Total returns

At 30 September 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 Australian Shares	0.87	6.20	9.04	11.03	9.91	14.65	9.12	7.09
Income return	*0.38*	*1.18*	*2.46*	*4.58*	*4.13*	*4.35*	*4.38*	*4.44*
Growth return	*0.48*	*5.02*	*6.58*	*6.45*	*5.77*	*10.30*	*4.74*	*2.65*
S&P/ASX 300 Accum. Index	0.51	5.24	9.43	13.50	6.03	11.02	6.46	4.09
Difference	**0.35**	**0.96**	**-0.39**	**-2.47**	**3.87**	**3.63**	**2.66**	**3.00**

Performance review

- The S&P/ASX 300 Accumulation Index rose 5.24% for the September quarter, continuing the market's rise since the lows of February this year, with Materials and Consumer Staples the top performing sectors.
- The Ralton Australian Shares portfolio returned +6.20%, outperforming the benchmark by 0.96%.
- For the quarter, stock selection within both Industrials and Consumer Discretionary added value to the portfolio, offset to some degree by our underweight to Materials, largely metals and mining.

Performance attribution

Key contributors

Key contributors	Positioning
Cleanaway Waste Ltd	Overweight
iSelect Limited	Overweight
Coca-Cola Amatil Ltd	Overweight

Reporting season was the key driver for many of our portfolio holdings for the September quarter. Listed companies report their financial progress for the completed period (half or full-year results) in August and provide outlook commentary on the year ahead.

Cleanaway Waste (CWY, +40.0%) – CWY rallied strongly on a clean profit result, an improved capital position and evidence that CWY's turnaround strategy is working. The highlights from the result were: 1) strong cost control, particularly in the Industrials segment, 2) improved operating margins and cash flow outlook for the Melbourne Regional Landfill (MRL), and 3) an improved sales trends. On this last point, CWY had lost market share in waste collection to its major competitors in recent years, however various initiatives are gaining traction to drive market share and revenue growth. Given CWY has been a turnaround for some time, this was a particularly pleasing result as it saw delivery in a range of areas.

iSelect Limited (ISU, +49.4%) – ISU achieved its guidance target for FY16 and pointed to a strong outlook, confirming that the refocus of ISU under CEO Scott Wilson was on track. ISU hit rock bottom in January this year, when Wilson was forced to reveal the depth of the problems he had inherited from previous management, particularly in terms of call centre productivity. Wilson and his team have rectified the legacy problems, continued to deliver growth from a range of products (including outstanding growth from Energy and Broadband) and hit guidance. Delivery has seen a material re-rating of the stock price. With a strong and increasingly trusted brand for consumer service, ISU is likely to expand its product offering to meet demand. For example, ISU is now entering into credit card and travel insurance comparisons simply because consumers are visiting its website expecting ISU to offer these services. These customers are cheap to acquire for ISU as they are already visiting the website.

Coca-Cola Amatil (CCL, + 24.5%) – a solid half-year earnings result in August combined with low market expectations, saw CCL's shares rally across the quarter. From our perspective, the half-year result confirmed CEO Alison Watkins' turnaround of the Australian and Indonesian businesses is gaining traction. In particular, we would highlight the positive results from CCL's growth engines - both Indonesia and domestic non-carbonated soft drink (CSD) products. These non-CSD products or "stills" include sparkling mineral water, dairy, juice and alcohol. By volume, stills account for circa one third of CCL's sales, and rising. Each product leverages CCL's impressive infrastructure, such as supply chain, distribution reach and marketing capability. The reason this shift to 'stills' is important is that consumer preferences are shifting. This mix shift coupled with sensible pricing and marketing investment in the core CSD business, should mean CCL can return its business to reliable growth and good cash flows, supporting healthy dividend growth for investors.

