Total returns

At 30 April 2016	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs p.a. %	5 yrs p.a. %	7 yrs p.a. %	Inception p.a. (Feb 2008) %
Ralton Smaller Companies	1.30	4.59	0.82	4.93	11.76	10.66	15.17	7.22
Income return	*0.04*	*1.17*	*1.47*	*3.15*	*3.31*	*3.52*	*3.61*	*3.77*
Growth return	*1.27*	*3.42*	*-0.65*	*1.78*	*8.45*	*7.14*	*11.55*	*3.45*
S&P/ASX Small Ord Accum. Index	3.04	9.70	8.19	5.12	4.15	-0.97	5.62	-1.37
Difference	**-1.74**	**-5.11**	**-7.37**	**-0.20**	**7.61**	**11.63**	**9.55**	**8.59**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index gained 3.04% with Materials, specifically metals and mining stocks, performing strongly.
- The Ralton Smaller Companies portfolio added 1.30% for the month, underperforming the benchmark by 1.74% for the period.
- Our underweight position in Materials, together with poor performance from our Consumer Staples names, contributed to the portfolio's underperformance.

Performance attribution

Key contributors

Key contributors	Positioning
iSelect Limited (ISU)	Overweight
Graincorp Limited (GNC)	Overweight
Virtus Health (VRT)	Overweight

iSelect Limited (ISU, +11.2%) – shares in comparison website, ISU, continued their recovery from January lows. With a new management team in place since last October, the business appears to be regaining momentum. Key to investor sentiment will be the company's ability to hit its recently restated profit guidance for the full year – it is fair to say ISU has had a mixed track record in achieving profit targets since listing in 2013. Following changes to the sales team structure and a simplified recruitment process for key call centre consultants, the business now appears to be back on track. Recent private health insurance (PHI) premium rises are likely to prove supportive for insurance members to seek changes, through savings or simply a more suitable policy. Further, we believe ISU is well advanced in terms of market share gains and segment profitability for both the Energy and Telco segments, reducing ISU's reliance on profits from the PHI segment.

Graincorp (GNC, +8.6%) – shares in GNC rebounded from recent lows most likely due to the rains which started to arrive near the end of the month in key growing areas. Over the next few months, investors and farmers alike will focus on the rainfall to support the winter crops. Although GNC is less dependent on the size of the grain harvest than it was in the past, it still has some influence on the share price. The other news flow of note related to GNC's proposed involvement as an investor in a WA grain co-operative, CBH, in the event it looked to take on external investors. The CBH members rejected the proposal to prepare the company for a potential listing. As we discussed last quarter, such processes are typically quite protracted, as GNC well knows, and we expect the efforts to continue.

Virtus Health (VRT, +8.0%) – shares in the IVF provider performed strongly in April and have now recovered approximately 45% off last year's lows. Much of this rebound has been driven by a stabilisation in demand for IVF services in Australia in the last 12 months, with a return to reasonable growth in patient demand in most Australian states. Despite rising competition, including new clinics being opened by Primary Healthcare (PRY), VRT appears to have suffered little in the way of market share losses. We did reduce our holding in VRT during April, though still retain a material position for investors.

Key detractors

Key detractors	Positioning
MG Unit Trust (MGC)	Overweight
Fisher and Paykel Healthcare (FPH)	Overweight
Freedom Food Ltd (FNP)	Overweight

MG Unit Trust (MGC, -45.2%) – although only a small position, our recent investment in the MG Unit Trust or 'Murray Goulburn' would have to rank as one of our most ill-timed investments. Despite our due diligence, it would appear the CEO and management had either unrealistic expectations at best, or at worst had completely misled the board and investors in an attempt to keep face and achieve the revised profit forecast for the current financial year. The profit downgrade reported by MGC in late April was highly material, triggered a revised milk price to dairy farmers for the current financial year and led to the CEO and CFO exiting the company. Taking a deep breath, while this was a very poor result for investors in the short term, the initial attraction and logic for our investment remains. MGC has access to key raw dairy ingredients and is looking to monetise this by value adding to the milk. This includes the build-out of manufacturing capacity to process milk into branded products, cheese, UHT, infant formula and whey, rather than powdered or regular milk product. We are sticking to our investment at this stage, and despite expecting some ongoing ructions within the company (such as director resignations) we expect value can be achieved from this name. We will continue to monitor the stock closely, as you would expect.

