Total returns

At 30 November 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	2.78	1.61	3.18	7.40	8.55	14.64	9.65	7.38
Income return	*0.57*	*1.03*	*2.87*	*5.18*	*4.81*	*4.99*	*4.96*	*5.02*
Growth return	*2.22*	*0.58*	*0.30*	*2.22*	*3.74*	*9.65*	*4.70*	*2.37*
S&P/ASX 300 Accum. Index	2.80	1.09	3.26	10.07	5.35	10.38	6.59	4.08
Difference	**-0.02**	**0.52**	**-0.08**	**-2.67**	**3.20**	**4.26**	**3.06**	**3.31**

Performance review

- The S&P/ASX 300 Accumulation Index rose 2.80% in November, buoyed by the optimism around global growth under the next US President. Financials and Energy were the top performing sectors with Healthcare and Telecommunications both declining during the month.
- The Ralton High Yield portfolio finished the month up 2.78%, essentially in line with the benchmark.
- For the month, being underweight Health Care and Real Estate both added relative value to the portfolio, although being underweight materials was a headwind to performance

Performance attribution

Key contributors

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

QBE Insurance Group (QBE, +11.8%) – rallied strongly during November on the back of the rising global yield curves. We have been expecting a move up in the US yield curve for some time given the rise in the various measures of US inflation over the past 12 months. The trigger for the market's move was the election of Donald Trump as US President. Australian and European rates were also dragged higher with the move in US rates and this also benefits QBE. The US 10-year bond rate gained 56bps for the month (or approximately 30%). This is not as bad as the 1994 bond market crash, but it is still a very extreme move in a month. The Trump election victory and likely US fiscal policy easing along with the flexibility delivered with the Republicans controlling both houses may just be the spark to drive rates. QBE's investment income and claims liabilities both benefit from rising bond yields and this was part of our investment thesis for the stock. Progress on cost reductions, moderate total premium growth, a strong balance sheet and a growing sustainable yield, continue to provide us with confidence in QBE's multi-year turnaround.

Incitec Pivot (IPL, +6.8%) – shares in IPL were boosted by a solid FY17 profit result, supported by cost-out and efficiency returns from IPL's 'BEx' program. IPL operates in tough markets, however its management team continues to drive productivity gains from the businesses. Falling fertiliser and ammonia prices have weighed on IPL for nearly 12 months, with recent data points suggesting prices may finally be basing. The long-awaited US ammonia plant (known as 'Waggaman') recently commenced operations and, subject to various moving parts, we expect it to deliver solid cash flows and likely boost returns to IPL shareholders in turn.

Computershare Limited (CPU, +9.9%) – was another beneficiary of the rise in US yields triggered by the election of Donald Trump as US President. CPU earns interest on the cash balances it holds for companies to pay dividends to investors, the proceeds of rights issues and IPOs etc. CPU also benefits as rising long rates will reduce the incentive for mortgagees to refinance their home loans for which CPU holds the mortgage servicing rights (i.e. it earns a fee for processing payments etc., on these loans). Finally, we continue to like CPU given its positive drivers in the current environment including its productivity agenda, improved capital allocation, growth businesses, such as mortgage processing services, and the benefits accruing from rising interest rates.

Key detractors

Key detractors	Positioning
Boral Limited	Overweight
Aristocratic Leisure Limited	Overweight
Woolworths Limited	Overweight

Boral Limited (BLD, -20.2%) – shares in BLD were under pressure in November following a material capital raising to support the acquisition of US-based Headwaters for US$2.6bn. The acquisition is consistent with CEO Mike Kane's long flagged strategy of boosting BLD's presence in the US and gaining exposure to the US housing cycle. Utah-based Headwaters' products cover a range of construction materials and building products, bolstering and deepening BLD's existing US presence in several sub-markets and geographies. The business has been on

CEO Kane's watch list for some time and assuming the transaction passes all regulatory hurdles, Headwaters' and BLD's existing US operations will then account for nearly 40% of BLD's profits.

