

Total returns

At 31 January 2017	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	-2.87	-0.72	0.70	17.18	12.09	15.12	12.15	7.94
Income return	0.05	0.17	1.12	2.69	3.02	3.37	3.47	3.62
Growth return	-2.92	-0.89	-0.42	14.49	9.07	11.75	8.69	4.33
S&P/ASX Small Ord Accum. Index	-2.44	-0.13	-4.89	16.35	6.36	2.81	2.48	-0.61
Difference	-0.43	-0.60	5.59	0.82	5.73	12.32	9.67	8.56

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index fell 2.44% in January, with solid falls in Consumer Discretionary, Health Care and Information Technology partially offset by gains from the Energy and Telecommunications sectors.
- The Ralton Smaller Companies portfolio lost 2.87% for the month, underperforming the benchmark by 0.43% for January.
- Stock selection within Consumer Staples and Financials was not enough to offset our underweight to Materials, principally resource stocks.

Performance attribution

Key contributors

Key contributors	Positioning
Tassal Group Limited	Overweight
Speedcast Limited	Overweight
EQT Holdings	Overweight

Tassal Group (TGR, +11.3%) – the Tasmanian salmon producer was the portfolio's top contributor during the month, although there was no company-specific news. Wholesale salmon pricing appears to have been solid, as was demand for seafood overall during the key Christmas period. Given the strength of the share price, we took the opportunity to reduce our holding.

Speedcast International (SDA, +2.6%) – global communications service provider, SDA, now one of the portfolio's larger holdings, added value rising modestly in a falling market. Calendar 2016 was an eventful year for SDA and its shareholders, marked by a mix of positive and negative developments. Starting with the latter, end-market demand for remote communications services was tepid, particularly in the energy segment which, in turn, weighed on new business commitments and saw SDA reduce its profit expectations across the year. On a more positive note, SDA acquired peer company, Harris Caprock, funded by an equity raise from shareholders in the last quarter. The acquisition adds scale, making SDA the number one or number two player in most major geographies and customer sub-

segments. Scale brings technological capability, buying power and brand positioning. For example, if you are Exxon, you likely select a scale player to provide remote telecommunication services. In this context and noting the improvement in the oil price and spending intentions across the energy sector, we expect calendar year 2017 to be a year of consolidation and delivery for SDA. Successful integration of Harris Caprock, modest revenue growth for the combined business and solid cash generation, reducing debt would be well received by the market.

Equity Holdings (EQT, +5.7%) – 'Equity Trustees' added value in January. As we have highlighted previously, we believe EQT has a high-barrier-to-entry business model, with long-dated 'wills' and philanthropy offerings within its Trustee and Wealth Services (TWS) business, and a sticky client base within its Corporate Trustee Services (CTS) business. EQT announced the acquisition of Sandhurst Trustees' estates and trusts business just prior to Christmas. Purchased from Bendigo and Adelaide Bank for \$5m, the acquisition adds scale to the wills, estates and trusts division of EQT, boosting funds under management by approximately 15%.

Key detractors

Key detractors	Positioning
Ainsworth Gaming	Overweight
Virtus Healthcare	Overweight
Nextdc Limited	Overweight

Ainsworth Game Technology (AGI, -14.2%) – shares detracted from portfolio returns. The share price has been under pressure from its falling market share in Australian gaming markets, culminating in a recent profit downgrade late last year. We believe AGI's market share has reached or is very close to bottoming in Australia. Also, its US market share continues to move higher, which is reinforced by AGI's increased spend in R&D and corporate costs. In the short term, these are a headwind to profits, but as we have seen with Aristocrat, they will drive innovation and future product development, which ultimately drives revenue growth. Secondly, the technology (games library) support from new shareholder, Novomatics, together with European sales

opportunity and the presence Novomatics has committed to as part of the Ainsworth transaction, is expected to be a benefit to AGI's unit volumes and profits.

