Total returns

At 31 January 2018	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Inception % p.a. (Feb 2008)
Ralton High Yield Australian Shares	-0.58	1.87	4.88	11.44	8.59	11.99	11.10	*8.14*	8.14
Income return	*0.07*	*0.85*	*2.41*	*4.64*	*4.48*	*4.60*	*4.82*	*4.93*	*4.93*
Growth return	*-0.64*	*1.03*	*2.47*	*6.80*	*4.11*	*7.38*	*6.28*	*3.21*	*3.21*
S&P/ASX 300 Accum. Index	-0.39	3.18	8.16	12.37	7.47	8.99	8.05	*5.17*	5.17
Difference	**-0.18**	**-1.30**	**-3.28**	**-0.93**	**1.11**	**2.99**	**3.05**	*2.97*	**2.97**

Performance review

- The S&P/ASX 300 Accumulation Index started the year in negative territory, falling 0.39% for January. Health Care and Information Technology were the top performing sectors, with Utilities and Industrials the main detractors for the period.
- The Ralton High Yield portfolio returned -0.58% for the month, underperforming the benchmark by 0.18%.
- At a sector level, our stock selection being underweight Health Care was the main detractor from portfolio returns.

Performance attribution

January is typically a quiet month for stock-specific news flow in Australia as corporates take holidays and companies prepare for the February reporting period. Many of the portfolio's top and bottom performers for January appeared to move on either external factors, or in the absence of any company-specific news flow.

Key contributors

Key contributors	Positioning
Boral Limited	Overweight
Computershare Ltd	Overweight
Tassal Group Limited	Overweight

Boral Limited (BLD, +2.7%) – despite the headwind of a rising Australian dollar, BLD shares continued to rise in January. The upcoming first-half profit results will be an important one for BLD as it represents the first full period during which BLD has owned the US Headwaters business. CEO Kane's ability to confirm synergy targets and progress to date with the integration will be critical for future profit growth and investors' view of BLD.

Computershare (CPU, +2.5%) – shares in CPU added value to the portfolio during the month. Although there was no company-specific news flow, rising global interest rates will have been the key support for the CPU share price. CPU holds billions in client cash (for dividends, IPO or rights proceeds etc.) and is generally entitled to receive the interest on the cash balance. While this is not the key driver for investment in CPU, the upside from rising interest rates has always been there as a benefit which could emerge at some point. Finally, we continue to like CPU given its positive drivers in the current environment including its productivity agenda, improved capital allocation, growth businesses such as mortgage processing services and the benefits accruing from rising interest rates.

Tassal Group Limited (TGR, +4.5%) – salmon producer Tassal added value for January, although to be fair, the stock has been somewhat range-bound in recent months. In fact, the last 12 months has been somewhat challenging for Tassal. TGR raised $100m via a capital raise from investors in March 2017, and will use the proceeds to buy more equipment, increase its inventory of fish and stake out future lease opportunities. Tassal has also been dogged by environmental concerns with issues at Macquarie Harbour in Tasmania forcing it and other producers to limit the amount of salmon in this waterway. Macquarie Harbour is only a modest portion of TGR's fish farms, but negative publicity has certainly weighed on investor sentiment and no doubt, management's time. We remain confident in TGR's fish husbandry practices, and indeed its social licence to operate. We look to the upcoming February results to somewhat clear the air on these issues, confirm solid operating trends and highlight, what we believe, is a good medium-term investment proposition around the growth in salmon demand and potential to lift.

Key detractors

Key detractors	Positioning
Healthscope Limited	Overweight
Lendlease Group	Overweight
Pact Group	Overweight

Healthscope Limited (HSO, -8.1%) – was the portfolio's worst contributor for January, giving back much of the share price gains from the prior quarter. We see HSO as a turnaround opportunity under new CEO Gordon

Ballantyne. With Ballantyne having reset near-term earnings last year after becoming CEO, the upcoming half-year results in February are important for investors as we look for the CEO to now stand by the targets he set. This is not just in relation to profit guidance, but also around his plans for non-core assets and some firmer targets around the cost-out opportunities he has identified. We also gained confidence in its largest development project from attending the recent site tour of the Northern Beaches Hospital site in Sydney. The hospital is set to open later this year and it appears to be on track for the intended opening schedule. In the medium term, we believe this hospital represents an excellent investment opportunity for shareholders.

