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 Leaders	3.82	3.71	2.10	17.87	8.81	12.45	9.87	7.13
Income return	*0.00*	*1.41*	*1.99*	*4.04*	*3.95*	*4.03*	*4.30*	*4.50*
Growth return	*3.82*	*2.30*	*0.11*	*13.83*	*4.86*	*8.42*	*5.57*	*2.63*
S&P/ASX 100 Accum. Index	3.79	4.24	1.32	16.06	6.70	10.50	8.48	5.38
Difference	**0.03**	**-0.53**	**0.79**	**1.82**	**2.12**	**1.95**	**1.39**	**1.75**

Performance review

- The S&P/ASX 100 Accumulation Index was strong in October, gaining 3.79% for the month, boosted by strong gains for Energy and Information Technology.
- The Ralton Leaders portfolio added 3.82% in the month, essentially in line with the benchmark.
- For October, our overweight to Information Technology, together with stock selection within Health Care added value to the portfolio, offset mostly by our cash holding, which weighed on investor returns.

Performance attribution

Key contributors

Key contributors	Positioning
Aristocrat Leisure	Overweight
Healthscope limited	Overweight
Santos Ltd	Overweight

Aristocrat Leisure (ALL, +12.1%) – stock price pushed higher in October, reversing part of the poor performance from the September quarter. Although there were no company specific announcements, the share price strength likely relates to a positive reception of ALL's new gaming products at recent industry exhibitions such as G2E in Las Vegas and a weakening of the Australian dollar against the US dollar. We continue to have positive expectations for ALL's market share outlook in the US, backed by its new product launches, recent entry into the Class III stepper category and the expansion of its Digital business.

Healthscope Limited (HSO, +17.4%) – shares in Australia's second largest hospital group rebounded strongly in October. Confirmation of new CEO Ballantyne's profit guidance for the current financial year was likely the trigger, as investors begin to understand the progress being made and expect no further profit shocks. Newly opened greenfield hospitals have taken slightly longer than expected to reach budget targets although it appears that no further slippage has occurred.

Recent reform measures outlined by the Federal Government in relation to private health insurance (PHI) appear to be well thought through. The expectation of a simplified system with incentives for younger people to take out insurance, and some improvement in affordability from cost savings in medical prosthesis should prove supportive for both PHI participation and service providers alike. Our expectation remains that HSO can grow admissions around 2-3% per annum. On this basis, we believe HSO offers reasonable value over the medium term. We took the recent share price weakness as an opportunity to increase our position in the stock.

Santos Limited (STO, +12%) – a positive third quarter production report at STO confirmed the ongoing operational turnaround under CEO Gallagher. From the production report, we observed improved gas production at lower costs at the core GLNG gas fields, Cooper Basin, and WA operations. Curiously, the Scotia field - a large resource owned with the GLNG venture which is critical for the supply of GLNG equity gas in the medium term also appears to have moved forward in the pecking order. Given our view that STO is keen to supply more equity gas to its own GLNG plant rather than using third party supplies this is a positive, though early stage event.

We now look to the upcoming annual investor day in November as the next material event for STO. Ideally STO will be able to highlight potential reserves upgrades at the Cooper and other assets, together with the potential to obtain or use alternate gas sources for the GLNG Horizon contract, therein diverting higher cost Cooper Basin gas into the highly priced southern gas markets, improving the overall economics for STO. Further updates on the progress of STO's growth projects are also likely to be forthcoming.

Key detractors

Key detractors	Positioning
Lendlease Group	Overweight
IOOF Limited	Overweight
Vicinity Centres	Overweight

Lend Lease (LLC, -9.5%) – recent portfolio addition LLC gave back a part of recent share price gains following a market update in mid-October. Although LLC's update maintained profit expectations for the current year, the composition of earnings and issues broadly within the Australian construction business were not well received by the market. Specifically, this division is now likely to deliver lower EBITDA than the prior year due to losses on some small but problematic contracts. Our logic in revisiting LLC during May centered around increasing the portfolio's exposure to the Australian east coast infrastructure theme. LLC recently restructured its infrastructure team and aims to deliver $4-$5bn in annual revenues from this division. This would nearly double current revenues, with LLC seeking a commensurate improvement in margins. Although these problematic contracts represent a step backwards for this division, these contracts were written and won several years ago. Therefore, we do not view them as representative of management and contract risk structures since put in place.

IOOF Holdings (IFL, -3.50%) – shares finished lower in an eventful month for the company. In a near-$1bn transaction, IFL has agreed to acquire ANZ's pensions and investment business, increasing debt and raising new equity to fund the transaction. Although initially well received by investors (including ourselves), the transaction will take some time to be approved and completed, which may weigh on investor sentiment. However, the trigger for the share price fall in the month appeared to be the September quarter FUM update which fell short of expectations after a stellar result last quarter. This is not altogether surprising given the likely pull forward of investment ahead of recent Super changes, and is not core to our investment thesis over the medium-term.

