Total returns

At 31 March 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	-3.24	-3.53	2.45	1.43	4.99	10.49	10.33	*8.34*	7.68
Income return	*0.56*	*1.43*	*2.22*	*4.40*	*4.47*	*4.60*	*4.81*	*4.95*	*4.99*
Growth return	*-3.80*	*-4.96*	*0.22*	*-2.97*	*0.52*	*5.89*	*5.51*	*3.39*	*2.70*
S&P/ASX 300 Accum. Index	-3.73	-3.78	3.67	2.86	3.92	7.62	7.06	*5.25*	4.73
Difference	**0.48**	**0.25**	**-1.23**	**-1.43**	**1.07**	**2.87**	**3.26**	*3.09*	**2.95**

Performance review

- The S&P/ASX 300 Accumulation Index returned -3.78% for the March quarter, with Health Care and Consumer Staples the top performing sectors and Financials and Materials the main detractors for the period.
- The Ralton High Yield portfolio returned -3.53% for the quarter, outperforming the benchmark by 0.25%.
- At a sector level our stock selection being underweight Health Care was the main detractor from portfolio returns. Being underweight Financials added relative value to the portfolio.

Performance attribution

Key contributors

Key contributors	Positioning
Computershare	Overweight
Aristocrat Leisure	Overweight
Japara Healthcare	Overweight

Computershare (CPU, +6.20%) – has again been the top performing stock in the portfolio during the quarter after delivering strong half-year financial results and benefiting from a continued move higher in global interest rates. CPU upgraded guidance with its results for a second time in recent months following solid momentum in its mortgage servicing business, an improved outlook for corporate actions revenue, improving margin income on its cash balances (given rising interest rates) and continued disciplined cost management. Of interest was the comment that CPU may not derive much benefit from the change in the US tax rate given the loss of various other deductions. Also, on the positive side, the continued evolution of automation and robotics for repeatable processes looks to offer more cost reduction opportunities into the future. We expect to hear more from them on this front at their upcoming investor day.

Aristocrat Leisure (ALL, +1.52%) – was a positive contributor to the portfolio during the quarter, with the key driver of its performance during February being the release of industry data which supported the favourable earnings momentum in its US business. For ALL, the next six months will be about investors becoming more comfortable with its investments in its Digital segment. After the acquisition of Big Fish and Plarium and ongoing organic growth in its own Digital business, this segment will represent almost 40% of revenue in FY19. In the current half year, ALL should see the benefit from the release of the much-anticipated Dragon Link (the early data looks positive) and the signs of how its new stepper product has been received. ALL will also be a beneficiary of the recent US tax cut.

Japara Healthcare (JHC, +2.55%) – provided a good return for the quarter as investors took comfort from management delivering on its guidance from November. The key pressure point for JHC over recent periods was the fall in government reimbursement and substantial rise in labour costs across its portfolio. The market appears to be more comfortable with these issues now and the benefits of a cost reduction strategy will continue to come through in 2H18 and into FY19. From our perspective, we can see improvements in the company's operating performance. However, we were less impressed with JHC's guidance that it will continue to complete the vast bulk of its aged care development projects on balance sheet over the next few years. We had expected them to use funding partners to look at a good number of these. We will continue to monitor how these plans evolve.

Key detractors

Key detractors	Positioning
Vicinity Centres	Overweight
Telstra Corporation	Overweight
Tabcorp Holdings	Overweight

Vicinity Centres (VCX, -11.40%) – underperformed during the quarter after delivering subdued retail sales metrics as well as facing the valuation implications of rising long-bond rates. The retail environment is facing challenging conditions due to low domestic income growth for households suppressing spending, and retail tenants having committed to pay rents that cannot be justified in such a soft retail environment. This will take time to work through, however, with VCX continuing to trade at a substantial discount to NTA, continuing to re-develop its high-grade centres such as Chadstone and the ongoing

divestiture of its lower grade centres at attractive prices, we believe it continues to be reasonably well positioned to work through its issues. We would become more cautious on the outlook if we felt domestic long-rates were likely to move sharply higher.

