Total returns

At 31 May 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 High Yield Australian Shares	-1.35	3.56	10.91	14.43	10.36	16.07	11.82	8.17
Income return	*0.43*	*1.28*	*2.14*	*4.40*	*4.53*	*4.69*	*4.86*	*5.01*
Growth return	*-1.78*	*2.28*	*8.77*	*10.03*	*5.83*	*11.38*	*6.96*	*3.16*
S&P/ASX 300 Accum. Index	-2.74	1.43	7.30	10.80	6.04	11.70	8.34	4.64
Difference	**1.39**	**2.13**	**3.60**	**3.63**	**4.31**	**4.37**	**3.49**	**3.53**

Performance review

- The S&P/ASX 300 Accumulation Index lost ground in May, falling 2.74%. Strength in Industrials and Telecommunications was not enough to offset weakness in other sectors, principally Financials.
- The Ralton High Yield portfolio was down 1.35% for the month, outperforming the benchmark by 1.39%.
- For the month, our portfolio benefited from being overweight Consumer Discretionary and Energy, but also being underweight Financials (principally banks).

Performance attribution

Key contributors

Key contributors	Positioning
Aristocrat Leisure	Overweight
Macquarie Atlas Roads Group Ltd	Overweight
Boral Limited	Overweight

Aristocrat Leisure (ALL, +11.0%) – continued its strong rise, gaining a further 11% for May. ALL's half-year profit results were warmly received by investors. Highlights came from nearly every business segment, with North America, Digital and International Class III gaming results all above expectations. Market share gains were consistent with industry feedback that ALL's current product suite is being well received by both venue owners and end users alike. For Digital, ALL continues to add users and grow daily user fees, with market analysts now expecting earnings of $160m for the full year from a business which was only established a few years ago after the acquisition of a fledging player in the space for approximately US$20m. The new CEO, Trevor Croker, has continued the group's commitment to strong product investment (R&D spend). This R&D spend continues to support ALL's core business, but also moves into adjacent categories such as the new Class II and Class III Stepper games scheduled for release in the US in 2H17.

Macquarie Atlas Roads (MQA, +9.6%) – shares in toll road asset manager, MQA, performed strongly during the month. MQA's principal asset is the APRR toll-road located in France. There were three key drivers for MQA during the month: 1) the election of Emmanuel Macron as French President was a positive as it removes the potential political risk around the asset and should stimulate economic growth if he delivers on his reform platform, 2) the strengthening of the Euro against the Australian dollar assisted the translation of the value of the asset for domestic shareholders, and 3) the decline in bond yields during the month have also been supportive of infrastructure assets.

Boral Limited (BLD, +11.2%) – shares in BLD rose again in May as investors continue to focus on the fundamentals of the US-based Headwaters acquisition. Boral received US regulatory approval for the transaction, completing the final hurdle and formally closing the deal in early May. As we emphasised at the time of the announcement in November last year, the acquisition of Headwaters is consistent with the group's strategy of expanding its presence in the US to gain more exposure to the US housing cycle. With the transaction now having passed all regulatory hurdles, Headwaters' and BLD's existing US operations will account for 45% of BLD's profits. The housing cycle has recovered slowly post GFC but sits well below previous mid-cycle levels, creating potential for significant improvement in demand for Boral's services. This should prove favourable to Boral, combined with its exposure to infrastructure via its FlyAsh business, a key input in concrete products. Cyclical strength could well see US profits account for greater than 50% of total company profits in the near term.

Key detractors

Key detractors	Positioning
ANZ Banking Group	Overweight
Pact Group Holdings Ltd	Overweight
The Star Entertainment Group	Overweight

ANZ Banking Group (ANZ, -14.5%) – the Federal Government's decision to introduce a 'bank levy' as part of the May budget was a key trigger for share price weakness across the banking sector. The bank levy is seeking to charge Australia's largest banks a cumulative $6.2bn over the four-year 'forward estimates' period. While our holding in ANZ detracted from performance during the month, our underweight positioning in the banking sector was a solid contributor to the portfolio's outperformance during the period. This positioning reflected our struggles with the valuations given the headwinds all the banks face. However, the banks continue to offer an attractive yield and bad debts remain benign given the very low level of interest rates. With this backdrop, we are comfortable with our positions in the banks.

Pact Group (PGH, -12.8%) – after reporting soft volumes in late April, PGH has seen a continued share price pull-back in May. The volume decline was driven by a soft economy, certain PGH industry exposures and some impact from the timing of Easter holidays. We do not believe this period is reflective of PGH's underlying business opportunity and have since upweighted our position. Under CEO, Malcolm Bundey, PGH has been expanding its product offering, winning contracts and continuing to make bolt-on acquisitions. Bundey brings considerable international experience to PGH and is overseeing a considerable productivity drive across its manufacturing footprint. These measures, together with the commencement of a material new 'crate washing' contract in FY18 and other smaller contract wins, particularly in contract manufacturing with parties such as Aldi, are expected to support future profit growth.

The Star Entertainment Group (SGR, -7.7%) – was one of several Australian consumer-facing stocks that underperformed across May. An investor update during the period highlighted a moderation in core revenue growth below the level expected by us and the market. Revenue growth for the period remains at a healthy 4.1%, marking a reversal from the first-half period where disruptions from significant capital works at the Sydney and Gold Coast casinos were a headwind to revenue growth. As we expect the soft consumer outlook to remain for a period (given low wage growth and rising interest rates, electricity costs, health costs, etc.), we have reduced the position in the portfolio. Medium term, we continue to expect SGR will benefit from growing tourism, with continued strong arrivals from China expected to drive continued demand at its casinos. Further, SGR's operational improvements should see it continue to win market share in the local Sydney market – a reasonable tailwind for Star's core asset, the Star Casino in Sydney.