Vicinity Centres (VCX, -0.4%) – shares in the retail shopping centre owner were flat in a rising market. VCX's September trading update was largely as anticipated, with flat shopping centre sales growth reflecting what we see as a challenged consumer environment. Flagship centre Chadstone continues to grow faster than the broader retail sector, lifting 5% across the same period. VCX continues to advance its development pipeline, with substantial progress at Mandurah and The Glen, while on-selling its older, lesser quality centres. VCX is a little over a third of the way through the recently announced $500m buyback.

Portfolio changes

Key additions and material adjustments

Bought
Nil

There were no new stock purchases during the month, although we did add to several existing positions, including HSO, **Telstra Limited (TLS)** and **Vicinity Centres (VCX)**.

Key disposals and material adjustments

Sold
Treasury Wine Estates (TWE)
Origin Energy (ORG)

We exited two successful investments during the month.

Treasury Wine Estates (TWE) – Led by Michael Clarke, TWE has continued to reward investors this year. The new brand-led TWE has optimized its supply chain, improved the quality of its mix of wines and is now far more accomplished at directing its higher quality wines to optimal regions and channels around the world. This has driven an improvement in margins and reduced the volatility of profits that many would expect from a wine company.

Under Clarke's leadership, sales trends in each region have improved or stabilized, including in the 'problem child' US market. A stock of aged wine, kept in store and marked at cost on the balance sheet, provides TWE with a buffer against the vagaries of agricultural production. Going forward, TWE recently raised the bar further, targeting another material uplift in EBIT margins. Although a date has not been set for this achievement, Clarke's track record and continued ability to over deliver on targets saw the shares 'bank' most of the expected uplift. Based on recent share price gains, the markets expectations for ongoing margin expansion, and our view of valuation, we decided to sell our position in TWE.

With Origin Energy (ORG) shares around fair value at $8, we decided to sell our holding. Following share price lows and a capital raising in late 2015, the stock has been a strong contributor to the portfolio. New CEO, Calabria, has continued to reduce debt, simplify the business and has successfully brought the two Gladstone LNG trains online without a hiccup. Unless oil and LNG prices push higher from current levels, we see limited upside for ORG. However, we will continue to monitor this stock.

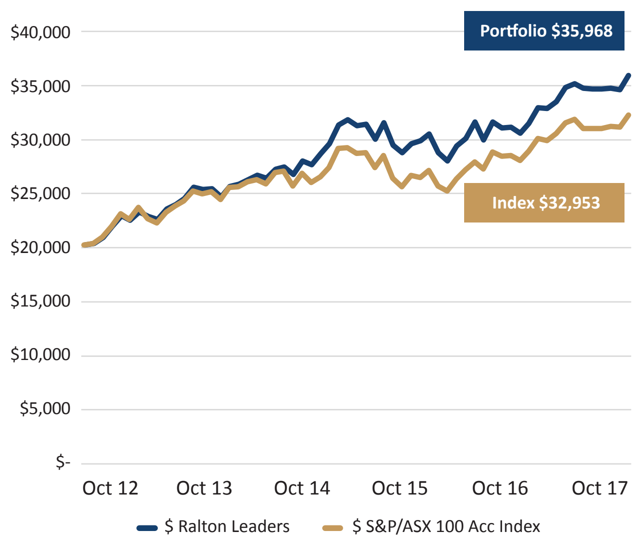
Sector allocation

GICS sector	Ralton	Index	+/-
Information Technology	4.3%	1.3%	3.0%
Consumer Discretionary	5.6%	3.2%	2.4%
Consumer Staples	9.0%	6.9%	2.1%
Energy	5.7%	4.4%	1.4%
Health Care	7.9%	7.2%	0.7%
Telecommunication Services	3.8%	3.2%	0.6%
Utilities	2.4%	2.3%	0.1%
Materials	16.7%	16.9%	-0.2%
Real Estate	6.6%	7.7%	-1.1%
Industrials	4.0%	7.2%	-3.2%
Financials	34.0%	39.7%	-5.7%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
National Australia Bank Limited	NAB
ANZ Banking Group Limited	ANZ
BHP Billiton Limited	BHP
Westpac Banking Corp	WBC
Woolworths Limited	WOW
Commonwealth Bank of Australia	CBA
Telstra Corporation	TLS
Aristocrat Leisure Limited	ALL
Boral Limited	BLD
Wesfarmers Limited	WES

Performance comparison of $20,000*



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Performance of the Ralton Wholesale Leaders 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 100 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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