Total returns

At 30 September 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	0.90	0.30	1.39	2.31	11.69	14.55	12.33	8.18
Income return	*0.65*	*1.06*	*1.34*	*2.64*	*2.90*	*3.27*	*3.64*	*3.82*
Growth return	*0.25*	*-0.75*	*0.06*	*-0.33*	*8.78*	*11.28*	*8.70*	*4.35*
S&P/ASX Small Ord Accum. Index	1.31	4.41	4.04	2.98	8.15	5.09	2.27	0.24
Difference	**-0.41**	**-4.10**	**-2.65**	**-0.67**	**3.54**	**9.46**	**10.07**	**7.93**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index added 4.41% for the September quarter, outperforming the large cap benchmark by over 3% and benefitting from strong returns by the Material, Energy and Consumer Staples sectors.
- The Ralton Smaller Companies portfolio returned 0.30% for the month, underperforming the benchmark by 4.11%.
- The portfolio's overweight position in Energy added to both absolute and relative returns for investors. Conversely, our underweight exposure to Materials and overweight position in Health Care both detracted from returns.

Performance attribution

Key contributors

Key contributors	Positioning
Beach Petroleum	Overweight
Ainsworth Game Tech	Overweight
WorleyParsons Ltd	Overweight

Beach Energy Limited (BPT, +43.5%) – solid progress on BPT's turnaround under CEO Kay, together with a reasonably stable oil price, proved supportive for BPT shares. Having simplified the business under Kay and reduced drilling costs, both operational and capex, BPT is now on firmer ground as a business. BPT has indicated it will step up its drilling program, guiding to a more than 50% increase in spend with some $220m-$260m planned expenditure in FY18. BPT is targeting replacement of current FY18 year production with the drilling program and committing to a production target of greater than 10mm boe over the next 3 years. BPT remains focused on its core assets in the Cooper and Eromanga basins as well as proving up reserves for future production. Toward the end of the quarter, BPT also confirmed the $1.57bn acquisition of Lattice Energy, the upstream oil and gas assets of Origin Energy (ORG), containing several key stakes in Australian focused oil and gas fields.

Ainsworth Game Technology (AGI, +18.1%) – AGI shares continued to rally into the FY17 results announcement, reflecting investors' conviction that the turnaround at AGI was gaining traction. Industry feedback still continues to suggest that AGI's latest game offerings are gaining share in the key US market. In Australia, AGI's market share has likely bottomed and if the increase in current research and development spend flows through to a more competitive panel of games as we expect, then AGI is likely to win back some lost share in this market. Somewhat confirming these views, AGI's FY17 results met the company's guidance, adjusting for material currency impacts and a lower tax rate. Composition of unit sales by region was however quite different to our expectations with Latin America as a region showing the best results for the period. Although not yet evident in the FY17 unit sales, the outlook for orders in both the US and Australian market is certainly improving, including one large scale order for gaming units expected in the US in coming periods. We took some profits in this name, although retain a solid holding and continue to monitor the pace of the turnaround and execution.

Worley Parsons Ltd (WOR, +20.3%) – in line with our investment thesis, Worley's FY17 profit result confirmed a stabilisation in revenues, solid EBIT margins and improved cash flows, including the collection of outstanding payments from various sovereign clients. This confirmed that WOR has been successful in adjusting its cost base in the face of a downturn in its core hydrocarbons market. The outlook for WOR remains positive, with a bottoming in its global clients' capital expenditure budgets, an improving win rate on large tenders and management expecting to retain savings which will boost margins as demand returns. Visibility on the strength and timing of any uptick in demand remains limited and dependent on the vagaries of oil price movements. We continue to monitor OPEC supply cuts closely.

Key detractors

Key detractors	Positioning
iSelect Ltd	Overweight
Mayne Pharma Ltd	Overweight
Australian Pharm	Overweight

iSelect Limited (ISU, -20.4%) – ISU's FY17 profit met the company's forecast earnings range for the financial year, though fell some $1.5m short of the top of its guidance. The 'shortfall' was driven by some consumer softness in the fourth quarter in the Energy and Telco sector, a smaller tax-driven private health insurance push in late June and increased investment in its South African consultant centres, which was a decision made in March against a slightly more positive trading backdrop. The market's disappointment was severe as investors quickly revisited the credibility issues of the 'old ISU' and wiped a good portion of the last year's share price gains from ISU's value. In the medium term, we believe that ISU's offering to consumers, relationship with key product providers, increasing diversification of earnings streams and the positive steps taken by the management team have not disappeared. The net cash backing of the balance sheet, ongoing share buyback and valuation support add strength to our conviction. We will be looking for positive signals that ISU remains on track to hit FY18 targets before increasing our position.

Mayne Pharma Ltd (MYX, -39.2%) – concerns around the pricing outlook for MYX's portfolio of US generic drugs weighed on the shares in the quarter. The shares are off some 65% from 2016's prior peak, and although we only began to invest early this year, the share price move since we first invested is certainly material. At present, the investment community is intently focused on the problem child, the generics division, and seeking clarity on when the current price pressures will end. While the current product price deflation is a surprise, we do not believe it will be sustained, nor do we believe that MYX has failed to understand the US industry. We remain quite positive on MYX's other divisions, its branded dermatology franchise and MCS – a contract services provider to multiple pharmaceutical clients and a key part of the pharma ecosystem. Both are good quality businesses, operating in growth segments with some degree of differentiation. Once the market can look past the current generics price issue, the focus and value upside from MYX's other operations should become more evident. MYX also has an extensive R&D pipeline for generics, plus a half share in US listed HedgePath pharmaceuticals which has a market cap of circa US$130m. We do not factor these R&D options in the pipeline, but look for MYX to continue to advance various projects toward commercialization.

