

## Total returns

At 30 November 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	0.48	3.87	3.65	14.96	10.51	13.72	11.68	8.13
Income return	0.63	1.24	2.33	4.51	4.48	4.59	4.80	4.99
Growth return	-0.15	2.63	1.33	10.45	6.04	9.13	6.88	3.14
S&P/ASX 300 Accum. Index	1.69	5.81	6.86	14.66	8.82	10.46	8.42	5.11
Difference	-1.21	-1.94	-3.20	0.30	1.69	3.26	3.26	3.02

## Performance review

- The S&P/ASX 300 Accumulation Index added to October's gains, finishing up 1.69% for November. Energy and REITs were the top performers for the month, with Telecommunications the only sector to report a negative return.
- The Ralton High Yield portfolio returned 0.48% for the month, underperforming the benchmark by 1.21%.
- At a sector level, the portfolio's overweight to Real Estate and underweight to Financials in November were the key drivers of our underperformance.

## Performance attribution

### Key contributors

Key contributors	Positioning
Boral Limited	Overweight
Vicinity Centres	Overweight
Japara Healthcare	Overweight

**Boral Limited (BLD, +5.2%)** – a positive trading update, including a modest uplift in FY18 profit guidance at the AGM in November helped BLD shares add value for the month. A little over one year on from what was at the time the somewhat contentious acquisition of US based Headwaters business, BLD shares are up a little over 50% on a rolling one year basis. With the acquisition completing during the middle of the year, FY18 will be a critical year for BLD management to deliver on the synergies from the Headwater's acquisition. We have a positive view on the potential for BLD's merged US operations. This includes a positive outlook for the FlyAsh business, including recent price rises which are expected to benefit the coming year. In Australia, as our regular readers will be aware, we have a constructive view of the ongoing east coast infrastructure pipeline and demand in turn for concrete, aggregates and the like. Rising energy costs remain a headwind and will temper profit growth in Australia, as the need to recover material input cost rises does consume some of the pricing benefits that were expected to accrue at this stage of the cycle.

**Vicinity Centres (VCX, +5.7%)** – shares in retail REIT, VCX

added value in November, posting further gains from its mid-year lows. At its AGM in November VCX highlighted progress toward its planned sale of \$300m of non-core assets in the current financial year. Further, the recently announced share buyback has repurchased some 2% of issued capital at an average of 6% below net tangible asset value. On the development front VCX continues to advance its pipeline of retail properties with the DFO Perth commencing construction recently, and stage one of both the 'The Glen' and "Mandurah Forum" recently opening to customers and retailers alike.

**Japara Healthcare (JHC, +5.5%)** – JHC shares added value to the portfolio in November, building on gains from the prior month. This followed news that Moelis Australia and associated interests had acquired just under 10% of the shares in JHC. Having an experienced property investor take a substantial stake supports our view that JHC's land assets and operating businesses together are being undervalued by the market. At the AGM, JHC management called out a near-term negative, highlighting the recent severe flu season across the country had impacted bed utilisation in the early months of the current financial year. We will continue to monitor these trends, although the impact is likely modest as utilisation will likely mean-revert across the balance of the year.

### Key detractors

Key detractors	Positioning
National Australia Bank	Overweight
Tassal Group	Overweight
Aristocrat Leisure	Overweight

**National Australia Bank (NAB, -9.5%)** – at NAB's full-year results, investors took a cautious view of CEO Thorburn's latest corporate restructure, marking the stock down some 9.5% (7% ex dividend). Specifically, an increased investment spending program over the next three years will see a material step-up in costs next financial year, driving lower profit growth. These one-off costs are of course targeting future returns through IT investment, automation and digitisation of processes. The end game is an improvement in efficiencies, a material reduction in staff and an aggressive cost-to-income (CTI) target in

the outer years. Achieving these medium-term targets would be a strong positive for NAB and likely position the bank well in a competitive sense, subject of course to how its peers respond. The actual profit results for FY17 were reasonably clean from our vantage, setting aside the typical small variations that punctuate any company's results.

**Tassal Group (TGR, -5.2%)** – Salmon producer Tassal Group weighed on portfolio returns during the month, essentially reversing last month's gains. There was no company specific news flow of note, during the period. Our investment thesis for TGR is focused on the thematic that consumers will continue to be attracted to salmon as a healthy source of affordable protein. Demand growth has been strong domestically for many years and in Asia, consumers are motivated by the option of eating Tasmania's salmon and the 'large' fish that TGR grow with a view to Asian markets. TGR continue to invest in fish stock, production equipment and aquaculture facilities in a controlled, measured and sustainable manner. With rising scale we expect TGR to benefit in terms of margin in coming years and believe the share price remains attractive at these levels.

