Total returns

At 31 July 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	1.73	6.14	5.35	10.87	8.48	11.55	12.46	9.13	8.03
Income return	*0.00*	*0.80*	*1.99*	*4.16*	*3.98*	*3.83*	*4.09*	4.27	*4.24*
Growth return	*1.73*	*5.34*	*3.36*	*6.71*	*4.50*	*7.72*	*8.36*	4.86	*3.79*
S&P/ASX 300 Acc Index	1.31	5.78	6.05	14.70	8.09	9.15	9.79	6.93	5.51
Difference	**0.43**	**0.35**	**-0.69**	**-3.84**	**0.39**	**2.41**	**2.67**	**2.20**	**2.52**

Performance review

- The S&P/ASX 300 Accumulation Index returned 1.31% for the month of July, with Financials and Industrials the top performing sectors and Consumer Staples and Materials the weakest performers for the period.
- The Ralton Australian Shares portfolio returned 1.73% for the month, outperforming the benchmark by 0.43%.
- For the month of July, the portfolio's overweight to Consumer Discretionary and underweight to Health Care added relative value to the portfolio. Being underweight Industrials and overweight Telecommunication Services detracted from portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
Aristocrat Leisure	Overweight
Amcor Limited	Overweight
Ansell Limited	Overweight

Aristocrat Leisure (ALL, +4.21%) – continued to move higher during July as the market continued to factor in the positive outlook from the strong 1H18 result and some incrementally positive news hit the market. During the month, ALL again continued to perform very strongly in the key survey for the performance of its social gaming products. Also, ALL announced the appointment of Jeff Karp as Managing Director of Big Fish Games, its recently acquired social gaming business. He is regarded as having been instrumental in building franchise games such as EA Sports, Words with Friends, Farmville, the Sims franchise, Bingo Bash and GSN Casino. 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.

Amcor Ltd (AMC, +4.58%) – the global packaging company, rallied as investors begin to factor in that several of the headwinds from FY18 should ease as we enter the new financial year. Rising raw material costs, challenges in the North American beverage market, a slide in tobacco sales in Emerging Markets and challenging conditions in Latin America have negatively impacted AMC. During FY19, the raw materials costs will ease and particularly for polyethylene as new capacity comes through. Additionally, AMC has robust contractual pass-through mechanisms established which means raw material cost increases will be recovered with a lag. Thus, a more benign cost environment and the contractual cost pass-through should see AMC recoup recent cost headwinds through FY19/20. AMC's major customer in North America, Pepsi, has started to see an improvement in its volumes as it lifted marketing for its key brands. Overall, we expect AMC to continue to deliver organic and acquisition-driven growth.

Ansell Ltd (ANN, +5.96%) – continued to rally during July as the backdrop for the company remains favourable. ANN manufacturers a range of specialised gloves and related products for use in the industrial and healthcare fields. ANN has transitioned away from the provision of commodity products to a range of more sophisticated products which rely on its innovation. The benefits of this shift in product mix and changes to its distribution channels are coming through at the same time as the European and American industrial backdrop is providing a tailwind to group sales. Also, the raw material cost headwinds the group faced in 1H18 have eased off in 2H18. ANN has a solid balance sheet after the disposal of its Sexual Wellness business, and this provides scope for some bolt-on acquisitions which will also drive earnings growth.

Key detractors

Key detractors	Positioning
Nufarm Limited	Overweight
Woolworths Group	Overweight
Commonwealth Bank	Underweight

Nufarm (NUF, -19.30%) – fell hard during the month after the company substantially downgraded its earnings outlook. The main driver of the downgrade was dry

conditions in Australia, which saw a substantial drop in sales in the crop protection market. The weak seasonal conditions continued through both June and July which are the crucial months for the NUF business in this market. Also, there is now an expectation of a dry spring which will constrain sales into FY19 as well. Although the integration of the recent European acquisitions is on track, there has been a hit to current year earnings as NUF failed to get approval for one of the products in time for the selling season. While this weather impact is a short-term negative, we remain positive on the medium-term outlook for the group given the diversity of markets it operates in, the recent European acquisitions and the upside potential from the Omega 3 commercialisation.

