Total returns

At 31 December 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	-0.26	-8.07	-7.49	-4.86	5.91	7.66	11.73	10.67	6.78
Income return	*0.17*	*0.76*	*2.14*	*4.22*	*4.03*	*3.85*	*4.02*	4.24	*4.28*
Growth return	*-0.43*	*-8.83*	*-9.62*	*-9.07*	*1.88*	*3.81*	*7.71*	6.43	*2.50*
S&P/ASX 300 Acc Index	-0.23	-8.41	-7.03	-3.06	6.65	5.60	9.45	8.91	4.47
Difference	**-0.03**	**0.34**	**-0.45**	**-1.80**	**-0.74**	**2.06**	**2.27**	**1.75**	**2.31**

Performance review

- The S&P/ASX 300 Accumulation Index returned -8.41% for the December quarter, with Utilities and Consumer Staples the top performing sectors and Consumer Discretionary and Energy the weakest performers for the period.
- The Ralton Australian Shares portfolio returned -8.07% for the quarter, outperforming the benchmark by 0.34%.
- For the December quarter, being overweight Materials and Consumer Staples added relative value to the portfolio. The portfolio's underweight to Real Estate and overweight to Consumer Discretionary were the key detractors from portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
Woolworths Group	Overweight
Northern Star Resources	Overweight
BHP Ltd	Overweight

Woolworths Group (WOW, +4.77%) – outperformed in December as the Australian equity market staged a late rally to end the quarter marginally lower. During November the company confirmed our previous view that prior quarter sales weakness was transitory and indicated that September and October had seen an improvement in sales momentum. Moreover, WOW announced the sale of the petrol business and we view it is likely that the $1.75bn funds received will be distributed to shareholders in a tax-effective manner. Overall, the outlook for the supermarket industry looks solid as we see further evidence of an increasingly rational competitive environment and the easing of deflation that has weighed on supermarket top line growth. Management execution remains strong and balance sheet strength offers flexibility. Valuation remains undemanding compared to domestic defensive names.

Northern Star Resources (NST, +11.33%) – strongly outperformed the market over the December quarter as the company continued to deliver on its strategy of balancing the delivery of successful organic growth with well executed M&A. Strong initial drilling results from its record A$60m FY19 exploration program around its Tier 1 operations is expected to support increases in resources and conversion of existing resources to reserves, which will extend project life. NST also has a strong track record of revitalising underground mines, and the Pogo acquisition is expected to benefit from an underground productivity boost through the adoption of improved mining operations and higher mill utilisation. We expect NST to deliver/surpass its FY19 production guidance, for Pogo to be revitalised, and for continued exploration success to underpin growth in resources and reserves. Supporting macro factors include a weaker Australian dollar elevating the A$ realised gold price, a slower US interest rate tightening path, and weaker US dollar.

BHP Ltd (BHP, -1.16%) – outperformed the market over the December quarter as it delivered an earlier than expected capital return from the sale of its US shale assets to BP, with the entire net proceeds to be returned to shareholders consisting of a US$5.2bn off market buyback (14% discount) and a US$5.2bn special dividend of US$1.02 per share. The sale proceeds and buyback enhance BHP's earnings per share (EPS) and return on capital employed (ROCE), which is a key focus for management. The US sale completion has also enabled BHP to focus on its streamlined core operations. While trade and geopolitical events are adversely impacting the outlook for global growth and key commodity prices, a positive view towards BHP is maintained based on the flow-through returns from the US asset sale and expectation that a higher proportion of BHP's future free cash flow (FCF) will also be returned to shareholders over the next twelve months now that BHP's debt targets have been largely met. We also expect the Chinese government to further stimulate its slowing economy, and if infrastructure investment is targeted it will benefit BHP.

Key detractors

Key detractors	Positioning
Aristocrat Leisure	Overweight
Woodside Petroleum	Overweight
Boral Ltd	Overweight

Aristocrat Leisure (ALL, -23.21%) – underperformed during the December quarter as the announced FY18 result led to increased investor uncertainty regarding increasing investment and the rate and timeline of returns. ALL continues to invest in its core business, however, it is the elevated investment in the digital business that has caused the stock to underperform over the last quarter. Furthermore, with earnings in 2019 now 2H-weighted, the market marked the stock down due to elevated uncertainty. We remain positive on the outlook for the company as we see the company's willingness to invest behind their strong competitive position as a core driver of ALL's long-term performance. We remain vigilant to key competitors gaining market traction through increasing investment, however, key offshore competitors remain over-indebted and continue to underspend on product development. As such, we remain confident that ALL's current suite of land-based products will continue to take share in a market that is supported by strong US consumer confidence. In addition, at the current valuation we feel the Australian market is discounting the strong earnings outlook supported by multiple growth options within ALL's core slot operations, expansion into adjacent markets, and continued momentum in its digital businesses broadly supported by a strong US economic backdrop.

