Ralton Leaders

Monthly Portfolio Report | February 2024

RALTON ASSET MANAGEMENT

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	**-0.28%**	**5.82%**	**2.74%**	**5.79%**	**7.56%**	**7.49%**	**8.26%**	**7.22%**
Income	*0.16%*	*0.41%*	*3.78%*	*3.60%*	*3.71%*	*3.52%*	*3.84%*	*4.25%*
Growth	*-0.44%*	*5.41%*	*-1.04%*	*2.19%*	*3.86%*	*3.97%*	*4.42%*	*2.97%*
Index[2]	**0.89%**	**9.39%**	**10.84%**	**9.68%**	**10.13%**	**9.16%**	**8.19%**	**6.74%**
Outperformance	**-1.17%**	**-3.57%**	**-8.10%**	**-3.89%**	**-2.56%**	**-1.67%**	**0.08%**	**0.48%**

[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 February, returning -0.28%, versus the index return of 0.89%. 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
Worley Limited (WOR) 12.9%	WOR has performed strongly during the month as contract pipeline concerns unwound, and the company reaffirmed its order book outlook with investors at the half yearly result. Clime met management post the half yearly result, and retain conviction in WOR's ability to deliver both margin expansion and contract growth through its market leading position in the sustainability engineering space.
Nextdc Limited (NXT) 25.9%	NXT delivered strong performance over the month following a better than expected 1H24 result. Despite no new hyperscale contracts announced, the enterprise wins have contributed to a positive outlook, unpderinning managements expectations of record contract wins in FY24. We see NXT as the most pure play on the ASX for exposure to long-term growth thematics such as cloud computing and artificial intelligence (AI), positioning it well for continued momentum as its performance aligns with its strategic expansion plans and strong forward order book.
Pilbara Minerals Limited (PLS) 18.3%	PLS was a key contributor during the month, and has rebounded from oversold lows as rallying lithium futures in China and sentinment of a potential bottoming of of the lithium price has aided investor sentiment. We continue to view PLS as the highest quality miner for pure play exposure to lithium and retain a small exposure in portfolios.

Detractors	Comment
Newmont Corporation Registered Shs Chess Depositary Interests Repr 1 Sh (NEM) -12.8%	NEM's weak share price during the month reflected investor caution coming into the half yearly result, and subsequently 2024 production guidance missed relative to expectations. NEM additionally announced 6 assets it intends to divest, and its plan to prioritise tier-1 assets going forward. NEM remains a high quality gold and copper miner, with clear valuation upside as investors digest the new mine portfolio post the acquisition of Newcrest Mining.
Nine Entertainment Co. Holdings Limited (NEC) -13.1%	NEC's poor performance reflects both weaker advertising market conditions and challenges with the free to air television division. Over time it's expected that growth from the streaming service Stan and the Domain website will incrementally increase as a percentage of revenue split and offset the lagging business segments. We view this opportunity as a driver of improving earnings quality over time, and NEC continues to trade at an undemanding valuation.