Pact Group (PGH, -6.7%) - shares in packaging specialist PGH drifted lower in January, following a challenging 2017 for PGH. The key headwinds for PGH last year were weak volume demand from the domestic economy, rising input (energy) costs and finally PGH's decision to reset various customer contracts at the cost of profit margin. This last point was a surprise from our vantage. The positives however, were sensible acquisitions, the start of the Woolworths crate pallet contract and ongoing lean manufacturing efforts which have improved the cost base for PGH's manufacturing assets. At year end, PGH announced its expansion into various Asian packaging markets. Already in Indonesia and China, PGH has now signaled its intention to pursue these markets with more intent. Assuming the headwinds we highlighted have somewhat run their course, we expect PGH will continue to offer a solid investment opportunity with an attractive yield.

Lend Lease (LLC, -3.1%) – shares in LLC finished the month lower, impacting on portfolio performance. As a property funds manager, the valuation of its managed assets and direct investment is, in part, influenced by long-bond yields. We have seen a substantial move higher in global long-bond yields over the past few months, with an acceleration during January. In our view, the rise in bond yields globally and lingering concerns about further potential losses from incomplete construction projects in Australia has weighed on the LLC share price. As we have previously highlighted, LLC downgraded expectations for its Australian Construction business in mid-October. This was a negative for our investment thesis given it will now take much longer for this division to return to earning an appropriate margin, despite the very favourable infrastructure pipeline. For these reasons, we also elected to trim our holding in LLC during January.

Portfolio changes

Key additions and material adjustments

We did not add any new stock to the portfolio during the month.

Bought
Nil

Key disposals and material adjustments

Sold
Regis Resources (RRL)

We exited our holding in **Regis Resources (RRL)** during the month. The rising gold price, strength in the share price and strong operating performance of the group was capturing what we believe to be an appropriate valuation for RRL, factoring the long mine life of key assets and, in our eyes, an appropriate discount rate. The next upside for RRL comes from its material investment opportunity in the MacPhillamy's project which is still some way off. As such, we elected to dispose of the position and deploy the proceeds into other attractive yield opportunities.

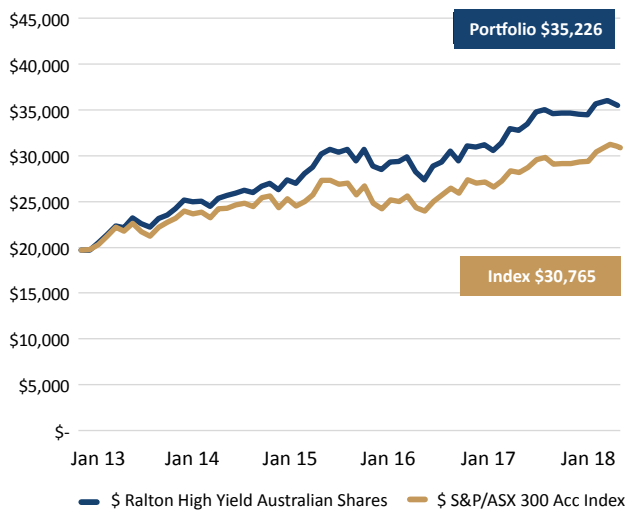
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Staples	13.2%	7.5%	5.7%
Consumer Discretionary	6.3%	4.9%	1.5%
Materials	19.0%	17.9%	1.1%
Utilities	2.8%	1.9%	0.9%
Information Technology	2.9%	2.1%	0.8%
Health Care	7.9%	7.3%	0.6%
Telecommunication Services	3.5%	3.1%	0.4%
Real Estate	7.7%	8.0%	-0.2%
Energy	3.5%	5.2%	-1.7%
Financials	33.1%	34.8%	-1.7%
Industrials	0.0%	7.3%	-7.3%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
BHP Billiton Limited	BHP
ANZ Banking Group Limited	ANZ
National Australia Bank	NAB
Westpac Banking Corp	WBC
Woolworths Group Ltd	WOW
Aristocrat Leisure	ALL
Vicinity Centres	VCX
Boral Limited	BLD
Commonwealth Bank of Australia	CBA
Telstra Corporation	TLS

Performance comparison of $20,000*



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Performance of the Ralton Wholesale High Yield Australian Shares Model Portfolio is based on a model portfolio and is gross of investment management and administration fees, but net of transaction costs. The total return performance figures quoted are historical and do not allow the effects of income tax or inflation. Total returns assume the reinvestment of all portfolio income. Past performance is not a reliable indicator of future performance.

*The performance comparison of $20,000 over 5 years is for illustrative purposes only. Performance is calculated on a gross basis. Actual performance will vary depending on the amount of fees charged by the relevant platform that a client uses to implement the portfolio. The comparison with the S&P/ASX 300 Accumulation Index is 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. There is no guarantee these objectives will be met.

#Portfolio holdings may not be representative of current or future recommendations for the portfolio. The securities listed may not represent all of the recommended portfolio's holdings. Future recommended portfolio holdings may not be profitable.