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 Smaller Companies	1.86	3.51	5.53	12.44	11.54	14.01	12.35	9.38	8.88
Income return	*0.00*	*0.69*	*1.23*	*2.61*	*2.84*	*3.04*	*3.44*	3.65	*3.71*
Growth return	*1.86*	*2.82*	*4.30*	*9.82*	*8.71*	*10.97*	*8.92*	5.73	*5.17*
S&P/ASX Small Ord Accum. Index	3.70	4.11	6.89	25.40	11.55	9.69	3.96	1.26	1.83
Difference	**-1.84**	**-0.60**	**-1.36**	**-12.96**	**-0.01**	**4.32**	**8.40**	8.12	**7.05**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index returned 3.70% for May, with Consumer Discretionary and Industrials adding value to the index.
- The Ralton Smaller Companies portfolio returned 1.86% for the month, underperforming the benchmark by 1.84%.
- The portfolio's underweight to Industrials was a key detractor from portfolio returns, offset by the portfolio's overweight to Telecommunication Services and Consumer Staples.

Performance attribution

Key contributors

Key contributors	Positioning
Superloop Ltd	Overweight
Super Retail Group Ltd	Overweight
Blackmores Ltd	Overweight

Superloop Ltd (SLC, +23.68%) – performed strongly following its inaugural investor day in May. SLC again outlined its strategy to become a leading independent provider of connected infrastructure across Asia. Specifically, SLC operates and rents 'dark fibre' cables in Singapore and Hong Kong to key customers as well as holding a leadership position in wireless broadband in the Australian market, competing directly with the NBN. Management outlined their strategy to monetise the significant and strategic portfolio of assets it has developed over the preceding period. The company is now moving from a build stage to monetisation. To facilitate this change, it has significantly increased its sales force in all markets. We expect the company will be in a position to drive significant sales momentum by the end of CY18 at which point, infrastructure, systems and its sales force will be fully developed. With the stock trading near book value with significant spare capacity in current assets, we are positive of the future opportunity.

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.

Blackmores Ltd (BKL, +29.26%) – rallied in May following a well-received quarterly trading update. While the market update came in slightly below expectations, the company confirmed that issues impacting them in the 3Q will alleviate in the 4Q providing a strong base for good momentum into the end of the financial year. Underpinning the expected strong 4Q will be the resolution of customer trading term negotiations as well as an alleviation of supply constraints, allowing the company to sell into a strong Asian customer base. BKL also took an important step by entering into an agreement to acquire its first tablet and soft gel manufacturing facility. The acquisition should allow for greater control of its supply chain as well as higher margins going forward. In the medium term, the Chinese and other Asian markets offer huge potential for consumer companies such as BKL, tapping into the emerging market growth themes and increased per capita spend as the middle class grows. BKL has a very strong and well-credentialed brand as well as a long-established presence in Asia, which offers excellent opportunities for investors if the company continues to execute successfully.

Key detractors

Key detractors	Positioning
Link Administrative Holdings	Overweight
Greencross Ltd	Overweight
OceanaGold Corp	Overweight

Link Administrative Holdings (LNK, -17.35%) – suffered a substantial fall during the month after an announcement was made in the Federal Budget about changes to the administration of certain superannuation accounts. As LNK generates a fee per account administered this is expected to hit earnings from FY20. Despite this, LNK still offers relatively low risk earnings growth through the delivery of synergies from its Super Partners acquisition in Australia and Capita Asset Services in the UK. During May we were able to hear more from the UK management team about the scope of the current business and the opportunities for growth. The group also recently raised more capital, giving it a strong balance sheet from which to deliver further accretive bolt-on acquisitions to its European operations.

Greencross Ltd (GXL, -15.25%) – provided a disappointing market update in May which resulted in investors selling down the stock. New CEO Simon Hickey has wasted no time in reviewing the key priorities for the company and has responded to increased competition in the retail division and disappointing trading in the veterinary business. A lower earnings outlook was forecast as well as non- cash impairments to previously initiated store and IT projects. Management indicated that a cost-out program would be initiated. However, expectations of a continuing competitive retail and vet clinic environment, a likely re-shaping of the company's strategic priorities and elevated debt levels force us to take a more cautious approach. While strategic value does exist in the business, we are currently reviewing our conviction in the business and outlook.

OceanaGold Corp (OGC, -5.76%) – has eased back over the past month due to a softening in the gold price. OGC operates goldmines in the Philippines, New Zealand and the US. The stock price is well down from its highs in 2016 despite the rise in the gold price over the period. This has been driven by issues with the Philippines government regarding the operation of the Didipio gold-copper operation and start up issues at its Haile's gold project in the US. The March quarter update showed the Haile's project continues to improve its performance and operated in line with expectations. Also, the underground operations at Didipio continued to ramp up as planned. This is important as the governments concerns have been around open pit mines more broadly rather than the underground operations.

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.

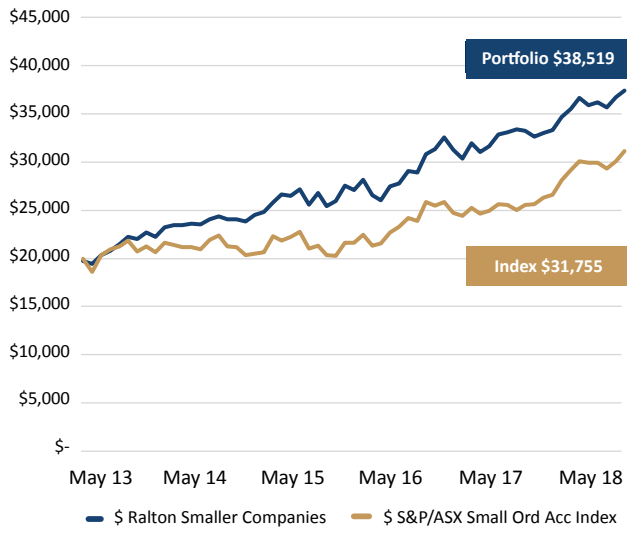
Sector allocation

GICS sector	Ralton	Index	+/-
Health Care	13.5%	6.5%	7.0%
Financials	12.3%	7.3%	5.0%
Telecommunication Services	6.9%	2.7%	4.2%
Consumer Staples	12.0%	8.7%	3.3%
Energy	10.5%	7.9%	2.6%
Utilities	3.1%	0.5%	2.5%
Real Estate	8.1%	10.6%	-2.5%
Information Technology	5.7%	8.3%	-2.7%
Materials	13.7%	19.9%	-6.2%
Industrials	3.0%	9.2%	-6.2%
Consumer Discretionary	11.3%	18.4%	-7.1%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
Worleyparsons Limited	WOR
Speedcast International Ltd	SDA
Tassal Group Limited	TGR
OFX Group Ltd	OFX
Nufarm Limited	NUF
Nextdc Limited	NXT
Regis Resources	RRL
Super Retail Group Ltd	SUL
Primary Health Care	PRY
Steadfast Group Ltd	SDF

Performance comparison of $20,000*



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