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 Smaller Companies	-4.06	1.43	12.85	13.78	12.40	16.00	12.48	8.27
Income return	*0.12*	*0.95*	*1.33*	*2.82*	*3.09*	*3.38*	*3.50*	*3.70*
Growth return	*-4.18*	*0.48*	*11.52*	*10.96*	*9.31*	*12.62*	*8.98*	*4.57*
S&P/ASX Small Ord Accum. Index	-4.72	-4.77	6.20	14.90	4.94	2.69	2.24	-0.62
Difference	**0.66**	**6.21**	**6.65**	**-1.12**	**7.46**	**13.31**	**10.24**	**8.89**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index fell heavily in October, losing 4.72% with most market sectors in negative territory, led by Materials and Consumer Discretionary. Energy was the only sector to make a material positive contribution.
- The Ralton Smaller Companies portfolio fell 4.06% for the month, outperforming the benchmark by 0.66% for the month.
- Stock selection within Consumer Staples and Industrials were the key contributors to the portfolio's outperformance.

Performance attribution

Key contributors

Key contributors	Positioning
Freedom Foods Group Ltd	Overweight
Cleanaway Waste Ltd	Overweight
GrainCorp Limited	Overweight

Freedom Food Ltd (FNP, +6.9%) – shares in FNP added value during October, and rolling year have delivered a return of 57%. FNP is focused on the twin themes of healthy eating and growth in demand for Australian food products in the emerging markets of Asia. It manufactures and sells a range of premium foods across dairy, cereal and seafood, with a focus on various dietary specialties, such as gluten-free. FNP sells mostly to domestic markets, however exports to Asia are growing.

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.

GrainCorp Limited (GNC, +7.0%) – shares in GNC have recovered since major shareholder, Archer Daniels Midland, attempted to sell part of its near-20% stake via a broker-driven 'block trade'. Despite this perceived overhang, recent rains and rising forecasts for the east coast grain harvest have been supportive of GNC shares. In fact, at the top end of the Australian forecasting agency ABARE's crop range, the east coast would be near a record. Although GNC has diversified into both malt production and various food oil segments, GNC's legacy grain storage and export facilities on the east coast, together with grain trading operations, still make a healthy contribution to GNC's annual profit. Recent rains in Australia suggest the current winter crop should be a good one. This will benefit GNC this year, but more so in coming years, both from a rebound in grain exports and service provision, but also as the winter crop usually underpins 'carry-over' grain for the next season and financial years. The risk at this stage as we enter the key harvest period, is likely excess rain in various regions which can reduce crop quality and yield. Typically, only the best quality grains are exported.

Key detractors

Key detractors	Positioning
Ainsworth Game Technology Limited	Overweight
Vita Group Ltd	Overweight
Fisher and Paykel Healthcare	Overweight

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.

Vita Group (VTG, -17.5%) – shares in telecommunications-focused retailer, VTG, fell materially in late October. VTG operates largely retail-facing stores, reselling Telstra (TLS) services under a master services licence or agreement. As part of regular negotiations around promotions, cost sharing and other arrangements, news was leaked into the market about current negotiations that relate to the terms of the agreement between VTG and TLS. Although such discussions can sound unnerving, we expect these are all part of the regular process of doing business. Given VTG has had a successful 20-year relationship with TLS and is both a key channel and more importantly highly successful distribution option for TLS to market its services, we would be very surprised to see changes to the agreement which would have a major impact on VTG's profitability. As such we took the recent weakness as an opportunity to modestly increase our position in VTG.

Fisher and Paykel Healthcare (FPH, -13.7%) – NZ medical device company FPH's shares detracted from returns during October, although rolling year the stock remains up 11.3%. The US Presidential election and potential for Secretary Clinton to succeed and implement policies that are less favourable to the US healthcare industry, and in particular pricing for a range of medical products, has likely weighed to some extent on FPH shares. We have seen such concerns before and consider that material pricing impacts for FPH's products in the US beyond what is an ever-present risk of pricing reform, is unlikely.