Telstra Corporation (TLS, -13.50%) – was a drag on portfolio performance during the quarter, and this was driven by two unrelated matters. Firstly, the opposition announced proposed reform to the dividend imputation system to close a concession in the event they win office. This saw a number of the companies which pay substantial franked dividends underperform during March, including Telstra. Secondly, in February, Telstra delivered an uninspiring profit result, but it did manage to maintain its dividend guidance. TLS is experiencing massive change in its underlying business as the government seizes its core fixed-line network business and transfers the customers to its own network, the NBN. The peak shift of customers is underway at present and the market is intensely competitive with the margins on the NBN appearing unsustainably low. Simultaneously, the group is investing in its other businesses to drive growth to offset the lost earnings from the NBN. The group is also working to remove $1.5bn+ in costs which will also assist on this front. The TLS that emerges from the other side of this transition will be very different, with a strong balance sheet (subject to the level of capital return) and a dramatically improved operating platform. However, there will be a lot of noise as we move through three halves which cover the key period for the transfer of customers to the NBN.

Tabcorp Holdings (TAH, -21.33%) – underperformed for the quarter after it delivered a soft result for 1H18. However, the performance of the company going forward will really be determined by the success of the merger with Tattersalls. The merger expands the breadth of the TAH offering to include the stable lotteries business and a substantially enlarged wagering business. Tattersalls had been far less adept at moving its wagering business into the digital realm, and this provides significant opportunity for TAH to improve the acquired operations. There are substantial regulatory reforms in train across the states which will also provide tailwinds for the TAH wagering business as we move forward.

Portfolio changes

Key additions and material adjustments

Bought
OFX Group Ltd (OFX)

We acquired a position in **OFX Group** after it held its investor day earlier in the quarter. OFX's core business is online foreign currency transfers, targeting quality service at far lower cost to the banks, the still dominant players in the industry. There were some strategic mis-steps after the IPO and CEO Skander Malcolm was brought in to re-build the management team, narrow the focus of the group and get the business back to growth. The investor day provided the first solid indications the new strategy is working and showcased a range of growth initiatives. The business now has a clearly defined niche to pursue in Australia, the UK, Europe and the US. Whilst it was not a core driver of our decision to invest, OFX is a beneficiary of more volatility in financial markets as uncertainty will drive people to take action on their currency exposures.

Key disposals and material adjustments

Sold
Regis Resources (RRL)
Wesfarmers (WES)
QBE Insurances (QBE)
Sonic Healthcare (SHL)

We exited a small holding in **Regis Resources (RRL)**, as well as our position in **Wesfarmers (WES)** and **QBE Insurances (QBE)** during the quarter to fund the acquisition of more attractive positions including the one discussed above for the portfolio. At the time, these new positions provided a more attractive risk/return in our view. We also exited the holding in **Sonic Healthcare (SHL)** during the quarter as we found an alternative investment which offered a more attractive yield going forward.

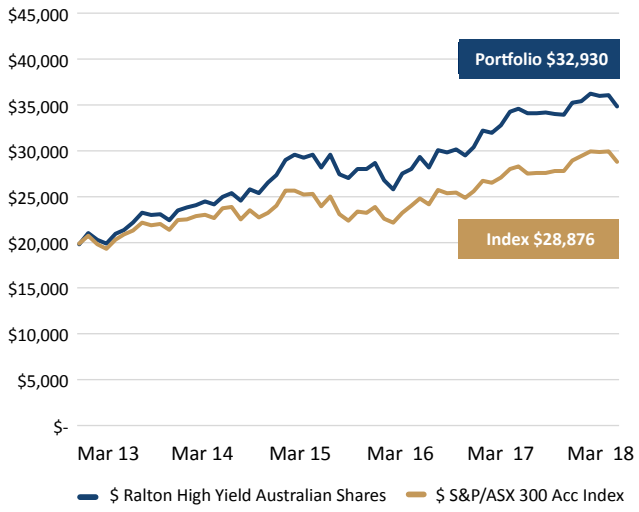
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Staples	11.1%	7.8%	3.3%
Telecommunication Services	5.4%	2.8%	2.7%
Materials	19.9%	17.8%	2.2%
Consumer Discretionary	6.3%	4.9%	1.5%
Information Technology	3.2%	2.4%	0.8%
Utilities	2.7%	2.0%	0.8%
Financials	34.0%	34.1%	-0.1%
Real Estate	7.7%	8.0%	-0.3%
Health Care	6.8%	7.8%	-1.0%
Energy	2.8%	5.2%	-2.4%
Industrials	0.0%	7.4%	-7.4%
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
Woolworths Group Ltd	WOW
Westpac Banking Corp	WBC
Telstra Corporation	TLS
Macquarie Group Ltd	MQG
Amcor Limited	AMC
Aristocrat Leisure	ALL
Vicinity Centres	VCX

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.