Ralton High Yield Australian Shares
Portfolio Update | 31 October 2016

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 High Yield Australian Shares	-1.99	-1.74	4.58	4.62	7.23	13.44	9.51	7.12
Income return	*0.04*	*1.32*	*3.00*	*5.30*	*4.78*	*4.87*	*4.88*	*5.00*
Growth return	*-2.03*	*-3.06*	*1.58*	*-0.68*	*2.45*	*8.57*	*4.63*	*2.12*
S&P/ASX 300 Accum. Index	-2.17	-3.20	3.59	6.33	3.88	9.00	6.44	3.79
Difference	**0.18**	**1.46**	**0.99**	**-1.71**	**3.35**	**4.44**	**3.07**	**3.33**

Performance review

- The S&P/ASX 300 Accumulation Index fell 2.17% during October. The Financials and Materials sectors both gained ground, with Healthcare and Information Technology the worst performing sectors.
- The Ralton High Yield Australian Shares portfolio finished the month down 1.99%, outperforming the benchmark by 0.18%.
- For the month, being underweight Health Care and Real Estate both added relative value to the portfolio. Offsetting these factors, being overweight Consumer Discretionary detracted from portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
QBE Insurance Group	Overweight
Incitec Pivot Ltd	Overweight
Woolworths Limited	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 do take comfort from the track record of IPL's management team at improving the productivity of its businesses, offsetting some of the price headwinds.

Woolworths Limited (WOW, +1.6%) – improving sales trends at WOW's core Australian supermarkets was a key driver of the stock for the month. This sales momentum has continued to improve since WOW's last market update at its full-year results in August. In the short term, this sales growth is still coming at the cost of profit margin as WOW continues to invest in both product pricing and staff. As WOW begins to cycle price investment – now passing its peak – sales trends are expected to improve and this should drive a welcome return to profit growth for the supermarket business. These results have reinforced our positive view in the turnaround that CEO Banducci is undertaking.

Key detractors

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

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.

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.

Portfolio changes

Key additions and material adjustments

Bought
Regis Resources Limited (RRL)

We added a gold exposure to the portfolio via **Regis Resources (RRL)** during October. RRL's current management has been at the helm since 2009 and are well respected by the market. The company's core assets are medium-sized open-cut mines that are well positioned on the cost curve. Management preference is for exploration and drilling close to the core assets. This strategy is lower risk and requires less capital than 'big bang' exploration and acquisition. As a result, RRL's free cash flow can be used to pay a sector-high dividend yield to investors.

Key disposals and material adjustments

Sold
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 share 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.

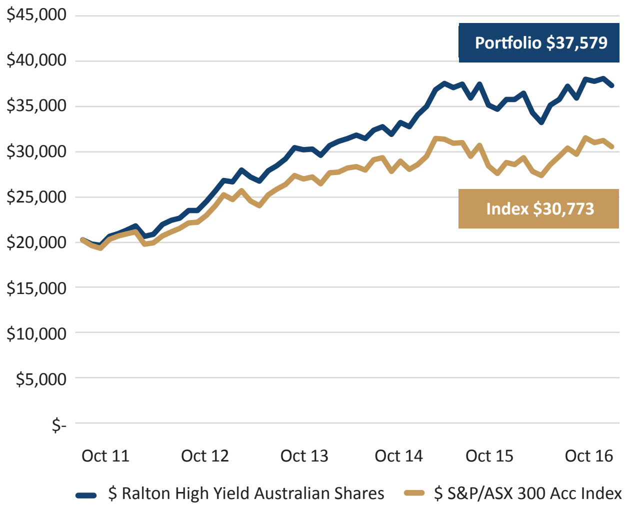
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Staples	14.0%	7.1%	6.9%
Utilities	6.8%	2.4%	4.4%
Consumer Discretionary	9.3%	5.3%	4.0%
Information Technology	2.9%	1.4%	1.5%
Telecommunication Services	5.9%	4.8%	1.1%
Energy	4.4%	4.0%	0.4%
Financials (ex-Property)	36.7%	36.4%	0.3%
Materials	16.0%	16.1%	-0.1%
Industrials	2.4%	7.1%	-4.7%
Health Care	1.6%	6.7%	-5.1%
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
Telstra Corporation	TLS
Woolworths Limited	WOW
National Australia Bank Limited	NAB
Aristocrat Leisure Limited	ALL
ANZ Banking Group Limited	ANZ
QBE Insurance Group Limited	QBE
Coca-Cola Amatil Limited	CCL
Incitec Pivot Limited	IPL

Performance comparison of $20,000*



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Performance of the Ralton Wholesale High Yield 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.