Key detractors

Key detractors	Positioning
QBE Insurance Group	Overweight
BHP Billiton Limited	Underweight
Incitec Pivot Ltd	Overweight

QBE Insurance Group (QBE, -10.9%) – a poor result from QBE's Australian division was a key drag on the half-year results and overshadowed reasonable progress being made in other jurisdictions. QBE's CEO, conscious of recent missteps, has taken decisive action changing leadership in Australia. QBE expects remedial action, including pricing discipline, and government reform in workers' compensation insurance will see the Australian issues fixed reasonably quickly. Progress on cost reductions, moderate total premium growth and an improved balance sheet, provide us with confidence on QBE's multi-year progress. The share price fall together with these factors saw us increase the position shortly after the result.

Our underweight exposure to resource stocks and BHP **Billiton (BHP, +20%)** in particular, was a key detractor from portfolio returns. Commodity pricing for oil, iron ore and coking coal, three of BHP's key commodities, have been rising off recent lows. Each commodity has its own nuances, although the rise in price for key steel-making ingredients, iron ore and coal, has been supported by strong credit growth in China this year. We remain skeptical in terms of China's ability to sustain this demand and hence the sustainability of current prices. Although multi-factorial, our expectation for oil is for prices to stabilise as supply is likely to remain rational in the face of weaker prices. We have exposure to this theme via our holdings in Origin Energy (ORG), Santos limited (STO) and BHP.

Chemical and fertiliser company **Incitec Pivot (IPL, -5.1%)** detracted from returns in a rising market. IPL has been a poor performer for the portfolio all year, weighed down by mounting price headwinds in several of IPL's key business exposures, namely fertilizer, both DAP and Urea. Further, IPL's long awaited Louisiana Ammonia plant is set to commission shortly, into a currently depressed price environment for ammonia. That said, we would highlight a couple of supportive factors for IPL. Firstly, market pricing for either IPL's products and several of its end customers (such as coal miners) is inherently linked to the oil price. The reduction in oil and gas price has lowered cost inputs for many industry participants who produce urea, ammonia and DAP and this in turn has lowered benchmark pricing for these products. This will work in reverse of course, and as we have already seen the oil price rise off its lows, we expect this, together with a rational supply response, will flow though to pricing (and profits) for IPL. Second, the pending commission of IPL's new ammonia plant will see a significant shift in free cash flow generation. For these reasons, we recently up weighted our holding in IPL as we believe the share price to be attractive.

Portfolio changes

Key additions and material adjustments

We discuss each of the new additions to the portfolio across the quarter, other than CWY which has already been highlighted.

Bought
Ainsworth Game Technology Limited (AGI)
AGL Energy Ltd (AGL)
Cleanaway Waste Management Ltd (CWY)
DUET Group (DUE)
Santos Ltd (STO)

AGL Ltd (AGL) – we added a position in utility company AGL during July. An investment in AGL has three supportive features from our vantage. First, under CEO Vessey, AGL has made considerable progress in driving productivity improvements to boost profits. Second, the increased use of renewable energy in the electricity markets is driving up the wholesale electricity price to the benefit of low-cost electricity producers such as AGL. We note recent speculation, which suggests once more, that various brown coal electricity generators are likely to close, an outcome from which AGL would benefit. Finally, AGL's balance sheet is in good shape after recent asset sales. AGL is well positioned to either return capital to shareholders or alternatively pursue acquisitions. Since our purchase, we note AGL was unsuccessful in acquiring the WA-focused Alinta assets, which instead look set to IPO. AGL has however, committed to a share buyback and increased dividend payout ratio.

In the energy space, we have added a modest position in **Santos (STO)**. STO recently appointed Kevin Gallagher as CEO, who we had followed during his tenure at Clough (an engineering contractor) where he successfully turned around a series of underperforming businesses. He faces a similar task in his new role where the cost structure and culture are impediments to the successful operation of key assets. It appears good progress has been made around parts of the cost structure, with a major business simplification undertaken and more to come. One of his key insights has been that the business was run by too many lawyers! STO has some great assets, with the best being the 13% stake in the PNG LNG operation – a worldclass project with expansion opportunities, operated by Exxon. The Cooper Basin gas fields and GLNG (30% owned by STO) are both good assets, but require further focus on cost reductions to achieve cost-effective delivery and well operation. This should be achievable given what has been achieved elsewhere in the world.

