Total returns

At 30 April 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	0.82	6.81	6.04	19.66	12.51	14.76	12.06	8.50
Income return	*0.01*	*0.76*	*0.93*	*2.27*	*2.84*	*3.25*	*3.41*	*3.60*
Growth return	*0.81*	*6.05*	*5.11*	*17.40*	*9.67*	*11.51*	*8.65*	*4.89*
S&P/ASX Small Ord Accum. Index	-0.25	3.75	3.62	10.04	6.80	2.42	2.12	-0.20
Difference	**1.07**	**3.06**	**2.42**	**9.62**	**5.71**	**12.34**	**9.94**	**8.70**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index edged lower, falling 0.25% in April, with strength in Materials and Healthcare offset by losses across Consumer Discretionary.
- The Ralton Smaller Companies portfolio added 0.82% for the month, outperforming the benchmark by 1.07% for the period.
- Our overweight positions in both Healthcare and Telecommunications, together with our underweight in Materials, each added value to the portfolio.

Performance attribution

Key contributors

Key contributors	Positioning
Evolution Mining Ltd	Overweight
Australian Pharmaceutical Ltd	Overweight
Speedcast Int Ltd	Overweight

Evolution Mining (EVN, +9.1%) – shares in gold miner EVN added value to the portfolio, despite the gold price remaining largely flat across April. A recent site tour of EVN's Ernest Henry asset highlighted the quality of the asset and the opportunity for extensions to its mine life. The mine output contains material copper levels, which means that after adjusting for copper credits, the 'all-in sustaining cost' per ounce of gold produced is negative US$114. EVN has a strong capital position and has low cost mines within the first and second quartile of global production costs. The falling Australian dollar has been beneficial to Australian gold miners as gold is sold in US dollars while the bulk of costs are Australian-dollar denominated. We expect EVN to participate in further industry consolidation as it arises.

Australian Pharmaceutical Industries (API, +9.3%) – API's first-half profit result was well received by investors. The key highlights were profit growth of 15%, a further 12 Priceline stores added to the network, a significant reduction in net debt and solid growth in dividends payable to shareholders. With new CEO, Richard Vincent, having succeeded 10-year CEO, Stephen Roche, during the period, the consistent result delivered by API was a clear positive and emphasised the strength of the business model. API, in particular its Priceline offering, remains our preferred retail holding in what is currently a challenging retail environment.

Speedcast International (SDA, +9.2%) – global communications service provider, SDA, added value to the portfolio in April as its shares continued to recover following the lows reached after last year's equity raise to fund the acquisition of Harris Caprock. SDA's investor day and AGM, both held during the month, contained little new information, however the company made reassuring statements in regard to synergy targets following the merger, profit guidance for the coming year and stabilisation in energy markets - a key factor in 2016's downgrades! Following the high profile acquisitions of 2016, 2017 will be a year of execution for SDA.

Key detractors

Key detractors	Positioning
Vita Group Ltd	Overweight
Village Roadshow	Overweight
Beach Energy Limited	Overweight

Vita Group (VTG) – shares in telecommunications retailer, VTG, fell heavily across the month as uncertainty over the Telstra (TLS) reseller licence weighed on the share price. Having seen the contract renegotiated in late 2016, press speculation persists over whether Telstra is considering further changes to the contract which may include a material reduction in its retail store footprint with VTG. The speculation appears somewhat beyond the 'regular course' of doing business for VTG and TLS. Our uncertainty around the future of this critical relationship prompted us to sell our holding in VTG. We continue to have a supportive view of management and the business proposition, so will be monitoring VTG with a view to revisiting the stock should further clarity around the TLS agreement emerge.

Village Roadshow (VRL, -13.6 %) – a profit downgrade arising from VRL's QLD theme parks led to stock

weakness in the month. Trading conditions remain tough in the wake of last November's tragic accident at Ardent Leisure's (AAD) Dreamworld theme park on the Gold Coast. The accident continues to weigh on VRL's entertainment venues, despite its lack of direct involvement in the accident. VRL is doing everything within its power to maintain visitor numbers and more importantly ensure its own safety record remains strong. Over time, visitors will no doubt return to the parks. VRL is also seeking to reduce debt via asset sales. As a result, the profit downgrade is poorly timed as it places further focus on the need to reduce debt and overall leverage within the business. If VRL is unable to sell assets to improve its balance sheet, we would have to revisit our investment thesis.

