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 Leaders	0.14	-7.65	-6.17	-1.58	6.11	7.55	11.42	10.44	6.45
Income return	*0.21*	*0.88*	*2.26*	*4.46*	*4.18*	*4.08*	*4.21*	4.46	*4.50*
Growth return	*-0.07*	*-8.53*	*-8.44*	*-6.04*	*1.93*	*3.47*	*7.22*	5.99	*1.95*
S&P/ASX 100 Accum. Index	0.27	-7.73	-6.31	-2.35	6.60	5.60	9.86	9.11	4.86
Difference	**-0.13**	**0.08**	**0.13**	**0.77**	**-0.49**	**1.95**	**1.57**	1.33	**1.59**

Performance review

- The S&P/ASX 100 Accumulation Index returned -7.73% for the December quarter, with Utilities and Consumer Staples the top performing sectors and Financials and Energy the weakest performers for the period.
- The Ralton Leaders portfolio returned -7.65% for the quarter, outperforming the benchmark by 0.08%.
- For the December quarter, being overweight Consumer Staples and Materials 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
Boral Ltd	Overweight
Lendlease Group	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.

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.

Lendlease Group (LLC, -40.84%) – underperformed the market after announcing another substantial downgrade in relation to its Engineering business (previous provision in late 2017), despite having reassured the market only eight weeks before that there were no grounds for an additional provision top-up. What was more troublesome was the fact a component of the provision related to new contracts the company had taken on. This raises further concerns about the risk management framework in this business. We like the broader LLC business with its global book of urban regeneration projects (akin to the Barangaroo development in Sydney) which provides a long-term back-log of construction work and development profits for the group. Further, it has a large, globally diversified funds management business with a strong reputation amongst its clients. However, these new issues in the Engineering business again bring into question whether management have a firm grasp of the risks being taken on in that section. Management have announced a review of the Engineering business which may well lead to its sale. We decided to exit the position after the announcement and will continue to monitor the situation.

Portfolio changes

Key additions and material adjustments

Bought
Nil

Key disposals and material adjustments

Sold
Sydney Airport (SYD)

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.

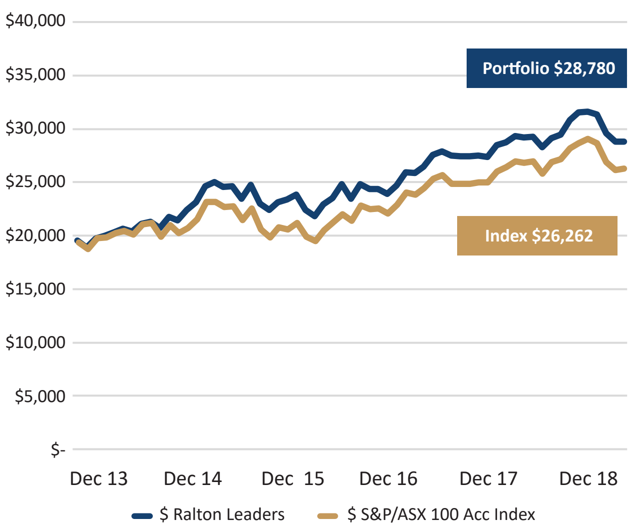
Sector allocation

GICS sector	Ralton	Index	+/-
Materials	23.7%	18.0%	5.7%
Energy	9.0%	5.3%	3.7%
Consumer Staples	8.0%	5.4%	2.6%
Consumer Discretionary	6.9%	5.4%	1.5%
Information Technology	2.2%	1.2%	1.0%
Utilities	2.3%	2.2%	0.2%
Health Care	8.3%	9.1%	-0.8%
Telecommunication Services	2.0%	3.2%	-1.2%
Real Estate	3.8%	7.1%	-3.4%
Financials	31.5%	35.0%	-3.5%
Industrials	2.4%	8.1%	-5.8%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

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

Performance comparison of $20,000*



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Performance of the Ralton Wholesale Leaders 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 100 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.