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 Leaders	0.77	4.16	4.20	15.27	9.54	12.46	10.22	7.15
Income return	*0.61*	*1.18*	*2.15*	*4.12*	*3.95*	*4.03*	*4.28*	*4.53*
Growth return	*0.16*	*2.98*	*2.05*	*11.15*	*5.60*	*8.44*	*5.94*	*2.62*
S&P/ASX 100 Accum. Index	1.44	5.17	5.75	14.00	8.38	10.68	8.88	5.48
Difference	**-0.67**	**-1.01**	**-1.55**	**1.27**	**1.17**	**1.79**	**1.35**	**1.67**

Performance review

- The S&P/ASX 100 Accumulation Index was strong in November, gaining 1.44% for the month, boosted by strong gains for Energy and REITs, with Telecommunications the clear underperformer.
- The Ralton Leaders portfolio added 0.77% in the month, underperforming the benchmark by 0.67%.
- For November, our overweight to Consumer Staples added value to the portfolio, however our underweight to Financials and stock selection within Financials weighed on portfolio returns. Our overweight to Consumer Discretionary also negatively impacted portfolio performance.

Performance attribution

Key contributors

Key contributors	Positioning
Vicinity Centres	Overweight
Boral Limited	Overweight
Santos Ltd	Overweight

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.

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.

Santos Limited (STO, +12.9%) – STO's investor day in November provided further confirmation that CEO Gallagher's operational turnaround and strategic reset of the business continues to deliver. Gallagher and his team have delivered impressive results in terms of cost reduction and more efficient drilling processes. Together with a reset of the balance sheet, lower interest costs and focus on core assets, these factors have combined to lower the cash flow breakeven of STO's various assets. At current oil prices, this drives solid free cash flow and further debt reduction and perhaps more importantly, provides a good buffer in terms of cash flows, should oil prices retest recent lows.

STO's share price was boosted late in the month by media coverage suggesting that a group called 'Harbour,' backed by various private equity interests was expected to make a takeover offer for STO. The press speculation remains just that, however, Harbour has certainly approached the STO board in recent times with a takeover offer. The Harbour interest in STO somewhat confirms our own investment thesis, although we hold no particular insights as to whether further corporate activity is likely.

Key detractors

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

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. First, 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 may have been surprised by the softer tone around management's FY18 guidance – management has traditionally been conservative.

The main focus of the result 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 number two player in social gaming globally, with 'digital' revenue at ALL accounting for nearly 40% of total 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.

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.

Lend Lease (LLC, -1.9%) – Lend Lease shares underperformed in a strong market and hence weighed on returns for the portfolio. With the company providing a trading update in mid-October, the AGM held during November contained little in the way of 'new' information. Investors no doubt retain a cautious view toward the stock following the announcement of losses for several problematic projects. Management has reviewed each project individually and determined a new cost to complete and contingencies. The fall in share price following this announcement factored in a lot of potential downside in our view.

Our logic in revisiting LLC during May was focused on increasing the portfolio's exposure to the Australian east coast infrastructure theme. Lend Lease recently restructured its infrastructure team and aims to deliver $4-5bn in annual revenue 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, and hence we do not view them as representative of management and contract risk structures since put in place.

Portfolio changes

Key additions and material adjustments

Bought
Nil

Key disposals and material adjustments

Sold
Nil

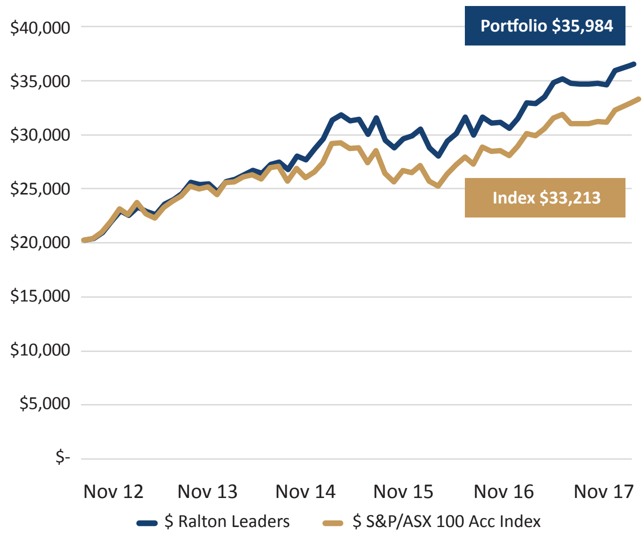
Sector allocation

GICS sector	Ralton	Index	+/-
Information Technology	4.5%	1.4%	3.1%
Consumer Discretionary	5.4%	3.1%	2.3%
Consumer Staples	9.3%	7.0%	2.3%
Utilities	3.2%	2.4%	0.9%
Health Care	8.0%	7.4%	0.7%
Energy	5.3%	4.7%	0.6%
Telecommunication Services	3.6%	3.1%	0.5%
Materials	17.0%	17.0%	0.1%
Real Estate	6.7%	8.0%	-1.3%
Industrials	4.2%	7.3%	-3.1%
Financials	32.7%	38.7%	-6.0%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

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

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.

#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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