DUET Group (DUE) – DUE owns a series of long-life infrastructure assets including the Dampier to Bunbury Pipeline (DBP) and gas and electricity networks in south east Australia and last year's purchase, Energy Developments (ENE). ENE in turn owns and operates a series of long-life, contracted utility assets. Included in ENE's portfolio are a series of low greenhouse gas emission, energy and remote energy generation plants for multiple clients. The company is likely to have opportunities to add to its asset base in time and we expect further opportunities will be examined under DUE's ownership. DUE has also embarked on a material cost-out story, which we believe offers value to shareholders. The cost and efficiency program will focus on all assets, although we expect efficiencies are most likely to be obtained from the power networks (former government-owned assets). DUE offers a solid, cash-covered yield of circa 7%.

Ainsworth Game Technology (AGI) – we added a position in AGI to the portfolio following its full-year results. The gaming machine manufacturer has recently welcomed European domiciled Novomatics to its share register after acquiring founding shareholder Len Ainsworth's 53% equity holding. AGI is aiming to deliver material synergies including cost savings, access to an extensive software library and sales into Europe. Together with a likely bottoming of market share in Australia in coming periods and a strong outlook for market share gains in the US, we have a positive outlook for AGI on a multi-year view. Similar to Aristocrat Leisure (ALL) several years ago, we see AGI as investing appropriately in research and development (new products) at the bottom of its market share cycle as a lead indicator for future revenue growth. This remains subject to execution, which we continue to monitor.

Key disposals and material adjustments

Sold
Ardent Leisure (AAD)
Graincorp (GNC)
SAI Global (SAI)
Sky Network Television (SKT)
Woodside Petroleum (WPL)

There were several outright sales during the quarter as highlighted.

Graincorp (GNC) – having already reduced our holding in GNC, we exited the position entirely during July. GNC has re-rated since our acquisition, reflecting a more positive view from the market on the benefits of growth projects in the Oils and Malt divisions. Reasonable recent rains have also improved the outlook for grain harvest and wheat exports. This was largely in tune with our thesis and was reflected in the share price, driving our decision to exit. Going forward, the key piece of uncertainty is the market share GNC retains in the key east coast export markets in Australia. Should GNC retain or even gain market share in the highly competitive market for export grains, then GNC shares could well justify a higher valuation. However, with no real confidence on this score, we elected to take profits and sell.

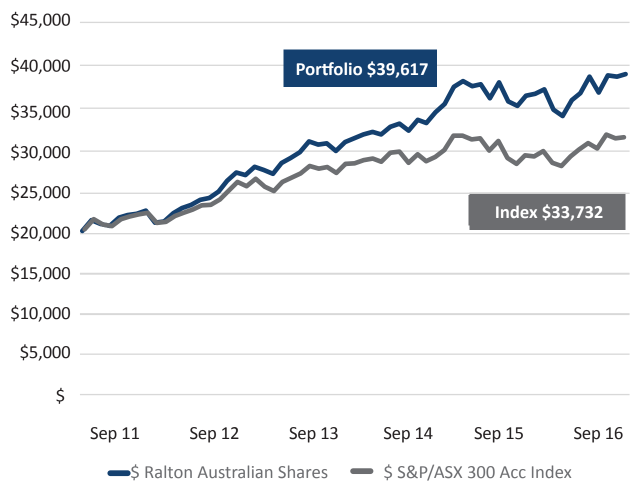
Ardent Leisure (AAD) – with a rebound in AAD shares in July, we took the opportunity to exit this position. We have not been able to alleviate concerns that growth in the key US Main Event business is slowing and determine whether the future prospects for Main Event are diminished. A key factor in our reticence to continue to hold the position was management's decision to reduce disclosure around quarterly sales results for Main Event. We will continue to monitor the position, looking for confirmation of a more positive outlook for Main Event or a successful divestment of the domestic Marine assets which would see us reassess our views. Subsequent to our sale, AAD announced the sale of its health clubs or gym division to a private equity group. This transaction was somewhat unexpected and also realised a healthy price tag, and hence shares in AAD rallied strongly.