**Aristocrat Leisure (ALL, -6.6%)** – ALL reported its half year profit result on the last day of November, falling some 6% and weighing on returns for the period. The share price fall was a touch surprising as we discuss. Firstly, the profit result from our vantage was good quality and in line with expectations. Strong performance by ALL's Americas region, Gaming Ops, Digital and Class 3 outright sales segments contributed to some 36% growth in profit for the period. The market was maybe surprised by the softer tone around management's FY18 guidance – management have traditionally been conservative.

The main focus however was the acquisition of the BigFish Social Gaming Firm. This may also have had an impact on the share price. At an acquisition price of US\$990m, this represents a material transaction for ALL. Once the deal completes ALL will become the No 2 player in social gaming globally, with "digital" revenue at ALL accounting for near 40% of revenue. Our initial view is that the transaction makes strategic sense and builds upon ALL's exposure to the broader digital segment, which itself targets a younger demographic than ALL's traditional end customers. The initial share price move (which as we write has somewhat recovered) is likely "sticker shock" as investors digest the size of the acquisition. Given ALL's track record in terms of integrating large acquisitions, adding growth to the businesses they acquire and rapidly reducing debt, we have confidence, that in time the acquisition can add value for shareholders.

## Portfolio changes

### *Key additions and material adjustments*

Bought
Macquarie Group (MQG)

We added a position in **Macquarie Group (MQG)** during the month. MQG under CEO Moore has materially reshaped the business over several years. The transformation of the MQG business to a higher 'annuity' share has changed the risk profile from its days as a more pure-play investment bank. The annuity-style businesses are heavily focused on funds management, with a range of asset classes managed by Shemara Wikramanayakeim, head of Macquarie Asset Management. The cost-to-income ratio (CTI) is still transforming to reflect the change in profile of the business with a substantial reduction in CTI possible over time. This provides a substantial amount of scope to drive/maintain earnings. MQG offers a good yield versus that of the broader market.

### *Key disposals and material adjustments*

Sold
AMP Limited (AMP)

**AMP Limited (AMP)** – we funded our holding in MQG through the outright exit of AMP. A number of AMP's core businesses have underperformed in recent times with issues in Wealth Protection (insurance) arising from poor claims experience and fee headwinds from the implementation of MySuper, creating earnings headwinds. Although some progress has been made by management to offset these headwinds, through a series of cost-out drives the progressive reinsurance of its exposures in its Wealth Protection business and the near-completion of the back book for MySuper. The group has also outlined a range of initiatives to drive growth in future periods. However, we are less convinced as to what drives AMP from this point in the cycle. IOOF and MQG remain our preferred investments in the financial services sector.

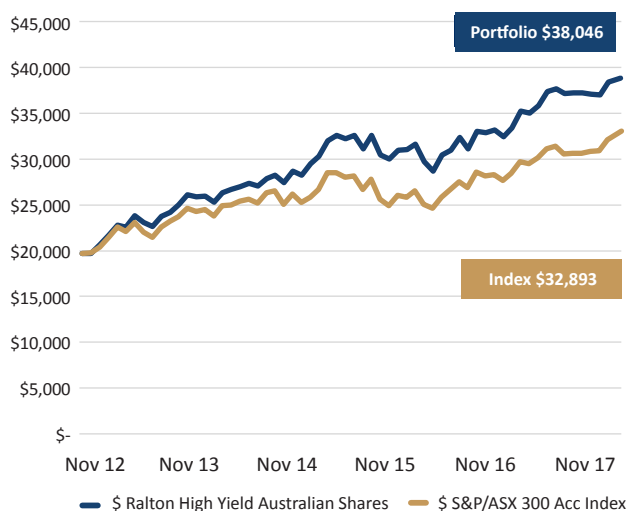
## Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Staples	11.0%	7.5%	3.6%
Materials	19.3%	17.1%	2.2%
Real Estate	9.8%	8.4%	1.3%
Telecommunication Services	4.3%	2.9%	1.3%
Utilities	3.2%	2.2%	1.0%
Health Care	7.6%	7.2%	0.3%
Information Technology	1.8%	2.0%	-0.2%
Consumer Discretionary	4.3%	4.8%	-0.5%
Energy	3.5%	4.9%	-1.4%
Financials	33.7%	35.4%	-1.7%
Industrials	1.6%	7.5%	-5.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

## Top 10 holdings<sup>#</sup>

Company name	ASX code
BHP Billiton Limited	BHP
ANZ Banking Group Limited	ANZ
National Australia Bank Limited	NAB
Westpac Banking Corp	WBC
Woolworths Limited	WOW
Vicinity Centres	VCX
Telstra Corporation	TLS
Commonwealth Bank of Australia	CBA
Boral Limited	BLD
Suncorp Group Ltd	SUN

## 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 in an index. There is no guarantee these objectives will be met.

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