Total returns

At 31 May 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 High Yield Australian Shares	1.69	1.42	3.11	6.88	6.68	11.04	11.39	*8.33*	8.04
Income return	*0.75*	*1.31*	*2.35*	*4.73*	*4.55*	*4.63*	*4.84*	*4.97*	*4.98*
Growth return	*0.94*	*0.10*	*0.76*	*2.15*	*2.13*	*6.40*	*6.55*	*3.36*	*3.06*
S&P/ASX 300 Accum. Index	1.19	1.10	2.93	9.99	6.06	8.78	8.18	*5.12*	5.15
Difference	**0.50**	**0.31**	**0.18**	**-3.11**	**0.62**	**2.26**	**3.21**	*3.21*	**2.90**

Performance review

- The S&P/ASX 300 Accumulation Index returned 1.19% for May, with Health Care and Materials the top performing sectors and Telecommunication Services and Consumer Staples the weakest performers for the period.
- The Ralton High Yield portfolio returned 1.69% for the month, outperforming the benchmark by 0.50%.
- The portfolio's underweight to Health Care was the main detractor for the period, with our overweight to Consumer Discretionary adding relative value.

Performance attribution

Key contributors

Key contributors	Positioning
Aristocrat Leisure	Overweight
Vicinity Centres	Overweight
Super Retail Group Ltd	Overweight

Aristocrat Leisure (ALL, +12.01%) – reported a strong 1H18 result during the month, exceeding market expectations, driving the stock higher in May. The result confirmed our view that the core US slots business continues to gain market share from indebted competitors as the rollout of new product including Dragon Link gains traction. More importantly, the result showed a strong performance from ALL's Digital business with both Plarium and the more recently acquired Big Fish growing strongly. The market has been hesitant to ascribe full value to the digital assets to date. However, strong performance and increased comfort around the digital strategy should see further outperformance. We expect ALL to continue to show strong growth in the medium term. Pleasingly, ALL is not reliant on any single growth driver as we see sustainable growth from its core slot operations, expansion into adjacent markets, continued momentum in its digital businesses as well as a supportive US consumer backdrop. Valuation remains attractive as outperformance to date has been driven by strong EPS growth rather than PE expansion.

Vicinity Centres (VCX, +9.43%) – lifted solidly during the month as specialty sales improved in the March quarter and as a result of the likely re-deployment of funds from Westfield back into the local market. VCX continues to trade at a substantial discount to its NTA despite the price move during May. VCX has a portfolio of premium CBD retail assets, Chadstone shopping centre and the DFO's amongst other assets. However, it has a tail of lower quality assets the market fears are going to come under intense pressure from the continued growth in online spending. It continues to divest some of the assets at above book value which is supportive of the NTA. Whilst we share these concerns regarding, for example, the outlook for apparel in these centres, we believe the sites will be re-purposed in time. For instance, a natural place to add more apartment towers is around the shopping centres with good transport infrastructure. This will give rise to the need for a different mix of stores. The group is expected to provide the market with an update on the opportunity around mixed-use developments at some of its assets later this year.

Super Retail Group Ltd (SUL, +17.75%) – continued its strong performance as key brands continue to exhibit growth as the broader retail sector remains under pressure from low wage growth and the risk of declining house prices. SUL owns and operates a number of leading retail brands including Rebel Sport, BCF and Super Cheap Auto (the original franchise). Amongst peers, we view SUL as being well positioned to deal with the emerging risk that the recent entry of Amazon and other international competitors bring to the Australian retail sector due to its strong brand positioning, customer engagement and recent increased investment in digital capability. Moreover, investments in supply chain, IT and warehousing will make the business more efficient, release inventory (and cash in the process) and create scope for growth. The company recently updated the market on year-to-date trading, showing continued strong growth across all brands. Valuation remains attractive with a strong yield despite recent outperformance.

Key detractors

Key detractors	Positioning
Boral Ltd	Overweight
Caltex Australia Ltd	Overweight
Telstra Corporation	Overweight

Boral Ltd (BLD, -8.87%) – continued to trend lower during the month after a disappointing trading update in April which provided a headline upgrade but an underlying downgrade to FY18 earnings. While disappointing, we view the downgrade as largely attributable to one-off factors that won't be present in FY19 and as such maintain our positive view. The headline upgrade was driven by a property sale in New South Wales and a subsequent lower effective tax rate. However, unfavourable weather in key states and an unscheduled outage at the company's main cement manufacturing plant, which is now resolved, were a drag on the rest of BLD's Australian business. Severe winter conditions impacted the US operations. However, operational issues in the newly acquired Flyash business will be monitored closely as it is a key platform for value creation. Following a review of key drivers and further engagement with management, we remain positive on the potential of BLD's merged US operations and its exposure to the recovering US housing market and infrastructure boom in Australia.

