Total returns

At 30 June 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	3.60	8.59	4.75	10.56	9.53	12.24	12.28	*9.68*	8.34
Income return	*0.20*	*0.96*	*2.40*	*4.85*	*4.57*	*4.61*	*4.81*	*4.95*	*4.96*
Growth return	*3.40*	*7.63*	*2.35*	*5.71*	*4.96*	*7.63*	*7.47*	*4.73*	*3.39*
S&P/ASX 300 Accum. Index	3.19	8.36	4.27	13.24	9.14	9.99	8.97	*6.28*	5.42
Difference	**0.41**	**0.22**	**0.48**	**-2.68**	**0.39**	**2.25**	**3.31**	*3.39*	**2.92**

Performance review

- The S&P/ASX 300 Accumulation Index returned 8.36% for June quarter, with Materials and Financials the top performing sectors and Telecommunication Services and Utilities the weakest performers for the period.
- The Ralton High Yield portfolio returned 8.59% for the quarter, outperforming the benchmark by 0.22%.
- The portfolio's underweight to Energy was the main detractor for the period, with our overweight to Financials adding relative value.

Performance attribution

Key contributors

Key contributors	Positioning
Aristocrat Leisure	Overweight
Macquarie Group	Overweight
Healthscope Ltd	Overweight
Commonwealth Bank of Australia	Underweight

Aristocrat Leisure (ALL, +28.43%) – reported a strong 1H18 result during the quarter, exceeding market expectations, driving the stock higher. 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.

Macquarie Group (MQG, +20.17) – performed solidly for the portfolio during the quarter after delivering a strong increase in operating earnings at its full year result. MQG continues to see solid growth from across its portfolio of global businesses and benefited from a lower tax rate resulting from the cut to the US corporate tax rate. The group has also benefited in terms of public perception by not being called before the Royal Commission. MQG is leveraged to the ongoing growth in its AUM, a decline in its cost-to-income ratio (CTI) to reflect the change in mix of its businesses and the expected lift in IPO's and other corporate activity in the later stages of this cycle. This provides a substantial amount of scope to drive/maintain earnings. MQG offers a good yield versus that of the broader market.

Healthscope Ltd (HSO, +14.21%) – was added to the portfolio in late 2017 following a significant fall in the share price and a de-rate in its trading multiple. While we have been cautious regarding the potential for a deterioration in the outlook for the private health insurance segment as affordability concerns impacted health insurance participation, the share price fall provided an opportunity for us to build a position below book value with a reasonable margin of safety, factoring a conservative view on top line growth and margin, acknowledging the strategic value of the company's assets. During the quarter, HSO received a number of bids. However, in late May HSO management released the outcome of a long-awaited portfolio review – a downgrade to previously announced earnings guidance and the decision to not progress with either of the proposed bids. Trading above fair value with significant industry uncertainty and poor operational execution, we decided to exit the stock to crystallise strong gains.

Commonwealth Bank of Australia (CBA, +0.77%) – underperformed during the June quarter, which contributed to the portfolios performance given the underweight position. We have been underweight the bank for an extended period given the problems in its Wealth Management business, issues with Austrac and the expectation of a high level of senior management turnover in the wake of these events. Further, the

general backdrop for the banking sector has become more challenging in light of the Royal Commission's focus on "responsible lending", which will reduce the total amount people can borrow, the slowdown in the overall level of mortgage growth with the wind-down of interest only lending and the structural limit on growth imposed by the high level of household indebtedness.

Key detractors

Key detractors	Positioning
Boral Ltd	Overweight
Telstra Corporation	Overweight
IOOF Holdings	Overweight
CSL Limited	Underweight

Boral Ltd (BLD, -12.23%) – continued to trend lower during the quarter 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 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.

Telstra Corporation (TLS, -16.56%) – provided two separate updates to the market in May and June, initially providing a disappointing update to FY18 guidance and secondly, in combination with a broader strategic update, a downgrade to FY19 market expectations. The update reflected the increased competitive intensity in the Australian telecommunications market across both the mobile and fixed broadband segments. Outside of the guidance downgrade, the strategic update illustrated a path to value for shareholders from a potential separation of its undervalued infrastructure assets as well as a change in mobile strategy which will drive market share gains through lowering price and placing pressure on less profitable peers. In the short term we will continue to see elevated earnings pressure as the company transitions to lower NBN broadband margins as well the impending entry of TPG into the Australian mobile market, which has seen all participants compete more aggressively. Trading at historically low price multiples, the strategic changes announced in June do place TLS in a stronger competitive position and we look to evidence of improved operational performance to support the current holding.

IOOF Holdings (IFL, -11.69%) – traded lower in the quarter as the focus of the Royal Commission turned from the major Banks and lending practices to the Financial Planning space and vertical integration. We see IFL as differentiated from its competitors and as such see it facing lower risk from any potential fallout from the Royal Commission due to the company's "open architecture" commitment and lower risk multiple platform model. IFL has also been very successful as a major consolidator in the wealth management space, where its integration skills allow it to retain the core value of its acquired businesses while stamping out unnecessary costs. The recent acquisition of the ANZ wealth management platform provides a strong growth platform for the next few years and we were pleased to see IFL confirm during the quarter that ANZ has provided indemnities in relation to any future liabilities stemming from the Royal Commission. We like IFL's focus on the customer, which differentiates it from the big banks and other large financial institutions, particularly at a time when community trust in the banks is increasingly questioned.