SAI Global (SAI) – we sold our holding in SAI at a solid profit following the proposed acquisition by Baring Private Equity. We had been supportive of the restructuring of SAI under CEO Peter Mullins and believe it was on the cusp of delivering a material increase in sales momentum. Clearly, others felt the same or recognised value in the assets that SAI owns. The trigger for private equity moving toward a purchase of the whole business appears to have been moves by the company to sell or consider the sale of its Assurance division. We also note Baring Private Equity was part of a consortium that recently purchased the Intellectual Property & Science business of Thomson Reuters. To digress, this is an information product that provides services and information to a series of customers, largely scientific bodies, academia, corporations and government. Certainly this type of business sounds synergistic with Standards Australia (SA) and would offer a platform from which SA could distribute its content more broadly. Irrespective, we have sold our position.

Sky Network Television (SKT) – we were a somewhat forced seller of SKT. The NZ commerce commission or NZCC is set to make a decision on the merger of SKT with Vodafone NZ in the near term. As highlighted previously, we believe this transaction makes absolute strategic sense and offers value to SKT shareholders and indeed prospective shareholders alike if the merger proceeds. Despite this, we believe the NZCC decision is somewhat binary and we were unable to gain sufficient comfort that it will be waved through – decisions by the regulator can be very hard to predict. On this basis, we concluded the risk/reward was poor. If the deal is approved, shares are likely to rise, however the opposite is equally true. Further, if the deal was to be knocked back, this would leave SKT somewhat strategically challenged. As investors, we do not like risk we cannot quarantine, hence our decision to sell. If the decision is approved, we would look to revisit our holding in SKT, subject of course to price which, as highlighted, is likely to move higher.

Finally, we sold our position in **Woodside Petroleum (WPL)**. This was principally due to our view the investment opportunity in STO (already discussed) was a preferable exposure in the energy sector, assuming oil prices stabilise and trend higher over the coming years. WPL management has vigorously and prudently pursued growth initiatives and we note its progress in regard to Wheatstone LNG, NW Shelf backfill and the recent Senegal Oil project acquisition. However, in the absence of a meaningful WPL stake in a major growth project such as Browse or Sunrise, the company's growth outlook looks challenging.

Performance comparison of $20,000*



Top 10 holdings#

Company name	ASX code
Commonwealth Bank of Australia	CBA
Westpac Banking Corporation	WBC
Aristocrat Leisure Limited	ALL
National Australia Bank Limited	NAB
Woolworths Limited	WOW
CSL Limited	CSL
Telstra Corporation	TLS
QBE Insurance Group Limited	QBE
ANZ Banking Group Limited	ANZ
AMP Limited	AMP

Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Staples	12.9%	6.5%	6.4%
Financials (ex-Property)	14.0%	8.0%	6.0%
Health Care	10.1%	7.1%	3.0%
Telecommunication Services	3.1%	1.3%	1.8%
Materials	21.9%	20.2%	1.8%
Energy	4.2%	4.0%	0.2%
Utilities	0.0%	0.7%	-0.7%
Industrials	10.0%	10.7%	-0.7%
Consumer Discretionary	18.6%	21.6%	-3.0%
Information Technology	2.7%	8.8%	-6.1%
Property	2.6%	11.2%	-8.6%
Total	100.0%	100.0%	0.0%

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*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.

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