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 High Yield Australian Shares	2.04	7.50	7.50	12.75	8.68	11.68	13.40	*9.98*	8.48
Income return	*0.00*	*0.96*	*2.33*	*4.80*	*4.57*	*4.61*	*4.81*	*4.95*	*4.92*
Growth return	*2.04*	*6.54*	*5.17*	*7.95*	*4.10*	*7.07*	*8.58*	*5.03*	*3.56*
S&P/ASX 300 Accum. Index	1.31	5.78	6.05	14.70	8.09	9.15	9.79	*6.93*	5.51
Difference	**0.73**	**1.72**	**1.46**	**-1.95**	**0.59**	**2.53**	**3.61**	*3.04*	**2.97**

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 2.04% for the month, outperforming the benchmark by 0.73%.
- The portfolio's underweight to Industrials was the main detractor for the period, with our overweight to Materials adding relative value.

Performance attribution

Key contributors

Key contributors	Positioning
Super Retail Group	Overweight
Amcor Ltd	Overweight
Aristocrat Leisure	Overweight

Super Retail Group (SUL, +14.07%) – performed strongly again during July as investors continued to unwind part of the discount they had built into the share price from risks around the arrival of Amazon, early concerns about the acquisition of Macpac and expectations of a softer consumer environment. The share price recovery over the past few months has seen the stock trading at a more appropriate valuation, with a substantial buffer to its historical trading levels to account for some of the risks in the market. SUL, which owns several household name brands, is well managed and has expected medium-term profit growth primarily driven by internal or 'self-help' initiatives. The self-help is mostly due to the various supply chain, IT, and warehouse efforts that SUL has been investing in over the last couple of years. These will make the business more efficient, release inventory (and cash in the process) and allow scope for growth.

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.

Key detractors

Key detractors	Positioning
Woolworths Group	Overweight
Inghams Group	Overweight
Macquarie Group	Overweight

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.

Inghams Group (ING, -3.93%) – continued to slip during July after the well-regarded CEO, Mick McMahon, indicated he intended to step down. We held him in high regard for his work with the business, so we will be carefully observing the candidate whom they choose to replace him. As Australia's largest poultry supplier with operations spread across the country, Ingham's is a household name. The company has established clear targets around productivity and profit objectives across a range of business areas. These targets appear attainable; however, rising feed costs may mean some of the business improvement benefits are used to absorb this. An update on whether price increases will be sufficient to offset rising costs will be a crucial issue at the results. The company has a strong balance sheet, and we expect the announcement of a buy-back with the result.

Macquarie Group (MQG, -0.67%) – underperformed the market slightly after well-regarded CEO, Nicholas Moore, announced his retirement from the group, effective 30 November 2018. Mr. Moore has been the CEO of the group for approximately ten years and was instrumental in driving the creation of the infrastructure-related businesses and the groups' global expansion earlier in his career. The appointment of a long-standing Macquarie employee and head of its asset management business (Shemara Wikramanayake) as the new Managing Director should ensure continuity of approach. We view Shemara as an excellent choice for this position. MQG also provided an update at its AGM that the year had started as expected. MQG remains well positioned given its diversified business mix and exposure to the real economy (many of its businesses benefit from the robust global growth environment with moderately rising inflation).

Portfolio changes

Key disposals and material adjustments

Sold
Viva Energy REIT (VVR)
IOOF Holdings (IFL)

There were two disposals from the portfolio during the month. Firstly, we disposed of the holding in the **Viva Energy REIT (VVR)** as it was approaching its valuation and we had the opportunity to deploy the cash into other attractive opportunities. 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.

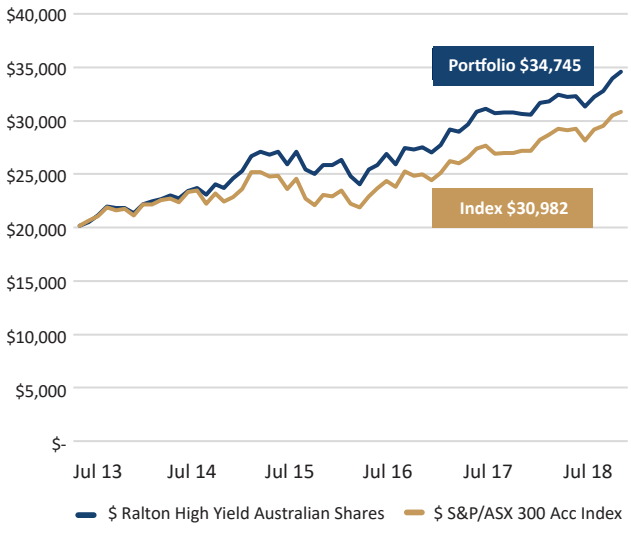
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	10.97%	4.97%	5.99%
Consumer Staples	11.82%	7.94%	3.87%
Utilities	4.49%	1.94%	2.55%
Energy	7.49%	5.74%	1.75%
Materials	19.90%	18.20%	1.70%
Financials	34.39%	32.84%	1.55%
Telecommunication Services	2.64%	2.37%	0.27%
Real Estate	5.62%	7.69%	-2.07%
Information Technology	0.00%	2.45%	-2.45%
Industrials	2.69%	7.36%	-4.66%
Health Care	0.00%	8.51%	-8.51%
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 Group	WOW
National Australia Bank	NAB
Macquarie Group Ltd	MQG
Westpac Banking Corp	WBC
Woodside Petroleum	WPL
Amcor Ltd	AMC
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.