Portfolio changes

Key additions and material adjustments

Bought
Regis Resources (RRL)
Superloop Limited (SLC)

We added two new stocks to the portfolio during the month, with each stock discussed below.

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.

Superloop Limited (SLC) – we acquired a small position in telecommunications carrier, Superloop Limited, during the month. SLC's strategy is to become a leading independent provider of connected infrastructure across Asia. Specifically, SLC operates and rents 'dark fibre' cables in Singapore and Hong Kong to key customers. Dark fibre can be extremely valuable to customers as it connects customers' communication systems to other key assets such as submarine cable and data centres. Dark fibre is a key link in the modern communications chain and provides customers with security, dedicated bandwidth and often high-speed access to markets and other data sources. We expect SLC's key assets are well positioned in a competitive sense and that, as SLC signs up new customers to its network, the margin opportunity is quite significant.

Key disposals and material adjustments

Sold
Clydesdale Bank PLC (CYB)

Clydesdale Bank PLC (CYB) – we exited our position in mid-tier UK bank, Clydesdale Bank, during October. Post the UK's Brexit decision in June, the outlook for all UK-domiciled businesses, including CYB, has become less clear. Since the demerger from NAB, CYB's new management team has been focused on right sizing its cost base with an early increase in the overall savings target. However, with the high level of uncertainty around the regulatory and economic impact of Brexit likely to persist for perhaps a couple of years, and the ongoing weakness of the pound – which lowers the Australian dollar share price – we have elected to take a cautious stance and exit our holding in CYB.

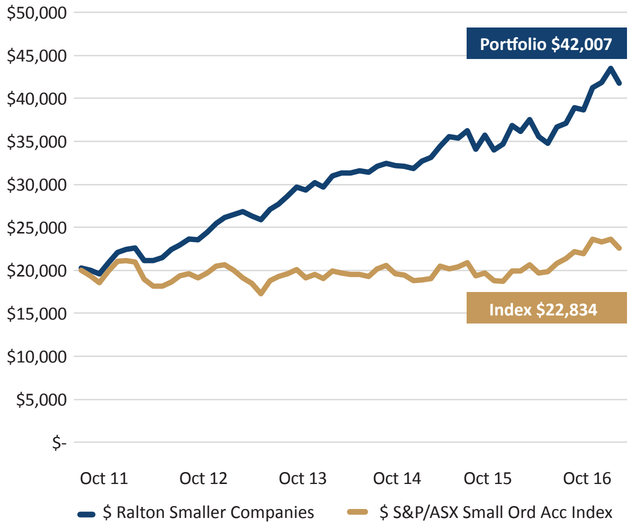
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Staples	13.5%	6.4%	7.1%
Materials	25.5%	20.0%	5.5%
Telecommunication Services	5.5%	1.4%	4.1%
Financials (ex-Property)	11.5%	8.4%	3.2%
Health Care	9.8%	6.7%	3.1%
Energy	4.7%	4.6%	0.1%
Utilities	0.0%	0.8%	-0.8%
Consumer Discretionary	18.3%	21.1%	-2.8%
Industrials	5.8%	11.0%	-5.2%
Information Technology	2.8%	8.3%	-5.5%
Real Estate	2.7%	11.4%	-8.7%
Total	**100.0%**	**100.0%**	

Top 10 holdings#

Company name	ASX code
Fletcher Building Limited (Australia)	FBU
Fisher & Paykel Healthcare Corp Limited	FPH
Evolution Mining Limited	EVN
Nufarm Limited	NUF
Tassal Group Limited	TGR
News Corporation	NWS
Macquarie Atlas Roads Group	MQA
Speedcast International Ltd	SDA
Aristocrat Leisure Limited	ALL
Steadfast Group Ltd	SDF

Performance comparison of $20,000*



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Performance of the Ralton Wholesale Smaller Companies 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.