Fisher and Paykel (FPH, -6.2%) – shares in NZ-based medical device company pulled back off recent highs despite the lack of company-specific news flow. FPH has two business divisions focused on respiratory solutions, namely obstructive sleep apnea (OSA) and a broader respiratory division (RAC). RAC is focused on intensive care products and humidified breathing for treatment of a broad array of lung or other medical conditions, predominantly in the hospital setting. This division continues to grow at a very healthy rate, and the scope for evidence-based use of humidified breathing to treat an array of conditions continues to increase. Keeping patients out of high-cost hospitals and reducing readmissions is a key theme in the global search for healthcare savings and hence we believe FPH is well placed going forward.

Freedom Food Ltd (FNP, -12.5%) – also in the food and health segment, shares in FNP pulled back from recent highs. FNP manufactures and sells a range of premium foods across dairy, cereal and seafood, with a focus on various dietary specialties, such as gluten-free. FNP sells mostly to domestic markets, however exports to Asia are growing. It would appear that recent regulatory changes affecting Chinese imports of various food and vitamin products over the internet and direct mail channels have impacted sentiment toward FNP, despite it only having modest exposure to Chinese sales. We did increase our holding in FNP in April, based on what appeared to be undue share price movement.

Portfolio changes

Key additions and material adjustments

Bought
Nextdc Limited (NXT)

We added one new stock to the portfolio, Nextdc Limited.

Nextdc Limited (NXT) – NXT is an owner and operator of data centres or 'DCs' across Australia's east coast. The business model relies on acquiring and building electronic storage capacity close to major population centres and then renting out these facilities and capabilities to corporates and governments that have significant data and security requirements. NXT has spent many years and significant capital to build several centres and attract customers. Barriers to entry are high, as you would expect, and NXT now appears to have reached critical mass in terms of customer growth, number of centres and capital sustainability. We like the exposure NXT offers to the growth in demand for data, cloud computing and associated technology services and believe it offers good value over the medium term.

Key disposals and material adjustments

There were no outright sales from the portfolio during the month, although we did reduce our position in Virtus Health (discussed previously) and Super Retail Group (SUL).

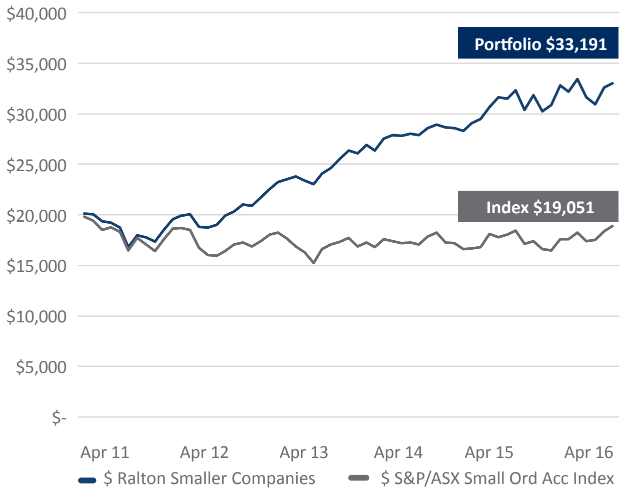
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Staples	18.9%	8.0%	10.9%
Industrials	15.5%	10.6%	4.9%
Consumer Discretionary	27.3%	22.8%	4.4%
Telecommunication Services	2.4%	1.4%	1.0%
Health Care	7.3%	6.5%	0.7%
Financials (ex-Property)	7.6%	7.7%	-0.1%
Utilities	0.0%	0.7%	-0.7%
Energy	2.0%	3.9%	-1.9%
Materials	14.5%	18.5%	-4.0%
Information Technology	1.6%	7.5%	-5.9%
Property	3.0%	12.3%	-9.3%
Total	**100.0%**	**100.0%**	

Top 10 holdings#

Company name	ASX code
Macquarie Atlas Roads Group	MQA
Fisher & Paykel Healthcare Corporation Limited	FPH
Sky Network Television Ltd	SKT
Pact Group Holdings Limited	PGH
Orora Limited	ORA
Fletcher Building Limited (Australia)	FBU
News Corporation	NWS
Tassal Group Limited	TGR
SAI Global Limited	SAI
Aristocrat Leisure Limited	ALL

Performance comparison of $20,000*



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* The performance comparison of $20,000 over 5 years is for illustrative purposes only. All returns shown are based on Australian dollar figures. Past performance is not a reliable indicator of future performance. The total returns shown are prepared on an exit-to-exit basis (i.e. they include all ongoing fees and expenses and assume reinvestment of all distributions). They do not take personal taxation into account. The comparison with the S&P/ASX Small Ordinaries Accumulation Index is for comparative purposes only. Index returns do not allow for transactional, management, operational or tax costs. An index is not managed and investors cannot invest directly in an 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.