Woolworths Group (WOW, -1.41%) – shares declined slightly over the month after delivering a return of approximately 16.18% over the past 12 months. Early in the month, WOW had rallied after it announced it would retain its petrol stations and had entered into a new fuel supply agreement with Caltex which increased its earnings by an estimated $80m pa. WOW will now move to list its petrol stations next year which should release around $2bn in cash. Overall, the outlook for the supermarket industry looks solid with Coles being a rationale competitor ahead of its spin-out from Wesfarmers and food price deflation beginning to ease. We will also be interested to see how the turnaround at Big W is progressing during the upcoming reporting period.

Commonwealth Bank (CBA, +2.63%) – outperformed during July, which detracted from the performance of the portfolio given the underweight position. We have remained 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.

Portfolio changes

Key additions and material adjustments

Bought
Woodside Petroleum (WPL)

We added **Woodside Petroleum (WPL)** to the portfolio in July as the company is a highly attractive long-term energy sector investment for exposure to rapidly growing Asian LNG demand based on its growing tier one (high quality and low-cost) LNG project production base. WPL generates substantial free cash flow, rising earnings, and has a sector-leading dividend yield. WPL's significant resource base is supportive towards a future commitment to low-risk LNG project expansions, and the company is leveraged to high equity in Pluto LNG (90%) and the Scarborough LNG (75%) Pluto tieback developments.

Key disposals and material adjustments

Sold
Worley Parsons (WOR)
Oil Search (OSH)
IOOF Holdings (IFL)

There were some disposals from the portfolio during the month. We disposed of the holdings in **Worley Parsons (WOR)**, as it had reached our valuation, and **Oil Search (OSH)**. The proceeds from these stocks were-deployed into better value opportunities in the Energy sector which we continue to have a favorable view of given the fundamentals in the oil and LNG markets, and the rising risk of geopolitical events causing a spike in oil prices given the low level of surplus capacity in the market.

We also disposed of our holding in **IOOF Holdings (IFL)** during the month as we are becoming more concerned about the structural implications of the Royal Commission in the financial services industry. While we remain attracted to IFL's competitive position, which we expect to be strengthened by the pending acquisition of ANZ Wealth Management, the lack of clarity around the outcomes for the industry makes it particularly challenging to determine an appropriate valuation at this point.

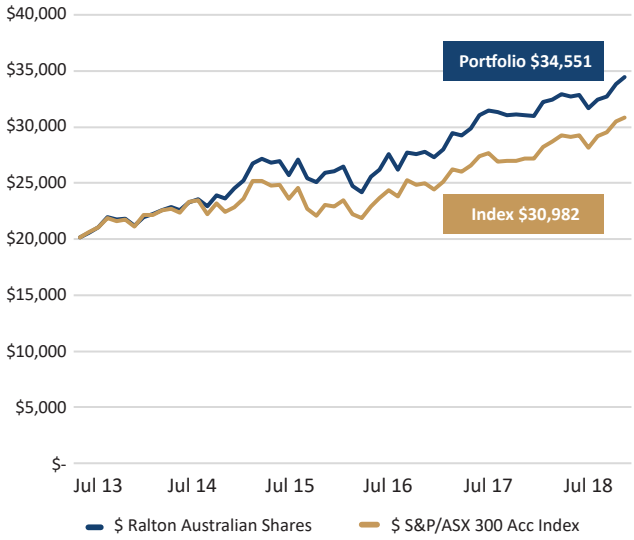
Sector allocation

GICS sector	Ralton	Index	+/-
Materials	23.92%	18.20%	5.73%
Consumer Discretionary	10.58%	4.97%	5.61%
Energy	7.83%	5.74%	2.10%
Telecommunication Services	4.14%	2.37%	1.77%
Consumer Staples	8.50%	7.94%	0.56%
Information Technology	2.24%	2.45%	-0.20%
Utilities	0.00%	1.94%	-1.94%
Health Care	6.46%	8.51%	-2.05%
Financials	30.05%	32.84%	-2.79%
Real Estate	4.15%	7.69%	-3.54%
Industrials	2.13%	7.36%	-5.23%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

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

Performance comparison of $20,000*



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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.