The share price response appears to have been driven by both the size of the deal, with BLD issuing a significant amount of new shares, and investor scepticism as to whether Kane can deliver his target of US$100m of synergies, which in turn would go some way to justifying the price paid for Headwaters. We share this scepticism and will be watching closely how these plans will be executed. Revenue synergies, which have been included in the target, have historically been very tough for companies to deliver. What appears to have been overlooked at present is the tax losses BLD holds in the US and the tax shelter that will be created from the amortisation of acquired goodwill in the US. Both of these items will provide a substantial benefit to BLD from a cash flow perspective. Also, assuming the US housing cycle, with volumes currently running below a typical mid-cycle run rate, continues its upward trajectory, these factors should combine to prove supportive of BLD's US acquisition.

Aristocrat Leisure (ALL, -2.2%) – ALL's full-year profit results delivered on the last day of November were well received seeing the stock rally, although it still finished down for the month in a rising market. Within the results, we saw continued gains in ALL's participation in its installed-machine base in the US, further market share gains in Australia and ongoing growth in ALL's online gaming offer. Further, strong growth in cash flow and reduced debt levels were positive. Many of ALL's US-focused peers continue to be encumbered by high debt levels, limiting product investment and allowing ALL to gain market share with new leading product launches. Altogether we continue to see value in ALL shares despite the strong valuation uplift in recent years.

Woolworths Limited (WOW, -3.2%) – WOW shares gave back some recent gains in a rising market. As we have highlighted in recent monthly reports, we have been impressed by improving sales trends at WOW's core Australian supermarkets since mid-year. 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 CEO Banducci is undertaking.

Portfolio changes

Key additions and material adjustments

There were no new stock purchases during the month, although we added to existing positions in both **Suncorp (SUN)** and **Regis Resources (RRL)**.

Key disposals and material adjustments

There were no outright stock sales during the month, although we reduced our holdings in both **QBE Insurance (QBE)** and **Incitec Pivot (IPL)**.

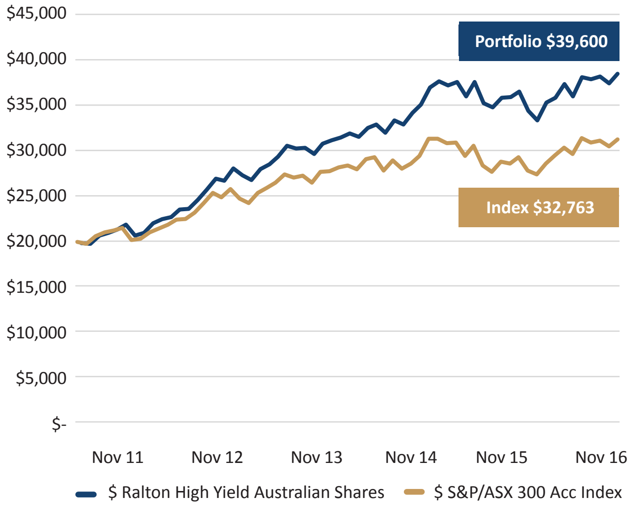
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Staples	13.7%	7.0%	6.7%
Utilities	6.9%	2.5%	4.5%
Consumer Discretionary	9.2%	5.2%	4.0%
Information Technology	3.1%	1.4%	1.7%
Telecommunication Services	5.9%	4.7%	1.2%
Energy	4.6%	4.1%	0.5%
Materials	15.2%	16.2%	-1.0%
Industrials	2.3%	7.0%	-4.7%
Health Care	1.6%	6.4%	-4.8%
Financials	37.5%	45.6%	-8.1%
Real Estate	0.0%	8.5%	-8.5%
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
National Australia Bank Limited	NAB
Woolworths Limited	WOW
ANZ Banking Group Limited	ANZ
Aristocrat Leisure Limited	ALL
QBE Insurance Group Limited	QBE
Suncorp Group Ltd	SUN
Coca-Cola Amatil Limited	CCL

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.