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 Smaller Companies	2.47	7.72	6.54	17.25	14.56	15.44	13.03	8.75
Income return	*0.12*	*0.79*	*1.37*	*2.61*	*2.91*	*3.24*	*3.54*	*3.77*
Growth return	*2.35*	*6.93*	*5.18*	*14.64*	*11.65*	*12.20*	*9.48*	*4.98*
S&P/ASX Small Ord Accum. Index	3.91	11.60	17.31	20.50	13.36	7.40	3.13	1.23
Difference	**-1.44**	**-3.88**	**-10.77**	**-3.25**	**1.20**	**8.04**	**9.89**	**7.52**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index added 3.91% for November, continuing recent gains with the strong support of Materials and Real Estate sectors.
- The Ralton Smaller Companies portfolio returned 2.47% for the month, underperforming the benchmark by 1.44%.
- Telecommunication Services and Information Technology were the top contributors to portfolio returns, offset by our underweight exposure to Materials and our cash holdings, which both weighed against portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
Speedcast Int Ltd	Overweight
Melbourne IT Limited	Overweight
Nextdc Limited	Overweight

Speedcast International (SDA, +24.5%) – shares in satellite communications provider, SDA, rallied in November, buoyed by confidence in the near-term outlook for SDA from recent investor presentations. Investors have been concerned about company debt levels, integration risk from acquisitions made in the last two years and weakness in demand for satellite services in the energy sector. Investors will recall SDA's largest acquisition, Harris Caprock (HC), is focused almost solely on energy customers. This sector has been hit heavily by oil price declines over 2015 and 2016 as well as the subsequent pull back in demand for offshore and remote area services as production and capex downturns have impacted the industry. Pleasingly, recent investor briefings have sought to highlight successful integration and synergies delivered from acquisitions (HC, Ultisat, NewCom International), improving trends in the energy sector and indeed, all segments. Successful execution on integration and obtaining the company's stated profit targets will reduce concerns around debt levels and gearing. The shares are up some 50% since the August full-year results, reflecting investors' increased conviction levels in relation to SDA.

Melbourne IT (MLB, +24.2%) – IT provider, MLB, added 24% in November and since our initial purchase in March, is up some 80% to the end of November. As a refresh, MLB is a leading provider of IT services in Australia. Its services encompass domain registration, web hosting, cloud services, data analytics and a wide range of online solutions to SMBs, large enterprise and government clients across Australia. Of key interest to us is its capability in the design and implementation of mobile and digital services, for example apps for mobile devices. Implementation includes integration of the customer-facing app with all the functional tools that underpin the corporate services. With many corporates and business-to-business (B2B) ventures seeking to improve processes, save costs and wastage, and others focused on customer experience as a key driver of customer retention, the ability to offer a quality digital or mobile service and offering is mission critical. MLB appears to be right in the sweet spot for this demand and in our view, appears the number one player in Australia. There was no company-specific news flow in November. However, we understand MLB continues to add headcount and win new contracts, boosting expectations for future growth.

Nextdc Limited (NXT, +12.8%) – long-term portfolio holding and data centre owner and operator, NXT, was again a strong contributor to portfolio returns in November. The stock is now up 84% rolling year. NXT is in both an execution and growth phase, specifically signing up and connecting customers to use its existing data centres and building out new capacity for further data centres in Australia's major cities. The thematic of rising data usage and need for this data to be stored and made accessible in a safe and secure manner is incredibly strong with opportunities like cloud computing remaining in its infancy. Behind this 'digital and data' theme, the business model for NXT relies on acquiring and building electronic storage.

Barriers to entry are high, as you would expect, and NXT now appears to have reached critical mass in terms of customer growth, number of centres and capital sustainability. We like the exposure NXT offers to the growth in demand for data, cloud computing and associated technology services and still believe it offers good value over the medium term. The potential exists for NXT to double or more the size of its currently planned data centres, subject to demand, execution and the market remaining rational.

Key detractors

Key detractors	Positioning
iSelect Ltd	Overweight
Ainsworth Game Technology	Overweight
Tassal Group Limited	Overweight

iSelect Limited (ISU, -10.3%) – ISU's shares underperformed in November, continuing the negative pattern since an underwhelming FY17 profit result in August. News that well regarded CFO Daryl Inns had resigned with immediate effect due to health reasons further rattled investors and the share price in turn. Despite this backdrop our discussions with the company confirmed that the CFO had resigned for genuine health reasons. Further, ISU recently provided FY18 profit guidance at its AGM, confirming an outlook that was both in line with our expectations and further, provided good detail in terms of divisional expectations and the like. We look to the coming year to confirm the growth opportunities in non-health verticals as outlined in ISU's detailed guidance. As such we took the share price weakness as an opportunity to add to our ISU holding.

