Total returns

At 28 February 2019	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 Smaller Companies	3.34	6.15	-5.36	0.58	12.09	9.65	12.28	14.91	7.98
Income return	*0.39*	*0.59*	*1.02*	*2.78*	*2.90*	*3.01*	*3.33*	3.69	*3.68*
Growth return	*2.95*	*5.57*	*-6.38*	*-2.20*	*9.19*	*6.65*	*8.96*	11.22	*4.30*
S&P/ASX Small Ord Accum. Index	6.78	8.01	-3.06	3.48	13.44	7.74	4.54	9.44	1.65
Difference	**-3.44**	**-1.85**	**-2.29**	**-2.90**	**-1.35**	**1.91**	**7.74**	5.47	**6.33**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index returned 6.78% for the month of February, with Consumer Discretionary and Information Technology the top performing sectors and Consumer Staples and Utilities the weakest performers for the period.
- The Ralton Smaller Companies portfolio returned 3.34% for the month, underperforming the benchmark by 3.44%.
- For the month of February, being underweight Industrials and Consumer Staples added relative value to the portfolio. The portfolio's underweight to Consumer Discretionary and overweight to Materials were the key detractors from portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
Speedcast International	Overweight
Steadfast Group	Overweight
Tassal Group	Overweight

Speedcast International (SDA, +33.33%) – outperformed in February following a better than expected CY18 result and strong FY19 guidance. SDA's share price has remained depressed since a disappointing 1H18 result that created investor concern over the duration of the recovery in the energy division as well as managements willingness to maintain discipline regarding M&A and balance sheet metrics. Following the share price fall we took the view that the market-implied valuation under-valued the strengthening position of the business as well as the structural growth opportunity arising from the usage of data by corporations and governments in remote locations. Moreover, the rebased earnings expectation provided a more realistic base from which management could regain market confidence. We see this result as the first step to a share price re-rate with the prospect of increased confidence in the energy recovery providing upside to future earnings expectations.

Steadfast Group (SDF, +18.18%) – was a positive contributor to portfolio performance during February after its results were slightly ahead of expectations and the Royal Commission was less negative than some had feared for the SME insurance broking sector. As expected, SDF delivered a solid mix of organic and acquisition-driven growth during the half with momentum expected to continue into 2H19. Insurance premium increases continue to come through at around 5%, with this flowing through to the major renewal period around June this year. The group has made a major investment in software which provides its brokers with an easy comparison of all the insurance options available. The early benefits from this project are being seen and more insurers are joining the platform. We believe SDF has a range of domestic growth initiatives coupled with longer-dated international growth options.

Tassal Group (TGR, +12.61%) – performed strongly during the month as the market welcomed a strong result despite warmer water conditions and the loss of salmon stock, which impacted the company's closest peer, HUON aquaculture. Operations benefited from strong pricing in the half as global salmon prices remained elevated and the domestic market remained marginally undersupplied. These favourable market conditions are set to continue as HUON remains short of fish, losing a significant part of their 2019 salmon production as a large storm tore through their operations in one of their more exposed sites. As such, TGR looks set to benefit from an ample supply of salmon that it can feed through to an undersupplied market. In addition, TGR completed their expansion into the Prawn industry, which looks to have strong market fundamentals and should lead to sustainable medium-term growth. We also expect the first delivery of Tassal prawns into domestic supermarkets at the end of CY19 to be a positive catalyst. We expect TGR to continue to deliver low double-digit earnings growth and a strong dividend. Given that TGR trades at a valuation lower than the broader Industrials sector, we are confident of continued outperformance.

Key detractors

Key detractors	Positioning
Nufarm	Overweight
OceanaGold Corp	Overweight
Mineral Resources	Overweight

Nufarm (NUF, -16.03%) – underperformed the market during February as the continued drought in Australia caused broad based concern that the recovery in domestic earnings will now be seen in 2020 rather than 2019. Furthermore, the US and European seasons are yet to receive the rain needed to drive buying behaviour that will see the inflated inventory position drawn down. While we remain attracted to the growth driven by recent expanded operations in Europe, plant efficiency projects and the first contribution from the Omega 3 venture, we remain conscious that continued weak conditions are a risk to consensus earnings expectations as well as of NUF's higher than historical gearing levels. At this point we have taken the opportunity to review the position and will look to revisit the stock when we have a clearer view on the outlook for agricultural chemical demand.

