Total returns

At 28 February 2018	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Inception % p.a. (Feb 2008)
Ralton Australian Shares	0.47	1.33	5.99	10.19	7.25	11.47	10.36	8.03	7.87
Income return	*0.68*	*0.85*	*1.98*	*3.97*	*3.89*	*3.81*	*4.12*	4.26	*4.29*
Growth return	*-0.21*	*0.48*	*4.01*	*6.22*	*3.36*	*7.67*	*6.24*	3.76	*3.58*
S&P/ASX 300 Acc Index	0.34	1.80	7.72	10.34	5.22	7.95	7.75	5.28	5.17
Difference	**0.14**	**-0.47**	**-1.73**	**-0.15**	**2.03**	**3.52**	**2.62**	2.74	**2.71**

Performance review

- The S&P/ASX 300 Accumulation Index returned 0.34% for February, with Health Care and Consumer Staples the top performing sectors and Energy and Telecommunication Services the main detractors for the period.
- The Ralton Australian Shares portfolio returned 0.47% for the month, outperforming the benchmark by 0.14%.
- For the month of February, the portfolio's overweight to Consumer Discretionary and Health Care were the key detractors from portfolio returns. Being overweight Energy and Information Technology added relative value to the portfolio.

Performance attribution

Key contributors

Key contributors	Positioning
Computershare	Overweight
Lendlease Group	Overweight
Coca-Cola Amatil	Overweight

Computershare (CPU, +6.83%) – has again been the top performing stock in the portfolio after delivering strong half-year financial results and benefiting from a continued move higher in global interest rates. CPU upgraded guidance for a second time in recent months following solid momentum in its mortgage servicing business, an improved outlook for corporate actions revenue, improving margin income on its cash balances (given rising interest rates at the right part of the curve) and continued disciplined cost management. Of interest was the comment CPU may not derive much benefit from the change in the US tax rate given the loss of various other deductions. Also, on the positive side, the continued evolution of automation and robotics for repeatable processes looks to offer more cost reduction opportunities into the future. This company continues to have several years of growth in front of it subject to no major market wobbles.

Lendlease Group (LLC, +12.69%) – performed very strongly over the past month after delivering a result that was much better than the worst fears of the market. As you may recall, LLC announced some losses associated with part of its engineering book near the end of last year. Although management had indicated to us in discussions that a comprehensive review was undertaken and provisions made against the various projects, you can never be sure, particularly when some of the issues related to geotech. The other parts of the LLC group delivered solid results. Of particular note was LLC's move into the build-to-let market in the US with a major Canadian institutional investor as a partner. Also of note was the group's continued success at winning major urban regeneration projects (one in London and the other in Milan). Overall, we believe management is doing a sound job of navigating the changing environment in each of its markets. Our one caution with the stock relates to the impact on its funds management earnings streams if bond yields continue to rise, and this is reflected in our position size.

Coca-Cola Amatil (CCL, +3.82%) – delivered a solid result in the face of tough market conditions resulting in the continued re-rating of the stock. CEO Alison Watkins and her team have been on a journey to transform the business after she was left with a portfolio of mispositioned products – both in terms of price and as an overall suite of products. The core Australian business had too much exposure to overpriced carbonated soft drinks (CSDs) as consumers became more health conscious. A lot of the re-positioning has been done in conjunction with the Coca Cola Company (the US brand owner) to improve the product offering in Stills (i.e. water, dairy, energy drinks) and the pricing and marketing for the CSD products. While the business has not yet based, much has been invested into the business which should eventually deliver a turn. The Indonesian business has also been re-shaped and has improved in the face of a very tough local environment. It is likely positioned now to see the benefits of an improving macroeconomic environment for its customers.

Key detractors

Key detractors	Positioning
Star Entertainment Group	Overweight
Vicinity Centres	Overweight
iSelect Limited	Overweight

Star Entertainment Group (SGR, -12.21%) – delivered a result that did not meet the lofty expectations that the market had built into the share price and, as such, the share price pulled back sharply. The positives from the result were the solid growth in VIP arrivals from Asia (following the pull-back after the arrest of the Crown personnel), the improved result on the Gold Coast following the opening of some new facilities and the strong cash flow and balance sheet. The outlook was more subdued than one would have expected, but Chinese New Year is later this year and the group will get the benefit of the tourism uplift from the Commonwealth Games. SGR continues to have a solid slate of growth projects which are to be delivered over the next four years with the culmination being the opening of its new Brisbane casino.

