Total returns

At 31 October 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	-1.89	-1.55	4.33	5.30	7.63	12.73	9.01	6.79
Income return	*0.02*	*1.15*	*2.48*	*4.61*	*4.14*	*4.24*	*4.29*	*4.40*
Growth return	*-1.92*	*-2.70*	*1.85*	*0.69*	*3.49*	*8.49*	*4.71*	*2.39*
S&P/ASX 300 Accum. Index	-2.17	-3.20	3.59	6.33	3.88	9.00	6.44	3.79
Difference	**0.28**	**1.65**	**0.74**	**-1.04**	**3.75**	**3.73**	**2.56**	**3.00**

Performance review

- The S&P/ASX 300 Accumulation Index lost ground in October, falling 2.17% for the month. The Financials and Materials sectors both gained ground, with Healthcare and Information Technology the worst performing sectors.
- The Ralton Australian Shares portfolio returned -1.89%, outperforming the benchmark by 0.28%.
- For the month, being underweight Real Estate added relative value to the portfolio, however being underweight Materials and Financials both detracted from relative and absolute returns.

Performance attribution

Key contributors

Key contributors	Positioning
QBE Insurance Group	Overweight
Incitec Pivot Ltd	Overweight
Cleanaway Waste Ltd	Overweight

QBE Insurance Group (QBE, +7.5%) – there was no specific news during the month, however a rise in global bond yields was likely the key supporting factor in the rebound of QBE shares during the month (QBE's investment income and claims liabilities both benefit from rising bond yields). Progress on cost reductions, moderate total premium growth, a strong balance sheet and a growing sustainable yield provide us with confidence in QBE's multi-year turnaround.

Incitec Pivot (IPL, +4.6%) – announced the completion and handover of the Louisiana ammonia plant (known as "Waggaman") in October, which is a key milestone for the group. Shares in IPL have underperformed considerably in FY16, driven by a downturn in fertiliser and associated chemical prices. For IPL, the start up of Waggaman marks a turn in cash flows for the company, with capital expenditures having peaked and cash flows from the plant likely to contribute positively in coming periods. Pricing for UREA, and to a lesser extent DAP and ammonia, appear to have found somewhat of a floor, which if sustained, should prove supportive for IPL shares. The timing of a rebound in price for its various commodities is unknown, although we take comfort from the track record of IPL's management team at improving the productivity of its businesses, offsetting some of the price headwinds.

Cleanaway Waste (CWY, +3.6%) – continued to rally following the well-received annual profit results in August. The highlights from the results 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) improved sales trends. Our own analysis has suggested profit expectations for CWY were significantly understated across the market prior to the results. Post results we were of the view the consensus was not factoring in all of the CWY turnaround under CEO Bansal. However, we elected to sell our holding in CWY given our view the market had factored in all the potential upside and the valuation had become very full.

Key detractors

Key detractors	Positioning
The Star Entertainment Group	Overweight
AMP Limited	Overweight
Ainsworth Game Technology Limited	Overweight

The Star Entertainment Group (SGR, -17.1%) – shares in SGR had a poor month, with a trading update at the AGM highlighting a slowdown in growth at key Australian venues. To a degree this was understandable given the significant capital works at the Sydney casino and simply the fact last year's trading results for the same period were very strong. Also impacting sentiment toward SGR was a profit downgrade from NZ peer, Sky City Entertainment (SKC), and finally, the detention of various Crown (CWN) staff in China on "suspicion of gambling crimes". This last factor will weigh on sentiment toward Chinese "VIP" gamblers and will also have some impact on visitation and SGR profits in the short term. For SGR, where such VIP gaming accounts for less than 15% of group profit, we continue to focus on the medium term and believe our thesis for SGR remains intact.

AMP Limited (AMP, -13.5%) – further issues in the Wealth Protection business weighed heavily on AMP and led to a fall in the share price. Specifically, capitalised losses and other one-off experience items will weigh on profits for the current period. In simple terms, claims for wealth protection insurance were higher than previous estimates and hence products AMP has sold have been mispriced. The need to recognise this has cut profits in the short term, but has also led to a re-estimation of future liabilities. AMP has been suffering for some years from the headwinds from this business. AMP has however, reached a fork in the road regarding its Wealth Protection business. As part of these events, AMP has now taken steps to reinsure part of its exposures in this business with Munich Re. This is the first tranche of a multi-stage process for AMP to release capital generating an inadequate return. It is expected AMP will use the capital released from the transaction with Munich Re to buy back shares.

