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 Smaller Companies	-1.57	-2.86	7.13	8.62	10.46	12.77	11.64	9.31	8.49
Income return	*0.62*	*1.03*	*1.31*	*2.66*	*2.86*	*3.19*	*3.53*	3.66	*3.76*
Growth return	*-2.20*	*-3.90*	*5.83*	*5.97*	*7.60*	*9.58*	*8.11*	5.65	*4.73*
S&P/ASX Small Ord Accum. Index	-2.29	-2.79	10.52	14.99	10.67	6.45	2.35	1.36	1.22
Difference	**0.71**	**-0.07**	**-3.39**	**-6.37**	**-0.21**	**6.32**	**9.29**	7.95	**7.27**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index returned -2.79% for the March quarter, with Health Care and Energy adding value to the index.
- The Ralton Smaller Companies portfolio returned -2.86% for the quarter, underperforming the benchmark by 0.07%.
- The portfolio's underweight to Consumer Discretionary was a key detractor from portfolio returns, more than offset by the portfolio's underweight to Materials and overweight to Financials.

Performance attribution

Key contributors

Key contributors	Positioning
OFX Group	Overweight
ALS Limited	Overweight
Nextdc Limited	Overweight

OFX Group (OFX, +19.01%) – put in a strong performance after the company provided some positive metrics about its turnaround and showcased its refined approach to its markets at the investor day held in March. 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 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.

ALS Limited (ALQ, +6.15%) – has been benefiting from the recovery in mining exploration and from its various acquisitions in the Life Sciences area. ALS provides professional technical services in the areas of testing, measurement and inspection, supporting environmental monitoring, food and pharmaceutical quality assurance; mining and minerals exploration; commodity certification, equipment maintenance and asset care operations. We expect ALS will continue to benefit from the recovery in greenfields and brownfields mining exploration, an improvement in margins in its Life Sciences business and the deployment of part of its under-geared balance sheet on further acquisitions.

Nextdc Limited (NXT, +9.00%) – delivered a very strong result well ahead of both the market and our expectations, which led to a sharp bounce in the share price during the quarter. NXT is benefiting from the secular demand for data centre space as core technology processing and storage moves into the cloud. This secular shift is only in its early stages and NXT is in a prime position to be one of the key players in the domestic market. NXT has a pipeline of new centres in the early stages of opening or in the final stages of development. These centres will drive the next stage of earnings growth.

Key detractors

Key detractors	Positioning
iSelect Limited	Overweight
Infigen Energy	Overweight
Ainsworth Gaming	Overweight

iSelect Limited (ISU, -28.92%) – continues to be a perplexing stock for us with what looks to be strong underlying drivers (consumers needing to find better deals and a company able to harvest data), a strong balance sheet with cash or a trail book representing a decent proportion of its market cap, yet a management team that has had more turnover in the past four-and-a-half years than we care to remember. ISU's core vertical of Health should do better as the private health insurance (PHI) market shows signs of stabilising. The government's recent reforms are positive for the way ISU operates. Also, over the next couple of years we should see the Energy (driven by volatility in gas and electricity prices) and Telco (driven by the shift to the NBN and complexity in mobile offerings) verticals continue to gain traction with ISU

users. Management is also working to reduce the cost-to-serve. We expect to get more insight on the company's plans at its upcoming investor day.

Infigen Energy (IFN, -15.22%) – underperformed during the quarter despite delivering a solid result and finally getting a debt refinancing plan in place. We can only put the softness in the share price down to concerns around the ultimate design of the governments National Energy Guarantee and what it means for a renewable only operator like IFN. At the current share price IFN is trading at below the cost of building its installed capacity. By way of background, IFN own a series of wind farms in Australia, producing around 1500 MW of power for Australian homes and businesses annually. The wind farms are well established, meaning wind patterns tend to be fairly predictable, and hence, electricity generation is reliable. The group also has one new wind farm under construction and another awaiting a final investment decision. The groups restrictive debt arrangements are to be refinanced to allow it to conduct its new business model. A major capital raising was undertaken last year to facilitate this restructure.

Ainsworth Gaming (AGI, -14.35%) – was a drag on portfolio performance during the quarter after it delivered a disappointing result, in our view. Whilst the group has maintained full year guidance, it is dependent on one large sale of machines which still requires a regulatory approval. So the risk is the sale slips into next year. The group is still struggling against the momentum in the Aristocrat business in the domestic and US markets. However, the group continues to build its pipeline of new games and this should eventually flow through to improved results. This should see AGI take Australian market share off its lows and allow it to continue to gain traction in the US market.

Portfolio changes

Key additions and material adjustments

Bought
ALS Limited (ALQ)
Link Administration Services (LNK)
Coca-Cola Amatil (CCL)
Super Retail (SUL)
OceanaGold Corporation (OGC)

During the quarter we acquired a position in **ALS Limited (ALQ)** which has been discussed above. We added a position in **Link Administration Services (LNK)** to the portfolio during the quarter. LNK is a financial data administrator organised into three core divisions, namely Fund Administration, Corporate Markets and Information, Data and Digital Services (IDDS). Link dominates the market for Fund Administration in the superannuation space in Australia with 42% of the total market and 70% of the outsourced market. This division has been a key driver of profit growth fueled by synergies from the Super Partners acquisition. LNK recently completed the acquisition of Capita Asset Services (CAS) which gives it exposure to similar types of businesses in Europe and the UK and expands its offering. The CAS business (now renamed Link Asset Services) has suffered from a period of underinvestment under its former owner. As such, LNK should be able to allocate capital to improve its operational capability and extract accretive returns. Also, with the benefit of a UK and European base, LNK can look to make bolt-on acquisitions which should be accretive once the base business has been bedded down.