Portfolio changes

Key additions and material adjustments

We added two new positions to the portfolio, namely Lend Lease (LLC) and Vicinity Centres (VCX).

Bought
Lend Lease (LLC)
Vicinity Centres (VCX)

Lend Lease (LLC) – we bought an initial position in LLC during May, increasing the portfolio's exposure to the Australian east coast infrastructure theme. As was evident in the recent Federal Budget, governments are intent on boosting infrastructure as a means of simultaneously driving economic growth, productivity and voter services. Lend Lease recently restructured its infrastructure team with a view to deliver some $4-$5bn in annual revenues from this division. This would imply a near doubling of current revenues, with LLC also seeking a commensurate improvement in margins. We retain a positive outlook toward LLC's other divisions, including US and UK construction and property funds management (Investments). LLC's domestic apartment division has likely peaked for this cycle. Pleasingly, LLC's mid to high-end apartment product has served the company well, with strong demand and no material evidence to date of defaults on settlement.

Vicinity Centres (VCX) – we added a position in the retail REIT, VCX, during the period. Vicinity owns multiple retail properties or shopping centres across Australia, although is perhaps best known for its ownership of Chadstone – a retail mega world with an emphasis on high-end fashion, located in Melbourne's south east. Shares in many of the retail-exposed REITs have been weaker since late last year, with global bond yields rising and concerns about the impact of Amazon's Australian entry on what has been a muted retail sector. These concerns provided an opportunity to acquire the shares below their current asset value. While there is likely downside to rental levels in the future, we believe the share price weakness has been overdone. Tenant leases are typically long dated and will allow for change in tenant mix across time as Amazon and others force traditional retailers to adapt and change. We expect the quality of VCX's overall portfolio and focus on rental growth to support the shares and maintain its strong dividend yield.

Key disposals and material adjustments

We exited two of the portfolio's utility exposures during the period, reflective of recent share price appreciation and the reduction in the yield.

Sold
AGL Energy Limited (AGL)
Origin Energy (ORG)

Shares in **AGL Energy Limited (AGL)** re-rated considerably in recent months as our thesis around rising electricity prices and the cash flow benefits that follow to AGL has unfolded. We are however cognisant this theme may have run its course. The 'forward curve' for electricity prices rose considerably in recent months based on expectations of a tight market for electricity and may well have peaked. As we previously highlighted, the sharp rise in power prices over the past couple of years is a result of the communities' decision to increase the level of renewable energy in the system and a failure to implement a strategic plan to undertake this transition. This has benefited AGL and other power generators whose cost of production is somewhat fixed. On top of regulatory risks from politicians keen to shield voters from rising power bills, we have seen a myriad of supply responses over recent months across the spectrum of solar, gas, pipelines, wind farms, battery storage and more. With this peak in pricing likely and AGL trading around fair value, we elected to take profits on this name.

With **Origin Energy (ORG)**, similar themes have boosted expectations for ORG's Energy Markets division. Origin has exposure to rising electricity prices via a more diversified mix of baseload, short-cycle (gas peaking) generation and a growing book of renewables. ORG has also made progress elsewhere with asset sales, debt reduction and lower capital expenditures each improving ORG's balance sheet. The successful commissioning thus far of the APLNG plants at Gladstone and stabilisation in world oil prices are likely to drive further improvement in cash flows in coming periods. With these positive developments now better reflected in the share price, we elected to sell our position in ORG.

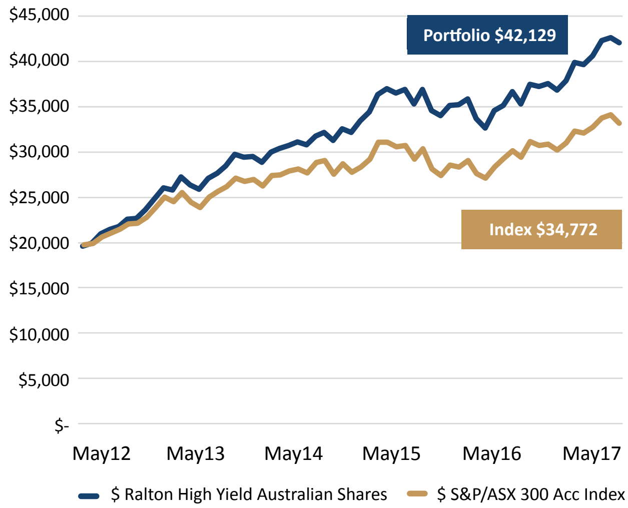
Sector allocation

GICS sector	Ralton	Index	+/-
Materials	18.9%	16.0%	2.9%
Consumer Staples	9.9%	7.2%	2.7%
Energy	6.3%	4.4%	1.9%
Information Technology	3.2%	1.3%	1.9%
Consumer Discretionary	6.9%	5.2%	1.7%
Telecommunication Services	4.8%	3.8%	1.0%
Utilities	1.5%	2.4%	-0.9%
Financials	34.7%	36.4%	-1.7%
Health Care	5.2%	7.1%	-1.8%
Industrials	4.5%	7.5%	-3.0%
Real Estate	4.2%	8.8%	-4.6%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
Commonwealth Bank of Australia	CBA
ANZ Banking Group Limited	ANZ
BHP Billiton Limited	BHP
Westpac Banking Corp	WBC
Woolworths Limited	WOW
Aristocrat Leisure Limited	ALL
Telstra Corporation	TLS
QBE Insurance Group Limited	QBE
Suncorp Group Ltd	SUN
Woodside Petroleum Limited	WPL

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.