Ainsworth Game Technology (AGI, -20.7%) – shares in AGI also detracted from returns following a profit downgrade. The downgrade was largely driven by declining performance from the Australian business, where market share for AGI's games has been falling. We were aware of this factor when investing in AGI, noting both the fall in share price in the last 12 months and what we expect to be a 'natural floor' in market share for AGI in the domestic market. This belief is further reinforced by AGI's increased spend in R&D and corporate costs – in the short term a headwind to profits – and secondly the technology (games library) support from new shareholder, Novomatics. Although the downgrade and short-term share price move are less than ideal, we remain more convinced in the medium-term upside of AGI following recent events, including a meeting with senior management. This remains subject to execution, which we continue to monitor.

Portfolio changes

Key additions and material adjustments

Bought
Evolution Mining (EVN)

We added one new stock to the portfolio in October, namely a gold exposure via **Evolution Mining (EVN)**. EVN has a strong capital position, and across its portfolio of assets mining costs are heavily biased to the first and second quartile of global production (i.e. low-cost mines). Australian gold miners have benefited in recent times from the falling Australian dollar which increases the value of gold sales, while the bulk of their costs are Australian-dollar based. With costs across the whole mining sector falling as miners seek large productivity improvements, this has been highly favourable to the gold names as the gold price has trended higher. We expect EVN to participate in further industry consolidation as it arises.

Key disposals and material adjustments

Sold
Cleanaway Waste Ltd (CWY)
Henderson Group (HGG)

There were two outright sales during the month: **Cleanaway (CWY)**, which has been discussed, and **Henderson Group (HGG)**.

Henderson Group (HGG) – post the UK's Brexit decision, the outlook for all UK-domiciled businesses, including HGG, has become less clear. That said, HGG shares rallied post a deal to merge with US-based fund manager, Janus. The deal has some clear advantages such as scale, cost savings, product diversification and by increasing exposure to US markets, the deal reduces the impact of the EU/UK Brexit on HGG investors. On the other side of the ledger, the dual CEO arrangement, where both companies' CEOs move to London (where the stock will delist), increased capital requirements and recent muted FUM flow updates from Janus, somewhat temper our enthusiasm. With these uncertainties, we sought to exit our position.

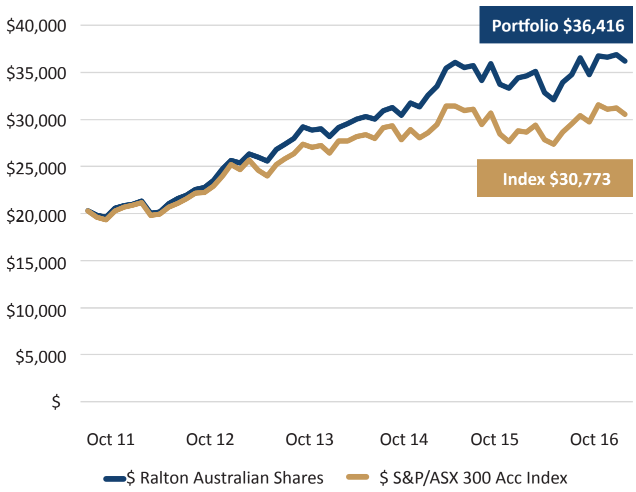
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	11.2%	5.3%	5.9%
Information Technology	3.4%	1.4%	2.0%
Consumer Staples	8.4%	7.1%	1.3%
Telecommunication Services	5.7%	4.8%	0.9%
Utilities	3.3%	2.4%	0.8%
Energy	4.0%	4.0%	0.0%
Financials (ex-Property)	36.1%	36.4%	-0.3%
Health Care	6.2%	6.7%	-0.5%
Materials	15.5%	16.1%	-0.6%
Industrials	6.3%	7.1%	-0.9%
Real Estate	0.0%	8.6%	-8.6%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

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

Performance comparison of $20,000*



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Performance of the Ralton Wholesale 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.