecasts by 8%. Overall, RMD's attractive valuation and shifting investor sentiment underpin its strong performance and ongoing potential.
Jumbo Interactive Limited (JIN) 12.9%	JIN's leading position as a reseller of OzLotto and Powerball tickets, coupled with extensive market experience since the early 1990s, has resulted in steady growth. With a compelling valuation and recent momentum from a $200 million jackpot, JIN is well-positioned for continued growth throughout FY24.
CSL Limited (CSL) 5.3%	CSL's shares climbed in January, buoyed by the markets easing GLP-1 drug concerns. We maintain a bullish stance on CSL, anticipating their resilient portfolio to drive double-digit earnings growth in FY24 and beyond. Improvement in gross margins is expected from various initiatives. Additionally, the impending results of the extensive $1 billion CSL-112 cardiovascular drug trial, involving 18,000 patients over 7 years, could unlock a multi-billion-dollar opportunity if successful.
Detractors	**Comment**
Newmont Corporation Registered Shs Chess Depositary Interests Repr 1 Sh (NEM) -13.2%	The NEM share price has performed poorly post acquisition of Newcrest Mining, as operational setbacks at Brucejack and Telfer along with currency moves relative to Australian gold miners created headwinds. There is also market uncertainty for the 2023 full year results, potential resource revisions and changes to capital projects. We continue to view NEM as a high quality gold miner approaching 5-year price to earnings lows offering a quarterly dividend north of 4.5% p.a.
Worley Limited (WOR) -15.1%	Recent weakness in the WOR share price is due to short term concerns from the pause of a large US gas contract on which WOR consults, along with its broader sales pipeline. The share price has declined further than the relative earnings impact of potential contract delays and this has created an opportunity for us to add to the WOR position which we see as a high quality company with long term growth.
Mineral Resources Limited (MIN) -14.4%	Cyclically weak lithium prices have downgraded the earnings profile of MIN, and taking advantage of the price strength post its December 2023 quarterly announcement we have since exited the position. PLS will remain in the portfolio at a small weight, and is our preferred name for exposure to lithium due to its decreasing cost base and stronger balance sheet.

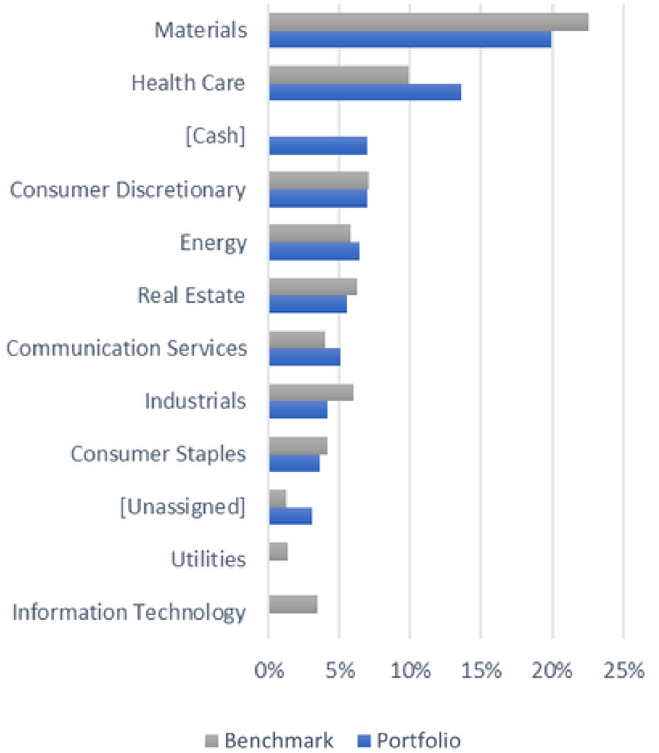
Portfolio Activity

BUY	
Light & Wonder, Inc. Shs Chess Depository Interests Repr 1 Sh (LNW)	Following a strong run of performance, LNWs share price experienced a pullback. After several channel checks it was evident to us that this was nothing operational, conditions in the key North American land-based segment remain positive and gaming performance data suggests that LNW can continue to drive market share gains. We attribute the recent weakness to some profit taking and also the AUD translation impact. This opportunity enabled us to increase our position across the portfolios underpinning our conviction in LNW.
SELL	
Mineral Resources Limited (MIN)	We have exited MIN on price strength post the reporting of its December 2023 quarterly. Cyclically weak lithium prices have downgraded the earnings profile of MIN, and due to its sizable debt position the company's balance sheet is stretched. We have decreased total portfolio exposure to lithium with PLS to remain in the portfolio at a small weight. Clime is optimistic on the growth outlook for mining services which is a high quality division of MIN, however we will seek exposure to this thematic through investments in pure play mining services businesses.
CSL Limited (CSL)	CSL Limited has been a strong performer over the last quarter increase 20%+ from its lows. The Healthcare sector as a whole was sold off in 2023 as investors pivoted to growth, creating an opportunity for Clime to add to its position. With strong recent performance we reduce our exposure however still remain convicted in the company's strong outlook and core position in the portfolio.
ANZ Group Holdings Limited (ANZ)	ANZ's mortgage market share has increased off the back of their recent strategy which saw them aggressively pushing lower rates on their products. However, early indications are pointing to net interest margin pain due to lower refinance volumes versus other banks. Over the December quarter, the bank's share price rallied well and we are taking the opportunity to bring the ANZ allocation down to a market neutral position.

Top 10 holdings (alphabetical)

ANZ Group Holdings Limited	National Australia Bank Limited
BHP Group Ltd	Resmed Inc CHESS Depositary Interests on a ratio of 10 CDIs per ord.sh
Coles Group Ltd.	Rio Tinto Limited
CSL Limited	Telstra Group Limited
Macquarie Group, Ltd.	Woodside Energy Group Ltd

Sector Positioning



Portfolio metrics*

	Ralton	XKOAI^
# of Securities	*27*	*296*
Market Capitalisation	*84,518.1*	*81,107.6*
Active Share	55.9	--
Tracking Error	*2.86*	--
Beta	*0.87*	*1.00*
Est 3-5 Yr EPS Growth	6.3	3.8
ROE	*17.2*	*15.8*
Dividend %	3.95	3.88
P/E using FY2 Est	16.5	16.1
Price/Cash Flow	10.1	10.1

* 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.