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 Smaller Companies	-2.90	-3.10	4.52	12.48	11.67	15.63	11.84	7.83
Income return	*0.06*	*0.82*	*1.39*	*2.84*	*3.11*	*3.39*	*3.47*	*3.67*
Growth return	*-2.96*	*-3.92*	*3.13*	*9.63*	*8.56*	*12.24*	*8.36*	*4.16*
S&P/ASX Small Ord Accum. Index	-1.19	-4.42	0.81	13.51	5.88	3.22	1.81	-0.74
Difference	**-1.71**	**1.32**	**3.71**	**-1.03**	**5.79**	**12.42**	**10.02**	**8.58**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index lost 1.19% in November, with strength in non-gold resource stocks (Materials) offset by weakness in the Consumer Discretionary and Information Technology sectors.
- The Ralton Smaller Companies portfolio fell 2.90% for the month, underperforming the benchmark by 1.71% for the month.
- The portfolio's Energy overweight added value for investors, however our overweight to Telecommunications detracted value as did our underweight to Materials.

Performance attribution

Key contributors

Key contributors	Positioning
Costa Group Limited	Overweight
IOOF Holdings	Overweight
iSelect Limited	Overweight

Costa Group Holdings (CGC, +10.5%) – CGC shares rallied after the company issued a profit upgrade at the AGM. The horticultural company has recorded positive trading in the financial year to date, with solid demand across all of its produce categories and as such now expects to report at least 15% growth in profit for the current financial year. Post the AGM, CGC announced the acquisition of Ridge Avocados, a Queensland avocado farm, confirming CGC's stated aim of adding a fifth pillar to its Australian produce offering. We would expect CGC to aim for at least 20% market share in this category and hence we would expect further acquisitions.

IOOF Holdings Limited (IFL, +6.7%) - shares in wealth manager IOOF rallied during the month on minimal news. IFL held an investor day during November that highlighted the company's service offering to its financial advisers and clients. The key aspect IOOF sought to highlight was the flexibility or 'open architecture' of its investment platforms allowing advisers to personalise investment services, rather than be restricted to 'in-house' product offers. When compared to its peers – the big banks and other larger financial institutions – IFL is attempting to differentiate itself along service lines with a key focus on the customer. To that end, the investor day highlighted such flexibility as well as the cultural focus that underpins IFL's customer-facing activities.

iSelect Limited (ISU, +5.8%) – shares rallied during November following the company's AGM. ISU did not upgrade its existing profit guidance for the year, although it did confirm that revenue growth for each of its key vertical products such as Health and Broadband were in line or above its budget forecasts. With the positive trends from the second half of last financial year continuing into FY17, the AGM served to confirm the ongoing progress since CEO Wilson took over some 12 months ago. With a strong and increasingly trusted brand for consumer service, ISU continues to expand its product offering to meet demand. For example, ISU is now entering into credit card and travel insurance comparisons simply because consumers are visiting its website expecting ISU to offer these services. These customers are cheap to acquire for ISU as they are already visiting the website.

Key detractors

Key detractors	Positioning
Vita Group Ltd	Overweight
Speedcast International Ltd	Overweight
Northern Star	Overweight

Vita Group (VTG, -29.1%) – shares in telecommunications-focused retailer, VTG, fell again in November as uncertainty over the Telstra (TLS) reseller or master services licence weighed on VTG shares. Late month, VTG updated the market, confirming changes had been made to the terms of the agreement as part of the "regular course" of doing business with TLS. The changes would see an optimisation of the store network, including both additions and exits from several retail stores. Further, remuneration levels would change with the object of incentivising VTG and other store owners to pursue sales of higher value-added services, such as digital, and equally lower incentives for other products and services – presumably that are less profitable to TLS. As such, and quite reasonably, given the number of variables, VTG was unable to provide an exact impact on its profit in the current period.

For VTG shareholders, negotiations with TLS can appear quite unnerving, although we expect these are all part of the regular process of doing business. Given VTG has had a successful 20-year plus 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 sustained profitability.

Speedcast Int (SDA, -22.1%) – shares in SDA were under pressure in November following a material capital raise to support the acquisition of global telecommunication peer, Harris Caprock for US$425m. The acquisition is consistent with SDA's strategy of consolidating a somewhat fragmented industry and in so doing diversifying its business across industry, region and customer. The share price response appears to have been driven by both the size of the deal, with SDA issuing a significant number of new shares and investor scepticism in relation to SDA's ability to integrate a series of global acquisitions concurrently. Harris Caprock was the product of a merger several years ago – the positive aspect here is that many of the underlying businesses are, as part of a larger global company, yet to be fully integrated and synergies achieved and hence for SDA, this is an opportunity.