We added a position in **Coca-Cola Amatil (CCL)** during the quarter, and it has performed well after its inclusion in the portfolio. This was driven by the delivery of a solid result in the face of tough market conditions, resulting in the continued re-rating of the stock. CEO Alison Watkins and her team have been on a journey to transform the business after she was left with a portfolio of mispositioned products – both in terms of price and as an overall suite of products. The core Australian business had too much exposure to overpriced carbonated soft drinks (CSDs) as consumers became more health conscious. A lot of the repositioning has been done in conjunction with the Coca Cola Company (the US brand owner) to improve the product offering in Stills (i.e. water, dairy, energy drinks) and the pricing and marketing for the CSD products. While the Australian business has not yet based, much has been invested into the business which should eventually deliver a turn. The Indonesian business has also been reshaped and has improved in the face of a very tough local environment. It is likely positioned now to see the benefits of an improving macroeconomic environment for its customers.

We acquired a position in **Super Retail (SUL)** during the quarter after it had fallen considerably. The fall was driven by a relatively soft 1H18 result and the acquisition of MacPac (an outdoor goods provider). While there appears to be a strategic rationale to the acquisition, the market was likely concerned about it given the fact the group has still not dealt effectively with its Rays Outdoor business. We viewed the decline in share price as providing us with a degree of downside protection relative to the valuation. The group has taken a number of the steps we would have expected to see to deal with the threat from Amazon as it builds its presence in Australia. As background, the group operates a number of retail brands including Super Retail (Auto), BCF (outdoor) and Rebel (sporting goods).

We acquired a position in **OceanaGold Corporation (OGC)** during the quarter and it operates goldmines in the Philippines, New Zealand and the US. The stock price is well down from its highs of 2016 despite the rise in the gold price over the period. This has been driven by two issues. The first relates to an ongoing dispute with the Philippines government regarding the operation of the Didipio gold-copper operation. This has been an industry wide issue around open-cut mines. This mine has now moved underground, but the government has not actually declared it has no issues. Management continue to actively work on this matter. We believe the current share price reflects a high degree of uncertainty about the ongoing operation. The second issue relates to teething problems at the Haile's gold project in the US during ramp-up. These ramp-up problems should eventually be overcome. These issues have provided an attractive entry point to the stock.

Key disposals and material adjustments

Sold
Fletcher Building (FBU)
Qube Logistics (QUB)

We exited the positions in **Evolution Mining (EVN)** and **Northern Star (NST)** during the quarter as they had both entered the top 100 stocks over the past 12 months. We also exited the position in **Fletcher Building (FBU)** after it announced it was in breach of its loan covenants as a result of issues in its construction business. Given FBU had not been able to get a firm grip on the quantum of the potential losses from the problems, we elected to take the cautious path and exited the stock given the outstanding negotiations required with the financiers.

The position in **Tox Free (TOX)** was disposed of as it is in the final stages of being acquired by **Cleanaway (CWY)**. The holding in **ALE Group (ALE)**, the landlord for a number of the Woolworths operated pubs, and **Qube (QUB)** were both disposed of as we saw better opportunities elsewhere.

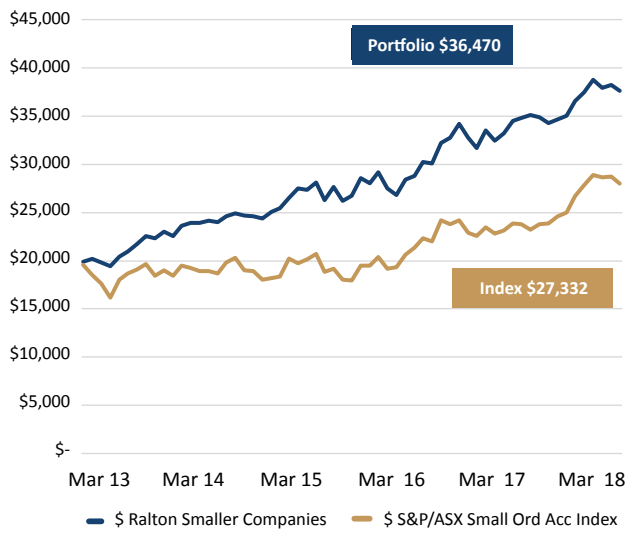
Sector allocation

GICS sector	Ralton	Index	+/-
Health Care	17.0%	7.0%	10.0%
Consumer Staples	12.7%	8.6%	4.1%
Financials	10.9%	7.7%	3.2%
Telecommunication Services	5.0%	2.6%	2.4%
Utilities	2.4%	0.5%	1.8%
Energy	8.4%	7.4%	1.0%
Information Technology	7.7%	8.2%	-0.5%
Real Estate	7.2%	10.9%	-3.7%
Materials	13.8%	19.5%	-5.6%
Industrials	2.9%	8.6%	-5.7%
Consumer Discretionary	12.1%	19.0%	-6.9%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
Worleyparsons Limited	WOR
OFX Group Ltd	OFX
Tassal Group Limited	TGR
Nufarm Limited	NUF
Speedcast International Ltd	SDA
Nextdc Limited	NXT
Steadfast Group Ltd	SDF
Skycity Entertainment Group Limited	SKC
Pact Group Holdings Ltd	PGH
OceanaGold Corp	OGC

Performance comparison of $20,000*



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Performance of the Ralton Wholesale Smaller Companies 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 Small Ordinaries 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.