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 Leaders	-1.82	-3.38	1.53	3.16	6.25	11.43	7.93	5.97
Income return	*0.00*	*1.19*	*2.51*	*4.68*	*4.22*	*4.29*	*4.33*	*4.44*
Growth return	*-1.82*	*-4.57*	*-0.98*	*-1.51*	*2.03*	*7.14*	*3.60*	*1.52*
S&P/ASX 100 Accum. Index	-1.88	-3.01	3.34	5.53	3.74	9.54	6.80	4.22
Difference	**0.06**	**-0.37**	**-1.81**	**-2.37**	**2.50**	**1.89**	**1.13**	**1.74**

Performance review

- The S&P/ASX 100 Accumulation Index fell 1.82% for October. Financials and Materials both made positive contributions for the month, whereas Healthcare and Information Technology were the worst performing sectors.
- The Ralton Leaders portfolio fell 1.82% for the month, outperforming the benchmark by 0.06%.
- For the quarter, being overweight Consumer Discretionary detracted from portfolio returns, offset by being underweight Real Estate.

Performance attribution

Key contributors

Key contributors	Positioning
QBE Insurance Group	Overweight
Incitec Pivot Ltd	Overweight
Computershare 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.

Computershare Limited (CPU, +2.2%) – rose in a declining market likely driven by the rise in global interest rates. CPU is a major beneficiary of rising rates as it earns interest on the cash balances it holds for companies to pay dividends to investors or the proceeds of rights issues. CPU also benefits as rising long rates will reduce the incentive for a mortgagee to refinance a loan for which CPU holds the mortgage servicing rights (i.e. it earns a fee for processing payments etc., on loans). This is an incremental positive for a company with a range of growth options and a productivity agenda.

Key detractors

Key detractors	Positioning
The Star Entertainment Group	Overweight
AMP Limited	Underweight
Sonic Healthcare Limited	Underweight

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.

Sonic Healthcare (SHL, -6.9%) – shares in pathology company SHL also detracted value from the portfolio, retracing recent gains. Although difficult to pinpoint any reason, we would note the Turnbull government is currently conducting a series of reviews into the Australian healthcare system. The reviews cover private health insurance, medical device (prosthetic) pricing and overall funding costs. Post the 'Mediscare' campaign that impacted the recent Federal election and difficulties in passing any Medicare fee cuts through the Federal Senate, we see little scope for material changes to the status quo – although our own belief is that reform is necessary. For SHL, the government is yet to legislate or formally commit to its own proposals from May this year around rent reform or regulation for the pathology industry. This would be a clear positive in the medium term for SHL.

Portfolio changes

Key additions and material adjustments

There were no new stock purchases for the portfolio in October.

Key disposals and material adjustments

There were no outright stock sales from the portfolio during October.

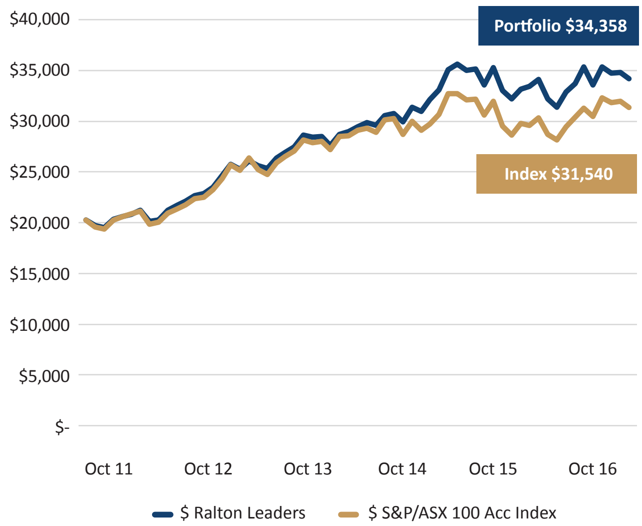
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Staples	12.6%	7.2%	5.4%
Consumer Discretionary	6.9%	3.5%	3.3%
Information Technology	3.3%	0.6%	2.7%
Utilities	4.5%	2.6%	1.9%
Health Care	7.3%	6.7%	0.6%
Energy	4.2%	4.0%	0.2%
Telecommunication Services	5.2%	5.2%	0.0%
Industrials	6.2%	6.7%	-0.4%
Materials	13.4%	15.7%	-2.2%
Financials (ex-Property)	36.4%	39.6%	-3.2%
Real Estate	0.0%	8.3%	-8.3%
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
QBE Insurance Group Limited	QBE
AMP Limited	AMP
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.

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