When the deal closes next year, it will consolidate SDA as the number one or number two player in most regions, across energy, leisure (cruise ships) and other remote industries. Assuming SDA is successful at integrating the businesses and delivering synergies, the amount paid for Harris Caprock looks favourable. Further, assuming the energy sector, which has been severely impacted by falling oil prices, has reached a bottom – noting the recent OPEC supply agreement – this should provide a tailwind to SDA whose exposure to energy has now increased post the Harris Caprock acquisition.

Northern Star (NST, -13.7%) – a weakening gold price post the US election result was the key headwind for NST and its fellow gold peers during November. Despite the recent pull-back in the gold price, NST's AGM held in late November confirmed to investors the investment returns discipline, principally return on invested capital (ROIC), that NST has adhered to in the current cycle. A focus on low-cost production and prudent exploration, rather than large-scale capital expansion or acquisitions, has driven the returns profile of NST higher and for that, Bill Beamont and his team at NST deserve due credit. NST reiterated production and cost guidance for the current year at its AGM.

Portfolio changes

Key additions and material adjustments

There were no new stock purchases during the month, although we added to existing positions in both **Ainsworth Game Technology (AGI)** and **Vita Group Ltd (VTG)**.

Key disposals and material adjustments

Sold
Graincorp (GNC)

Graincorp (GNC) – having already reduced our holding in GNC, we exited the position entirely during November. GNC has re-rated since our acquisition, reflecting a more positive view from the market on the benefits of growth projects in the Oils and Malt divisions. Solid recent rains for the key winter crop have also improved the outlook for grain harvest and wheat exports. This was largely in tune with our thesis and is now reflected in the higher share price, driving our decision to exit. Going forward, the key piece of uncertainty is the market share GNC retains in the key east coast export markets in Australia. Should GNC retain or even gain market share in the highly competitive market for export grains, then its shares could well justify a higher valuation. However, with no real confidence on this score, we elected to take profits and sell.

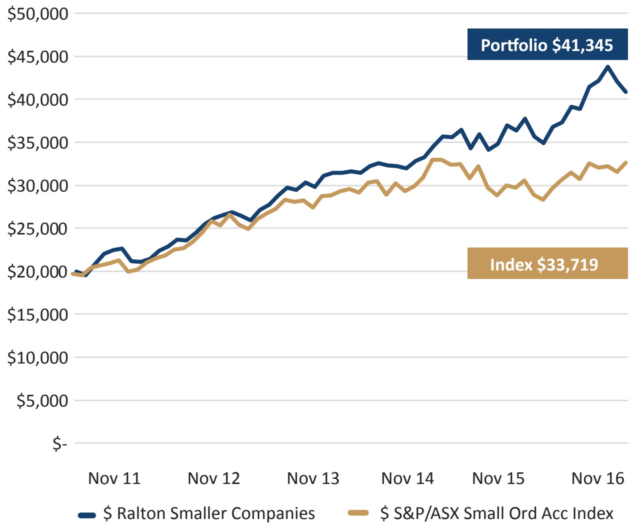
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Staples	12.1%	6.8%	5.4%
Telecommunication Services	6.5%	1.5%	5.1%
Materials	24.7%	20.1%	4.6%
Financials	11.8%	8.6%	3.2%
Health Care	9.4%	6.4%	3.0%
Energy	5.0%	4.7%	0.3%
Utilities	0.0%	0.8%	-0.8%
Consumer Discretionary	19.2%	20.9%	-1.7%
Industrials	6.0%	10.9%	-4.8%
Information Technology	2.4%	8.0%	-5.6%
Real Estate	2.7%	11.4%	-8.6%
Total	**100.0%**	**100.0%**	

Top 10 holdings#

Company name	ASX code
Fletcher Building Limited (Australia)	FBU
Speedcast International Ltd	SDA
Fisher & Paykel Healthcare Corporation Limited	FPH
Costa Group Holdings Ltd	CGC
iSelect Ltd	ISU
Tassal Group Limited	TGR
Macquarie Atlas Roads Group	MQA
Nufarm Limited	NUF
News CDIS	NWS
Freedom Foods Group Ltd	FNP

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.

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