Beach Energy Limited (BPT, -8.1%) – a fall in the oil price over recent months was a key driver of weakness in BPT shares. Post the merger with Drillsearch in 2015, BPT continues to simplify its business and prioritise its drilling program. Under CEO, Matt Kay, who has been in the role since July 2016, the company is now entering the execution phase. Recent milestones include sale of non-core assets and gas tenements, delivery of $40m in synergies from the Drillsearch merger and progress on improving drilling techniques, productivity and costs. Moving forward, BPT remains focused on its core assets in the Cooper and Eromanga basins and proving up reserves for future production.

Portfolio changes

Key additions and material adjustments

Bought
Nil

Key disposals and material adjustments

Sold
Steadfast Group (SDF)
Vita Group (VTG)

We exited our remaining position in **AUB Group (AUB)** in April, one of the portfolio's long-held investments. The share price had rallied strongly in recent periods, reflecting expectations of rising premiums in the Australian SME insurance market. Our research indicates the cycle for SME pricing has turned, driven by the lack of profitability in several key insurance lines. This is an attractive point in the cycle for insurance brokers as they take commissions on the rising premiums upfront (as opposed to insurance companies which earn the premium over time). AUB's network of insurance brokers is heavily weighted to the SME segment and hence leveraged to rising premiums. With the share price trading around fair value and already reflecting the benefits of future rate rises, we elected to sell our holding. We retain an exposure to this thematic via our holding in **Steadfast Group (SDF)**.

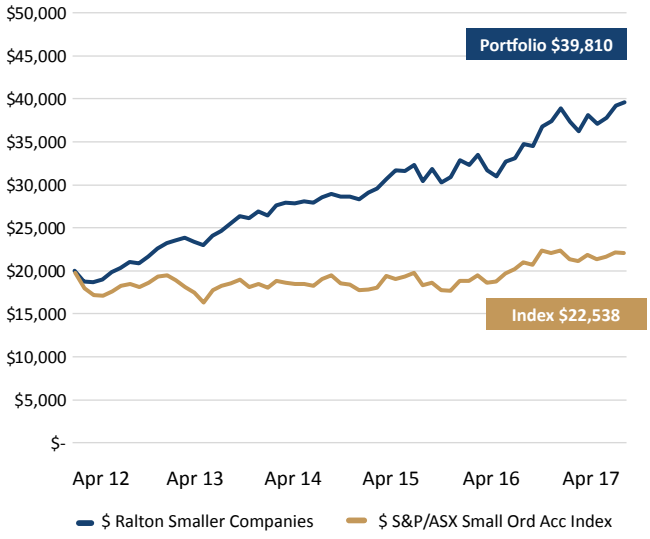
Sector allocation

GICS sector	Ralton	Index	+/-
Health Care	17.8%	7.4%	10.5%
Materials	22.3%	17.1%	5.2%
Telecommunication Services	5.9%	1.9%	4.0%
Information Technology	4.7%	4.9%	-0.1%
Energy	5.7%	5.9%	-0.2%
Consumer Staples	8.2%	8.5%	-0.3%
Industrials	8.5%	8.9%	-0.4%
Utilities	0.0%	0.7%	-0.7%
Financials (ex-Property)	9.0%	10.0%	-1.0%
Consumer Discretionary	15.2%	20.2%	-5.0%
Real Estate	2.6%	14.5%	-11.9%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
Evolution Mining Ltd	EVN
Fisher & Paykel H.	FPH
Steadfast Group Ltd	SDF
Japara Healthcare Ltd	JHC
Macquarie Atlas Roads Limited	MQA
Worleyparsons Limited	WOR
Nextdc Ltd	NXT
Australian Pharmaceutical Industries Ltd	API
Fletcher Building Limited (Australia)	FBU
iSelect Ltd	ISU

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.

#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.