Virtus Health (VRT, -18.1%) – shares in the IVF provider fell heavily following a profit downgrade. Weaker volumes or patient demand has impacted VRT's business, cycling very strong growth from the prior period. Competition for patients, particularly in the lower-cost market segment, has also crimped VRT patient flows. We have followed the cycle of IVF patient movements for some time and have confidence that over time, patient demand across the industry will grow in low single digits – benefiting from population and demographic changes. On the competition front, we are more circumspect, although believe VRT's two-tier service model has served it well and is likely to continue to. Budget competition from companies such as Primary Healthcare is, from our vantage, not scalable, although we note the ability of less-than-rational competition as having the ability to disrupt the status quo in the short term. At this stage, we continue to persist with our view of VRT's strong position in a solid industry. Further, VRT continues its offshore expansion, noting the recent move into Denmark.

Nextdc Limited (NXT, -15.4%) – the shares were impacted by global selling across infrastructure stocks and, to a lesser extent, information technology. NXT is an owner and operator of data centres or 'DCs' across Australia. The business model relies on acquiring and building electronic storage capacity close to major population centres and then renting out these facilities to corporates and governments that have significant data and security requirements. NXT has spent many years and significant capital to build several centres and attract customers. Barriers to entry are high, as you would expect, and NXT now appears to have reached critical mass in terms of customer growth, number of centres and capital sustainability. We like the exposure NXT offers to the growth in demand for data, cloud computing and associated technology services and believe it offers good value over the medium term. We are confident that this thesis remains.

Portfolio changes

Key additions and material adjustments

We did not purchase any new stocks during the month.

Key disposals and material adjustments

We reduced our position in TGR as described above and similarly, following a strong share price performance, we also took profits in **Freedom Foods (FNP)**.

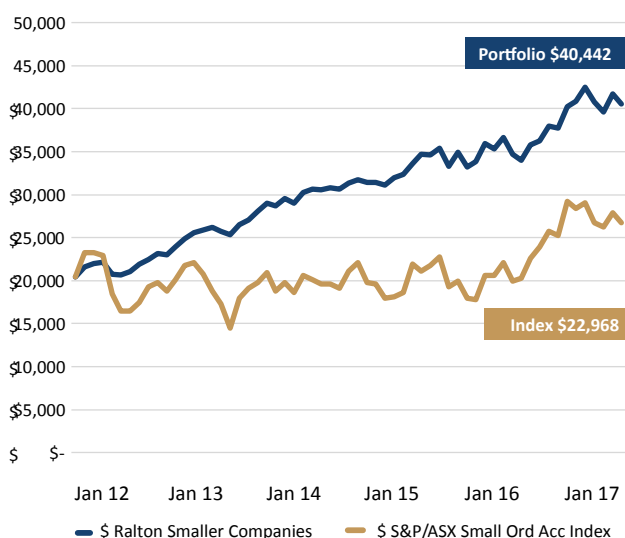
Sector allocation

GICS sector	Ralton	Index	+/-
Health Care	11.4%	6.7%	4.7%
Financials	11.7%	8.2%	3.5%
Telecommunication Services	7.2%	4.3%	2.9%
Materials	23.7%	20.8%	2.9%
Energy	6.8%	4.3%	2.5%
Consumer Staples	8.0%	5.7%	2.3%
Consumer Discretionary	20.2%	19.5%	0.8%
Utilities	0.0%	0.8%	-0.8%
Information Technology	2.7%	5.7%	-2.9%
Industrials	5.8%	12.1%	-6.4%
Real Estate	2.6%	12.1%	-9.5%
Total	100.0%	100.0%	0.0%

Top 10 holdings#

Company name	ASX code
Speedcast International Ltd	SDA
Fletcher Building Limited (Australia)	FBU
Worleyparsons Limited	WOR
Aristocrat Leisure Limited	ALL
Evolution Mining Ltd	EVN
Fisher & Paykel Healthcare Corp Ltd	FPH
Macquarie Atlas Roads Group	MQA
Costa Group Holdings Ltd	CGC
Steadfast Group Ltd	SDF
News CDIS	NWS

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 in an 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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