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 Leaders	0.11	3.83	6.04	8.28	8.43	13.27	7.91	6.25
Income return	*0.38*	*1.22*	*2.54*	*4.81*	*4.22*	*4.40*	*4.41*	*4.49*
Growth return	*-0.26*	*2.61*	*3.49*	*3.47*	*4.21*	*8.87*	*3.50*	*1.76*
S&P/ASX 100 Accum. Index	0.41	4.90	8.87	12.03	5.87	11.49	6.75	4.49
Difference	**-0.29**	**-1.07**	**-2.83**	**-3.76**	**2.56**	**1.78**	**1.16**	**1.76**

Performance review

- The S&P/ASX 100 Accumulation Index added 4.90% in the September quarter, continuing the market's rise since the lows of February this year, with Materials and Consumer Staples the top performing sectors. Telecommunications and Utilities were both negative contributors for the quarter.
- The Ralton Leaders portfolio gained 3.83% for the period, underperforming the benchmark by 1.07%.
- For the quarter, being overweight Consumer Discretionary added value, offset by stock selection within Energy and Financials.

Performance attribution

Key contributors

Key contributors	Positioning
Coca-Cola Amatil (CCL)	Overweight
Aristocrat Leisure (ALL)	Overweight
Computershare Ltd (CPU)	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.

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.

Aristocrat Leisure (ALL, +14.6%) – shares in ALL again added value for the portfolio. ALL's game line-up continues to be well received with feedback from the recent 2016 Global Gaming Expo (G2E) highly positive. New titles, including strategic licenses, the continued popularity of "Lightning Link" and even a shift into new product segments, such as "Stepper" and video lottery terminal (VLT), were all well received by the industry. With ALL's product suite continuing to gain market share and the company producing strong free cash flow, we continue to have a positive view.

Computershare Limited (CPU, +12.5%) – weak expectations, together with a sound profit result, saw CPU rally during the quarter and recoup earlier share price weakness. For the first time in many years, CPU delivered top line revenue growth despite the continued easing in interest rates which impacts earnings from its large cash balance. We expect this to continue given productivity measures, improved capital allocation and growth areas such as mortgage processing services. The stock is also highly leveraged to an increase in interest rates.

Key detractors

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

Bought
AGL Energy Ltd (AGL)
DUET Group (DUE)
Newcrest Mining (NCM)
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.

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%.

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 world-class 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.

Newcrest Mining (NCM) – we added NCM to the portfolio to increase the total Materials exposure and in particular, to introduce a gold exposure. NCM offers exposure to long-life and high-margin gold assets. NCM has been focused on reducing its operating costs, repairing its balance sheet and completing capital projects at two of its major mines, Cadia East and Lihir. Sandeep Biswa (CEO) has focused on self-help initiatives to reduce operating costs (like much of the mining sector) and to improve the balance sheet.

Key disposals and material adjustments

Sold
Aurizon Holdings (AZJ)
Bank of Queensland (BOQ)
Graincorp (GNC)
Henderson Group (HGG)
Woodside Petroleum (WPL)

There were five stock sales from the portfolio during the month.

Aurizon Holdings (AZJ) – we elected to take profits in AZJ as the stock reached our assessed fair value. We still like the fundamentals of the business and believe AZJ is well placed to deliver reasonably steady profits and continue to pay a healthy dividend. AZJ's growth projects are however somewhat capped and this has been reflected in recent write-downs for various expansion projects that were being worked on, but now appear unlikely to proceed. AZJ is speculated to be looking to acquire Glencore's rail assets in the Hunter Valley. Given AZJ already has a presence in the Hunter, such a move is logical, although subject to the price and the AZJ board's appetite for risk, and may involve a capital raising. We would revisit the position in the event of a pull-back in the share price.

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.

Henderson Group (HGG) and **Bank of Queensland (BOQ)** – we reduced the portfolio's Financials sector exposure through the sale of two of the portfolio's smaller holdings, BOQ and HGG.

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.

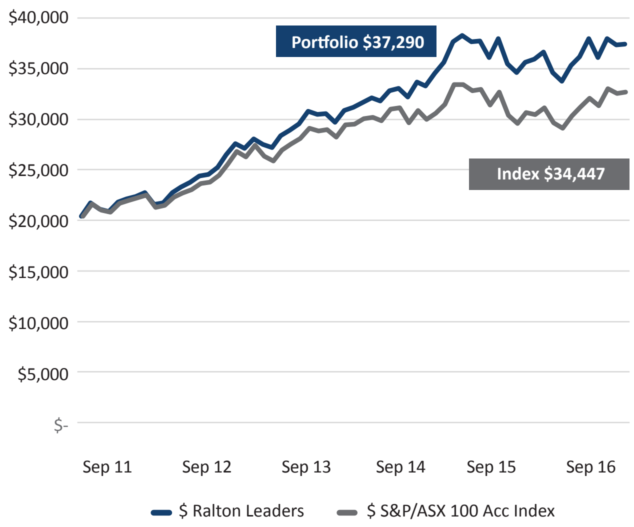
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Staples	12.7%	7.3%	5.4%
Consumer Discretionary	7.3%	3.7%	3.6%
Information Technology	3.2%	0.6%	2.6%
Utilities	4.5%	2.7%	1.8%
Health Care	7.6%	7.1%	0.5%
Energy	4.1%	4.0%	0.1%
Telecommunication Services	5.3%	5.3%	0.0%
Industrials	6.4%	6.9%	-0.4%
Financials (ex-Property)	36.4%	38.6%	-2.2%
Materials	12.6%	15.1%	-2.5%
Property	0.0%	8.8%	-8.8%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

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

Performance comparison of $20,000*



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Performance of the Ralton Wholesale Leaders 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 100 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.