Portfolio Activity

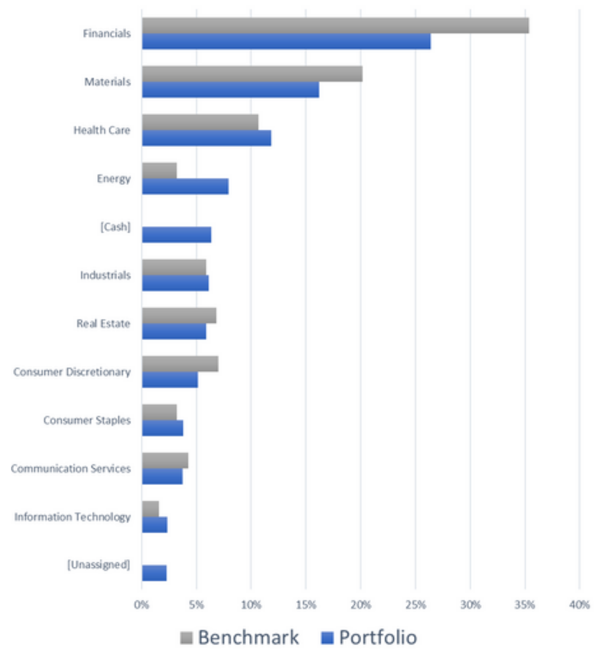
BUY	
Nextdc Limited (NXT)	MND is a top-tier construction, maintenance, and industrial service provider in the resource, energy, and infrastructure sector. The group stands out for its exceptional project delivery and margin delivery. We initiated a position in MND, as we see the group benefiting from increased activity due to a decade-long investment lag in mining and energy, amidst high commodity prices, we anticipate a 3–4-year phase of significant earnings growth and margin expansion.
Seven Group Holdings Limited (SVW)	Ampol (formerly Caltex) is the largest integrated fuels company in Australian and New Zealand. Over the last 5 years the company has pivoted its strategy to increase the consistency of returns through geographic expansion and further integration into the fuels supply chain. The result has been a strengthening growth outlook delivered through margin expansion. Recent result have highlighted strong returns from an improved convenience offer, benefiting from a resilient domestic consumer. The February 24 result was a beat to expectations with investors to benefit from a surprise special dividend. Ampol continues to improve the quality of its earnings, combined with a strengthening growth outlook and further balance sheet capacity we have initiated a position in the portfolio.
Worley Limited (WOR)	The recent price weakness in WOR is due to short term concerns with the company's sales pipeline, specifically a large US gas contract. The share price has declined further than the relative earnings impact of a contract delay which has created an opportunity to add to our position. We continue to view WOR as a high quality company with the ability to expand its margins and sustain long term growth.
Commonwealth Bank of Australia (CBA)	CBA's 1H24 update surpassed market expectations, demonstrating robust top-line revenue growth and bottom-line cash profit. Despite a reduction in overall book size, the bank increased its share of interest income, highlighting its franchise power and maintaining a favourable risk/reward profile. The provision for credit losses came in 20% lower than consensus, aligning with their risk management approach. While CBA's current price-to-earnings ratio for FY24 earnings is relatively high at 19.7 times, their strong track record in managing capital and focus on maintaining return on equity through prioritising margin over volumes justify the valuation. As a result, we are increasing our position in CBA to address our underweight stance relative to the market.

SELL	
Amcor PLC Shs Chess Depository Interests (AMC)	AMC's half yearly result showed that management had made good headway through their cost reduction program. While this has helped protect margins, the earnings still came in slightly below our expectations. There remains uncertainty around the volume outlook for the balance of the year, and we do not see much catalysts for upside. We have decided to exit and reallocate the proceeds to other opportunities.
National Australia Bank Limited (NAB)	NAB is experiencing a decline in market share within the business lending segment, which has traditionally been a key growth driver for the bank. The prevailing consensus suggests that NAB's net interest margin (NIM) is expected to contract by a lesser degree than CBA's, however, the likelihood of NAB meeting this expectation is diminishing, as indicated by the data from CBA's 1H24 results. In terms of valuation, NAB currently trades with a 5.08% dividend yield for the next twelve months, positioning it as the second most expensive bank in the market. To better align with our confidence in NAB's future returns, we are reducing the position, bringing the allocation closer to the market weight.
Telstra Group Limited (TLS)	During the month we reduced our positioning in TLS to fund the initation of opportunities offering greater upside within the portfolio. We remain positive on the overall outlook for TLS, driven by solid performance within its Mobile and NBN segments, with key upside on offer from contracted annual mobile price rises beyond FY25.

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
Woodside Energy Group Ltd

Sector Positioning



Portfolio metrics*

	Ralton	XTOAI^
# of Securities	*28*	*98*
Market Capitalisation	*85,547.6*	*89,756.2*
Active Share	52.7	--
Tracking Error	2.39	--
Beta	0.96	*1.00*
Est 3-5 Yr EPS Growth	5.4	4.0
ROE	14.2	*15.4*
Dividend %	4.04	3.99
P/E using FY2 Est	16.4	16.1
Price/Cash Flow	10.9	11.0

* 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.