Australian Pharmaceuticals (API, -21.8%) – following August's profit downgrade and with Amazon's likely entry into the domestic retail market weighing on investor sentiment across the whole sector, API's shares were a material negative contributor to investor returns for the quarter. In August, API reduced profit growth guidance for the current year, citing a softening of consumer sentiment and impact on foot traffic at the Priceline pharmaceutical stores. The company is still forecasting 5% profit growth for the full year, however the pace of growth has clearly slowed. We retain a supportive view of the business model and continue to see solid execution on the store rollout as a key driver for this name. API has an attractive valuation, solid cash flows, pays what we expect to be a growing dividend yield and will be essentially debt free in in the next one to two years.

Portfolio changes

Key additions and material adjustments

We added three new stocks to the portfolio in the quarter.

Bought
Credit Corp Group (CCP)
OFX Group (OFX)
Viva Energy REIT (VVR)

Credit Corp Group (CCP) – in simple terms, CCP purchases debt ledgers or books of bad debt and works to reclaim a share of the debts. Banks and other credit organisations are typically the sellers, as they often want to avoid the publicity of chasing debts from clients who fail to meet loan obligations. CCP's key drivers are the flow of debt ledgers, its ability to price risk and its systems and processes for pursuing clients, often recouping money via various remedial actions. CCP's Australian operations have been running well for some time on all of the above scores. Of more interest in a valuation sense is CCP's smaller US business, where after developing a presence patiently over several years, CCP is now seeing the market and opportunities open up.

OFX Group (OFX) – we see a turnaround opportunity in OFX, focused on familiar themes. OFX's core business is online foreign currency transfers, targeting quality service at far lower cost to the banks, who despite their high fees still dominate this segment of banking. Upon listing, OFX had a fast growing, high ROE, reasonably recognized and branded business that had been successful in private hands. Listing brought the pressures of bi-annual profit targets, which combined with a series of management and strategic tilts led to a loss of focus. New CEO Skander Malcolm has impressive credentials in business across several international jurisdictions. His focus for the time being is on simplification and executing well on a small number of tasks. The balance sheet is in good shape and risk measures and compliance, key for this type of business, appear top notch. Plans exist for expansion, but these are largely focused on core competency through enhanced sales efforts in key markets. At this stage, we have taken a small position in OFX before ideally increasing the size of our exposure, conscious of the near-term headwinds as Skander's team implement their strategy and awaiting progress on key initiatives.

Viva Energy REIT (VVR) – we further increased our exposure to the A-REIT segment with the purchase of VVR for the portfolio. VVR is a long WALE business with exposure to Shell service stations. The REIT owns over 400 petrol stations across Australia, predominantly branded Coles Express or Shell. The combination of its long term stable leases with built in annual growth, plus the capacity to make accretive acquisitions, provides a vehicle with an attractive growing yield and moderate earnings growth.

Key disposals and material adjustments

Bought
Equity Holdings (EQT)

Equity Holdings (EQT) was the only outright sale from the portfolio in the quarter. EQT was originally purchased as a shallow turnaround-type investment following the downgrade of early 2016. Our view remains that 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's management team has been successful in right-sizing the business and adjusting the cost base following the 2016 issues. With the shares now trading higher and having recently paid a final dividend, we felt that EQT was fair value and exited our holding. We continue to like this business and will look for future opportunities to revisit.

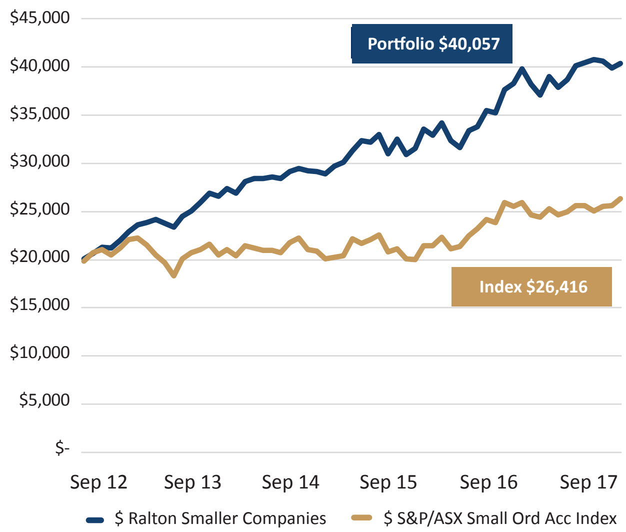
Sector allocation

GICS sector	Ralton	Index	+/-
Health Care	15.3%	6.6%	8.6%
Telecommunication Services	5.6%	1.8%	3.7%
Utilities	2.8%	0.6%	2.2%
Energy	7.4%	6.4%	1.0%
Financials	8.9%	8.0%	0.9%
Consumer Staples	11.2%	10.4%	0.8%
Information Technology	6.0%	6.9%	-0.9%
Materials	16.2%	17.2%	-1.0%
Industrials	8.0%	9.9%	-1.9%
Real Estate	8.3%	12.4%	-4.1%
Consumer Discretionary	10.4%	19.8%	-9.4%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
Fisher & Paykel Healthcare Corp Ltd	FPH
Worleyparsons Limited	WOR
Nextdc Ltd	NXT
Tassal Group Limited	TGR
Speedcast Int Ltd	SDA
Fletcher Building Limited (Australia)	FBU
Japara Healthcare Ltd	JHC
Macquarie Atlas Roads Limited	MQA
Pact Group Holdings Ltd	PGH
Beach Energy Limited	BPT

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 Small Ordinaries 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.

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