Woodside Petroleum (WPL, -18.82%) – underperformed the market following the sharp global oil price downturn in the December quarter. Future oil price support is expected from OPEC's agreement to remove 1.2 million bpd from the market for six months from January 2019, plus we see potential for an extension to the OPEC-led oil production cut backs. WPL enhanced its long-term growth profile over the December quarter after it agreed to commence front-end engineering design (FEED) activities for both the SNE Field Phase 1 Oil Development (WPL 35%) offshore Senegal and for the Pluto LNG Train 2 expansion project in Western Australia. The SNE floating production, storage and offtake (FPSO) vessel is expected to start up in 2022 with a gross production capacity of around 100,000 bpd. WPL is also targeting a final investment decision (FID) for the Pluto LNG T-2 expansion project in 2020 and start up in 2024. The Pluto LNG project expansion is underpinned by the development of the 7.3 Tcf (2C, 100%) Scarborough gas resource (WPL 75%), located offshore Western Australia. We remain attracted to WPL's growth projects and exposure to Asia's growing appetite for natural gas - China's LNG demand grew by 48% in 2018.

Boral Ltd (BLD, -28.51%) – de-rated during the December quarter as investors became increasingly concerned with the potential for a weaker outlook in the US housing market. Late in October Boral released a market update which confirmed 1Q had been below expectations. Interestingly the weakness was not centered within the US or Australian housing activity. Rather, extreme weather seen in the US and Australian east coast had impacted activity levels. Outside of the weather related operational impact, the underlying market remains robust with US housing activity still exhibiting growth and a significant backlog of Australian infrastructure is yet to complete. Boral remains confident that US housing construction has many years to run and while activity is currently subdued (with US Homebuilders also falling during the period), growth remains, albeit at a lower level. The recent FY18 result showed that Boral has growth drivers broadly spread across its Australian and United States operations and illustrated that the company continues to manage operations well in the face of increasing input costs, which have impacted peers. Key drivers remain in place as US housing activity is supported by under-supply and current government infrastructure spend more than offsets housing weakness within BLD's domestic operations. The potential for long-term growth is also evident in the company's expanding US FlyAsh operations. BLD is trading at attractive multiples, delivers a strong yield and we remain confident in the company's outlook.

Portfolio changes

Key additions and material adjustments

Bought
Nil

Key disposals and material adjustments

Sold
Sydney Airport (SYD)
National Australia Bank (NAB)

We disposed of our holding in **Sydney Airport (SYD)** as the stock appeared fully valued, particularly after we had gained evidence that traffic growth figures for Chinese visitors coming to Australia was slowing. In addition, regulatory risk for SYD is rising with the Federal Government due to release its draft recommendation from a review of Australian airport regulation in February 2019. We also disposed of **National Australia Bank (NAB)**. Following the recent reporting season, we are of the view that NAB faces increased costs and disruption to execute on their simplification plan after a period of underinvestment. Moreover, we view that the inherent risks likely to emerge from the Royal commission will be exacerbated due to the banks' weaker capital position vs. peers.

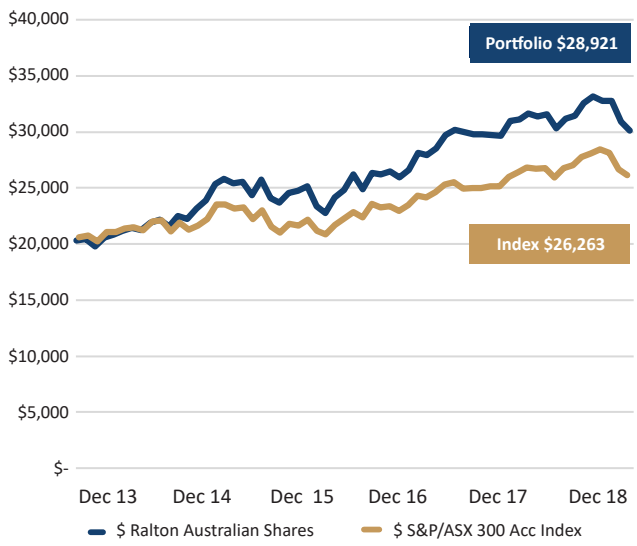
Sector allocation

GICS sector	Ralton	Index	+/-
Materials	29.5%	18.1%	11.4%
Consumer Staples	10.8%	5.8%	5.1%
Consumer Discretionary	11.2%	6.4%	4.7%
Energy	7.4%	5.4%	2.0%
Utilities	3.1%	2.0%	1.1%
Information Technology	2.2%	2.2%	0.0%
Health Care	7.5%	8.8%	-1.2%
Telecommunication Services	1.2%	3.5%	-2.3%
Real Estate	4.1%	7.6%	-3.6%
Industrials	0.0%	8.0%	-8.0%
Financials	23.0%	32.2%	-9.2%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
BHP Group Limited	BHP
Woolworths Group Ltd	WOW
ANZ Banking Group Ltd	ANZ
Amcor Limited	AMC
Woodside Petroleum	WPL
Aristocrat Leisure	ALL
Commonwealth Bank	CBA
Suncorp Group Ltd	SUN
Westpac Banking Corp	WBC
Vicinity Centres	VCX

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.

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