Ainsworth Game Technology (AGI, -10.1%) – turnaround investment, AGI, lost ground in November as cautious outlook commentary for FY18 and management's discussion, pointing to a second-half bias in profits saw the shares fall across the month. At a regional level, operating results have been mixed, with Australia remaining close to bottom of cycle, but no clear sign of a rebound in market share. In one sense, this feels somewhat like last year when the company highlighted a second-half bias toward earnings. Ultimately, AGI met this guidance and although the recent AGM commentary was disappointing in the short term, we do believe the turnaround initiatives we have described previously remain broadly on track.

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.

Portfolio changes

Key additions and material adjustments

Bought
Cooper Energy (COE)
Aveo Group (AOG)

We added two new stocks, **Cooper Energy (COE)** and **Aveo Group (AOG)** to the portfolio. **Cooper Energy (CEO)** is an SA-based gas producer set to benefit from rising gas prices on the east coast of Australia. Although COE has some small producing assets, the company's key asset is the Sole gas field, currently in development, with the first commercial gas due in 2019. CEO, David Maxwell, and his team have made significant progress at COE, simplifying and focusing the business via asset sales and positioning the business for growth via the acquisition of the Sole project. Advancing Sole has required several capital raisings, which have somewhat dented investor enthusiasm in the short term. We expect that delivery of the project on time and budget will see investors focus on the cash flows that come from high-margin gas sales to top-tier customers.

The **Aveo Group (AOG)** is one of Australia's largest owner-operators of aged-care facilities and retirement homes. The company was recently the focus of a TV review, heavily critiquing the nature and terms of AOG's contracts, including the sale and lease-back terms for AOG residents. We accept that aged and retirement care is a contentious and emotive topic and that respectful and dignified treatment of people in their final years is vital. Although we are loathe to comment on the journalism per se, we are comfortable to highlight that the company's conduct and contract terms appear both within the bounds of industry standard and further, that AOG's conduct and strategy has, in our eyes, seen AOG maintain its social licence to operate.

With some expectation of a negative operating impact from the TV report, the stock has traded down heavily. The discount to NTA, or net tangible assets, was material and we elected to begin buying the stock. We believe that government has a mostly supportive view of the industry-fee structures and highlight the necessity of current private contributions to the overall challenge of funding health and aged care. Regulation of some sort is always possible and in this context, we note the pending ACCC review of the industry structure. We would be surprised to see material changes as to how aged care and retirement living is funded or regulated, although cannot rule this out entirely.

Key disposals and material adjustments

Sold
Nil

There were no outright sales for the month, though we did take profits in several portfolio names, including **Blackmores (BKL)**, **Costa Group (CGC)**, **Fisher & Paykel Healthcare (FPH)** and **NextDC (NXT)**.

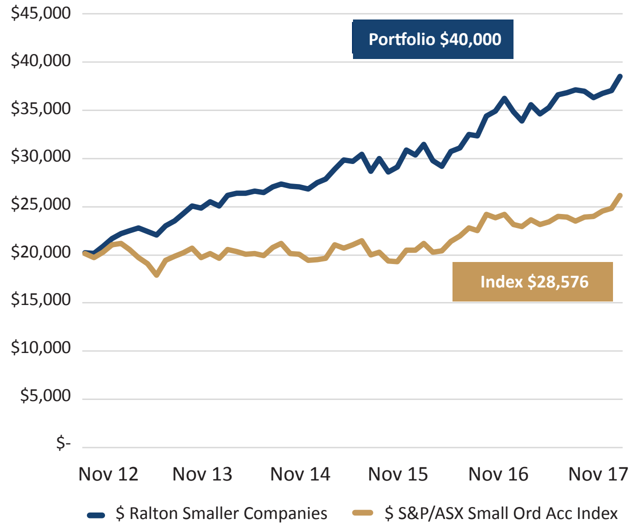
Sector allocation

GICS sector	Ralton	Index	+/-
Health Care	14.5%	6.4%	8.1%
Telecommunication Services	5.6%	1.8%	3.8%
Energy	8.8%	6.8%	2.0%
Utilities	2.2%	0.5%	1.6%
Financials	9.6%	8.0%	1.6%
Materials	16.9%	17.8%	-0.9%
Consumer Staples	10.1%	11.3%	-1.2%
Information Technology	5.5%	7.4%	-1.9%
Real Estate	9.9%	12.0%	-2.0%
Industrials	7.0%	9.3%	-2.3%
Consumer Discretionary	10.0%	18.7%	-8.7%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
Worleyparsons Limited	WOR
Tassal Group Limited	TGR
Nufarm Limited	NUF
Speedcast Int Ltd	SDA
Japara Healthcare Lt	JHC
Iselect Ltd	ISU
Nextdc Limited	NXT
Aveo Group	AOG
Beach Energy Limited	BPT
Pact Group Holdings Ltd	PGH

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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