CSL Limited (CSL, +23.90%) – Continued its strong run in the June quarter primarily driven by an upgrade to previously announced profit guidance for the FY18 year. The key drivers of the upgrade were continued strong immunoglobulin (IG) market growth and strong sales from CSL's specialty brands, buoyed by manufacturing issues at a key competitor. While we are attracted to CSL's strong industry position and the latent value evident in its R&D pipeline, we remain cautious that the market valuation is capitalising current earnings growth and implied low risk too far into the future. Trading well above historical trading ranges, we feel potential competitor behaviour and inherent risk in the manufacture and distribution of blood products is not currently reflected in the share price, raising the potential for capital loss should lofty expectations not be met.

Portfolio changes

Key additions and material adjustments

Bought
Super Retail Group (SUL)
Star Entertainment Group (SGR)
Sydney Airports (SYD)
Spark Infrastructure (SKI)

Super Retail Group (SUL) was added to the portfolio during the quarter. SUL has de-rated significantly as the market has looked to factor in the impact of increased competition from online and international groups as well as a subdued consumer. At the time of acquisition, we perceived that a significant level of Amazon-related risk is factored into its current valuation. At the same time, forward earnings have been reduced to a point where we see low risk of further earnings disappointment. We are increasingly confident that the company is building an effective strategy to maintain its relevance in a post-Amazon retail environment. With a solid growth outlook and a strong yield of around 7%, we viewed SUL as an attractive stock for the portfolio.

We added **Star Entertainment Group (SGR)** to the portfolio during the quarter as we saw the recent decline in the share price as an opportunity to build a position in a company with several medium-term drivers of growth. In late March the company deepened its strategic partnership with its Asian-based Brisbane project partners by issuing shares to both parties. While the issuance of shares to one entity does give rise to a potential blocking stake in the event of a takeover, we view the long-term benefits of greater access to capital and enhanced ability to market into key growth areas in Asia as underpinning the strong outlook for the company. Strong project driven growth drivers, a well-established management team and an attractive dividend yield were key reasons for its addition.

We also purchased a holding in **Sydney Airports (SYD)**, which had de-rated as the market has moved to price in an increase in bond yields. The price represented attractive opportunity to gain exposure to the positive thematic of middle-class income growth in Asia, the growth of low cost airlines and Asian carriers and the repurposing of airport property to higher value functions. These drivers should lead to medium-term sustainable growth and subsequently a growing distribution outlook.

Spark Infrastructure (SKI) was added back into the portfolio during the quarter after a sharp pull-back in the stock price. SKI owns and manages regulated electricity distribution assets (i.e. the poles and wires) in Victoria and South Australia. The company was part of a consortium that acquired the Transgrid assets (a NSW based poles and wires business) from the NSW state government. With regulatory certainty in place until 2020 for its key assets, we expect SKI to continue delivering a growing distribution to its investors in the near term.

Key disposals and material adjustments

Sold
Healthscope Ltd (HSO)
Computershare (CPU)
Ansell (ANN)
OFX Limited (OFX)
Japara Healthcare (JHC)

There were a number of portfolio disposals during the quarter as we took profits on a number of positions. This included **Healthscope (HSO)** following a number of takeover bids and **Computershare (CPU)** after it reached our valuation. The holdings in **Ansell (ANN)** and **OFX Limited (OFX)** were disposed of as share price appreciation had reduced the yield substantially and we saw better yield opportunities elsewhere. Further, whilst **Japara Healthcare (JHC)** appears undervalued, we are concerned about the sustainability of the yield during its move into a substantial development phase, so the position was disposed of.

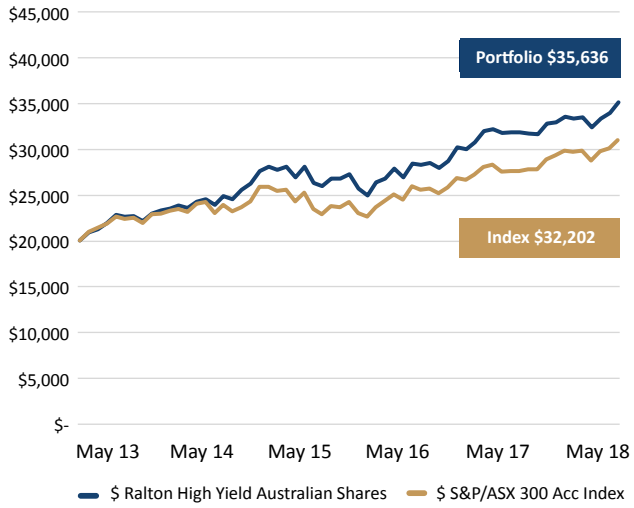
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	9.9%	5.0%	4.9%
Consumer Staples	11.9%	8.1%	3.8%
Financials	35.8%	32.6%	3.2%
Utilities	4.5%	2.0%	2.5%
Materials	19.5%	18.5%	1.0%
Telecommunication Services	2.4%	2.2%	0.2%
Real Estate	7.7%	7.7%	0.0%
Energy	5.5%	5.7%	-0.2%
Information Technology	0.0%	2.5%	-2.5%
Industrials	2.7%	7.2%	-4.5%
Health Care	0.0%	8.4%	-8.4%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

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

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.