Vicinity Centres (VCX, -7.81%) – underperformed during the month after delivering subdued retail sales metrics and also facing the discussion of sharply higher international long-bond rates. The retail environment is facing challenging conditions due to the low domestic income growth for households suppressing spending, and retail tenants having committed to pay rents that cannot be justified in such a soft retail environment. This will take time to work through, however, with VCX continuing to trade at a discount to NTA, continuing to re-develop its very high grade centres such as Chadstone and the ongoing divestiture of its lower grade centres at attractive prices, we believe it continues to be reasonably well positioned to work through its issues. We would become more cautious on the outlook if we felt domestic long-rates were likely to move sharply higher.

iSelect Ltd (ISU, -7.28%) – continues to be a perplexing stock for us with what looks to be strong underlying drivers (consumers needing to find better deals and a company able to harvest data), a strong balance sheet with cash or a trail book representing a decent proportion of its market cap, yet a management team that has had more turnover in the past four-and-a-half years than we care to remember. ISU's core vertical of Health should do better as the private health insurance (PHI) market shows signs of stabilising. The government's recent reforms are positive for the way ISU operates. Also, over the next couple of years we should see the Energy (driven by rising gas and electricity prices) and Telco (driven by the shift to the NBN and complexity in mobile offerings) verticals continue to gain traction with ISU users. Management is also working to reduce the cost-to-serve.

Portfolio changes

Key additions and material adjustments

Bought
Link Administration Services (LNK)

We added a small position in **Link Administration Services (LNK)** to the portfolio in February. LNK is a financial data administrator organised into three core divisions, namely Fund Administration, Corporate Markets and Information, Data and Digital Services (IDDS). Link dominates the market for Fund Administration in the superannuation space in Australia with 42% of the total market and 70% of the outsourced market. This division has been a key driver of profit growth fuelled by synergies from Super Partners. LNK recently completed the acquisition of Capita Asset Services (CAS) which gives it exposure to similar types of businesses in Europe and the UK and expands its offering. The CAS business (now renamed Link Asset Services) has underinvested in technology to improve its operations, so this will be an area where LNK can make improvements. Also, with the benefit of a UK and European base, LNK can start to make bolt-on acquisitions which should be accretive once the base business has been bedded down.

Key disposals and material adjustments

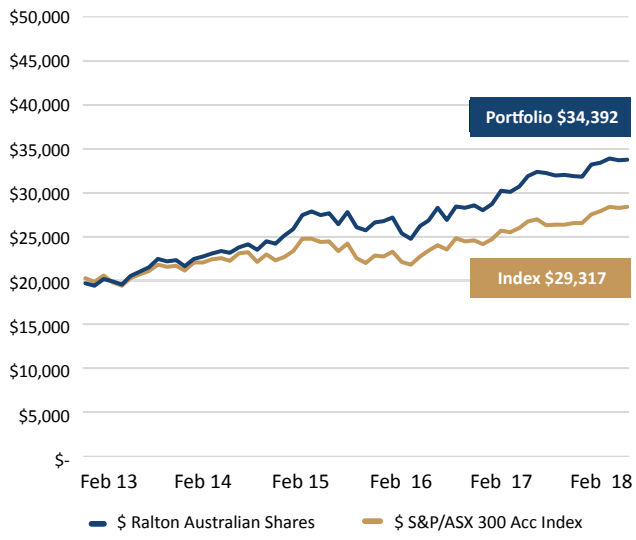
Sold
Wesfarmers (WES)

We also disposed of the holding in **Wesfarmers (WES)** during the period as we had some alternative investment ideas which presented more attractive medium-term investments.

Sector allocation

GICS sector	Ralton	Index	+/-
Information Technology	5.6%	2.2%	3.4%
Health Care	11.2%	7.8%	3.4%
Consumer Discretionary	8.0%	4.8%	3.2%
Consumer Staples	10.1%	7.6%	2.5%
Telecommunication Services	4.3%	2.8%	1.5%
Energy	5.7%	5.1%	0.5%
Utilities	2.0%	1.9%	0.0%
Materials	17.9%	18.0%	0.0%
Real Estate	6.2%	7.8%	-1.5%
Industrials	1.3%	7.2%	-5.9%
Financials	27.7%	34.8%	-7.1%
Total	**100.0%**	**100.0%**	**0.0%**

Performance comparison of $20,000*



Top 10 holdings#

Company name	ASX code
BHP Billiton Limited	BHP
Woolworths Limited	WOW
Westpac Banking Corp	WBC
ANZ Banking Group Limited	ANZ
National Australia Bank Limited	NAB
Telstra Corporation	TLS
Computershare Ltd	CPU
Macquarie Group Ltd	MQG
Aristocrat Leisure	ALL
Boral Limited	BLD

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Performance of the Ralton Wholesale 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 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.