OceanaGold Corp (OGC, -6.89%) – underperformed the market in February. Haile gold production volumes were lower than expected for 2018 after above average rainfall restricted access to the higher-grade Mill Zone pit. Didipio gold production was also impacted at the end of 2018 after it reached its mill feed permit limit. OGC's 2019 outlook is for flat production and higher costs at all of OGC's gold mining operations. This is disappointing for a company that previously boasted best in class costs. However, 2019 is a transition year as Waihi moves to Martha underground and Haile recovers from its wet weather event. While we continue to see potential to significantly increase the gold resource base at Waihi and extend mine life, historical production levels are not expected to be achieved until the full ramp up of the Martha underground operations 12-18 months after all approvals are gained. OGC has geographical and geological diversity of operations, high EBITDA margins, and solid technical skills, and longer-term production growth is driven by Haile and from Macraes demonstrating ability to deliver a life-extension.

Mineral Resources (MIN, -4.87%) – underperformed the market in February. MIN's 1H FY19 result was at the lower end of company EBITDA guidance after the 1H FY19 numbers were affected by previously broadcast events that included suspension of direct shipping ore (DSO) sales from the Wodgina lithium mine, lower pricing for iron ore from Iron Valley (discounts for fines and impurities), delays to the start of Koolyanobbing iron ore, and delays in ramp-up of all-in 6% spodumene concentrate from Mt Marion (all 6% shipments now from 2H FY19). In addition, no sales of DSO affected other parts of the business (mining and crushing). Despite the 1H FY19 setback, MIN has retained its full year FY19 guidance. We have a positive outlook for MIN based on our expectation of a significantly improved 2H FY19 result, driven by a strong performance from Mining Services as life of mine contracts ramp up and from the "best outlook in a number of years" for the crushing business. The completion of the transformational Albemarle transaction for the sale of 50% of MIN's Wodgina lithium asset for US$1.15bn in cash (A$1.64bn at A$/US$0.70) remains on track, subject to Australian FIRB and China State Administration for Market Regulation approvals. We view Albemarle as a value-adding partner with leading expertise in Lithium Hydroxide manufacturing and product marketing that compliments MIN's core expertise. The Wodgina spodumene plant commissioning is running on schedule with the crushing plant recently starting up. While MIN's lower grade iron ore operations are marginal, the leverage to higher pricing for volumes of iron ore sold to China following the tragic Vale incident has not been recognised by the market, in our view.

Portfolio changes

Key additions and material adjustments

Bought
Nil

Key disposals and material adjustments

Sold
Viva Energy REIT (VVR)

We decided to dispose of the position in **Viva Energy REIT (VVR)** during February as the stock is now trading at a material premium to NTA at a point in the cycle when cap rates for these types of assets would be expected to come under pressure.

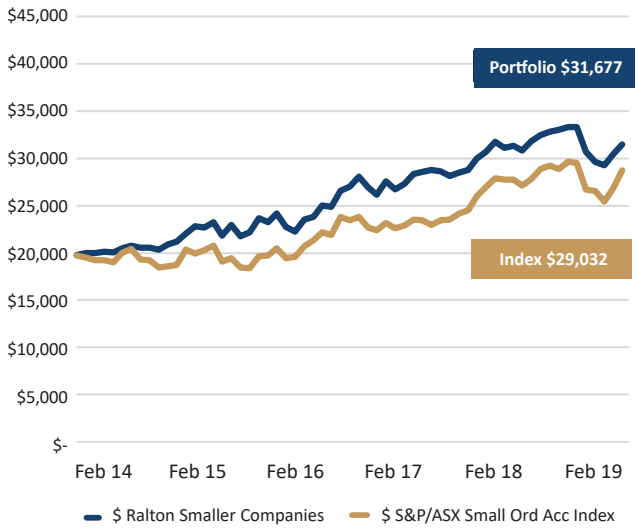
Sector allocation

GICS sector	Ralton	Index	+/-
Materials	24.7%	18.7%	6.0%
Energy	11.4%	7.2%	4.2%
Utilities	3.3%	0.4%	2.9%
Health Care	9.1%	6.4%	2.6%
Telecommunication Services	7.9%	5.9%	2.1%
Financials	7.3%	8.0%	-0.7%
Consumer Staples	6.4%	7.8%	-1.4%
Industrials	5.6%	7.4%	-1.8%
Consumer Discretionary	13.1%	15.1%	-2.0%
Information Technology	9.0%	11.9%	-2.9%
Real Estate	2.2%	11.1%	-8.9%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
Tassal Group Limited	TGR
Mineral Resources Ltd	MIN
Independence Group	IGO
Regis Resources	RRL
Bapcor Limited	BAP
OceanaGold Corp.	OGC
WorleyParsons Ltd	WOR
Cooper Energy Ltd	COE
Steadfast Group Ltd	SDF
Nufarm Limited	NUF

Performance comparison of $20,000*



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Performance of the Ralton Wholesale Smaller Companies 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 Small Ordinaries 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.