Caltex Australia Ltd (CTX, -5.16%) – underperformed during May after it provided a soft 1Q18 update on the back of weaker refining margins (1Q17 had a very strong refining margin by comparison). Swings of this nature are not unexpected, with our focus being on the execution of the convenience roll-out, the release of the groups review of its ownership of the infrastructure and petrol station portfolio and the final impact on CTX volumes once Woolworths disposes of its petrol stations. CTX is in the process of transforming from a refiner-marketer to an integrated transport fuels player with a more diverse and potentially stable earnings base and an evolving retail convenience offering.

Telstra Corporation (TLS, -11.95%) – investors reacted negatively to a company update from TLS that indicated FY18 earnings will be at the low end of prior company guidance. Primary drivers of the downgrade were continued industry difficulty in managing the transition to the NBN as well as increased competition in the mobile segment. The move to the NBN has seen margins in broadband decline significantly. However, it is the impending entry of TPG into the Australian mobile market that has resulted in increased competition, driving down mobile profitability. Currently Telstra is benefiting from significant one-off payments from the government, as defined by the NBN transition agreement signed under former CEO David Thodey. Looking forward, the market is assessing the sustainable earnings of the business post NBN payments. The current valuation now factors in a significant deterioration in underlying earnings. However, we now look to the June management update to provide more strategic clarity with the increased possibility of an aggressive cost-out strategy which will assist in driving growth going forward.

Portfolio changes

Key additions and material adjustments

Bought
Nil

Key disposals and material adjustments

Sold
Healthscope Ltd (HSO),

During May we exited the remainder of our position in **Healthscope Ltd (HSO)**, Australia's second largest operator of private hospitals. In late May, HSO management released the outcome of a long-awaited portfolio review as well as an update to previously announced earnings guidance. The portfolio review indicated that the company has a preference for moving ahead with an internal plan to sell its underlying property assets rather than accept a number of recently received bids from external parties. The accompanying earnings downgrade does not provide us with the confidence needed to remain invested given the difficult private health environment and a share price trading at levels above fundamental value.

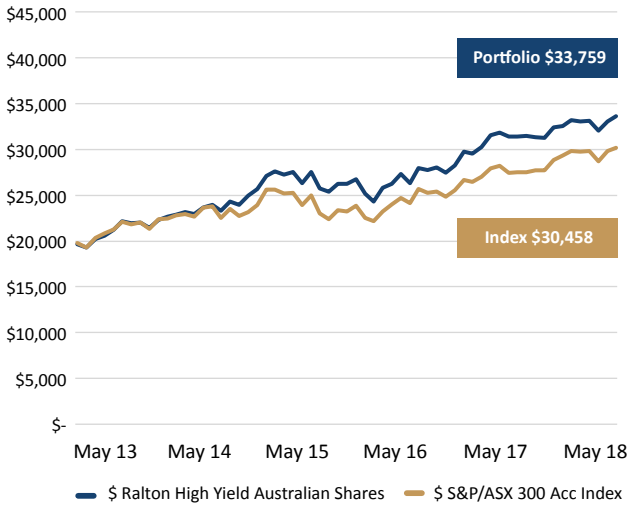
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	11.6%	5.0%	6.7%
Consumer Staples	12.2%	7.9%	4.3%
Materials	20.1%	18.7%	1.4%
Information Technology	3.1%	2.4%	0.7%
Financials	32.8%	32.3%	0.5%
Telecommunication Services	2.8%	2.4%	0.3%
Real Estate	8.1%	7.9%	0.2%
Energy	5.4%	5.5%	-0.1%
Utilities	1.7%	2.0%	-0.3%
Industrials	2.3%	7.5%	-5.2%
Health Care	0.0%	8.5%	-8.5%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
BHP Billiton Limited	BHP
ANZ Banking Group Limited	ANZ
Woolworths Group Ltd	WOW
National Australia Bank	NAB
Aristocrat Leisure	ALL
Macquarie Group Ltd	MQG
Westpac Banking Corp	WBC
Amcor Limited	AMC
Vicinity Centres	VCX
Commonwealth Bank	CBA

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 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.