Total returns

At 31 May 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. (Mar 2008)
Ralton Australian Equity ex 50	-1.96	-0.87	5.23	-3.68	7.60	9.06	12.81	12.80	7.71
Income return	*0.06*	*0.58*	*1.17*	*2.66*	*2.72*	*2.90*	*3.30*	3.54	*3.65*
Growth return	*-2.02*	*-1.44*	*4.07*	*-6.33*	*4.88*	*6.16*	*9.51*	9.26	*4.06*
S&P/ASX Small Ord Accum. Index	-1.25	2.69	10.91	2.06	9.84	8.82	6.69	6.53	1.85
Difference	**-0.70**	**-3.56**	**-5.68**	**-5.74**	**-2.25**	**0.24**	**6.12**	6.27	**5.86**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index returned -1.25% for the month of May, with Communication Services and Materials the top performing sectors and Consumer Staples and Energy the weakest performers for the period.
- The Ralton Smaller Companies portfolio returned -1.96% for the month, underperforming the benchmark by 0.70%.
- For the month of May, being underweight Consumer Discretionary and Consumer Staples added relative value to the portfolio. The portfolio's underweight to Materials and overweight to Health Care were the key detractors from portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
oOh!Media	Overweight
Saracen Mineral Holdings	Overweight
Northern Star Resources	Overweight

oOh!Media (OML, +12.20%) – performed strongly during May due to the combination of an improving outlook for the consumer and evidence that the company has managed short-term headwinds well. The recent Coalition win as well as the expectation of rate cuts has seen confidence return to domestically exposed consumer stocks. Moreover, the company released reassuring commentary at their AGM, which confirmed previously disclosed full-year guidance and indicated that advertising revenue appears to be picking up for the period following the election. We remain focused on the company's strong competitive position and the structural growth in the industry as it moves from traditional billboards to digital displays. Moreover, we believe the consolidation that has recently completed in the industry is positive for the competitive environment and should lead to greater stability of returns. OML is trading at an attractive valuation with the potential to deliver consistent double-digit EPS growth, and, with abundant balance sheet flexibility, we remain attracted to the company.

Saracen Mineral Holdings (SAR, +14.70%) – outperformed the market in May. We believe SAR is well positioned to deliver improved production as well as a decline in costs. As at the end of March, SAR reported gold production of 266,981 ounces and appears on track to reach company FY19 guidance of 345,000 - 365,000 ounces. SAR's all in sustaining costs (AISC) have also averaged $1,032 per ounce to the end of March, slightly under its FY19 guidance of $1,050 – $1,100 per ounce. The company has the potential to add value through exploration (FY19: budget A$60m) by targeting relatively low-risk close-in opportunities around its key operating assets. SAR's mines are open, shallow, and with grades increasing at depth. Experienced mining executive John Richards has been appointed as an independent non-executive director.

Northern Star Resources (NST, +18.56%) – outperformed the market in May. The company remains focused on delivering value from Pogo by growing reserves and production. NST plans to deliver a maiden Pogo JORC reserve in the middle of this year from an active drill program (12 rigs operating). The company is also expected to deliver record production in the June 2019 quarter in order to meet its FY19 gold production guidance of 850,000 – 900,000 ounces. This is to be achieved from a combination of higher volumes and high-grade ore bodies. Management have indicated that they are also expecting a significant fall in costs (AISC), largely due to the final charge of mobile equipment delivering higher production volumes in the June quarter.

Key detractors

Key detractors	Positioning
Link Administration Holdings	Overweight
Beach Energy	Overweight
Nufarm	Overweight

Link Administration Holdings (LNK, -21.45%) – was a substantial negative contributor to the performance of the portfolio during the month after the company downgraded earnings substantially just prior to the end of

the month. This is the second downgrade in the past 12 months and relates to the Funds Administration (changes to low balance super account laws) and Corporate Markets businesses in Australia, and the impact of Brexit uncertainty on the UK/European businesses. LNK operates a number of back office processes (which are low value, but high volume per transaction) for groups including Industry Funds, companies, fund managers, and debt owners. LNK is also a major shareholder in PEXA, which now plays a key role in the settlement of home sales/mortgages, etc. This mixture of businesses provides a stable annuity-style income stream and good medium-term growth through the European operations and interest in PEXA. The balance sheet is in strong shape which can also be used to drive future earnings growth. We have been surprised by the scale of the fall in the share price and believe the stock offers medium-term value. There is an investor day later this month which may also provide the market with more confidence about the business outlook.

Beach Energy (BPT, -14.79%) – underperformed the market in May. While BPT's March Quarter report released on 30 April supports an FY19 result that should deliver a production and EBITDA result towards the higher end of company guidance, the stock appears fully valued and several analysts have downgraded their BPT ratings after the report. BPT completed the $262m sale of 40% equity in its Otway assets on 31 May which moves the company to a net cash position. BPT's share price is one of the most leveraged stocks in S&P ASX 200 Energy Index to the oil price.

Nufarm (NUF, -22.13%) – underperformed the market in May as glyphosate concerns re-emerged and the market began to factor in ongoing seasonally weak US cropping conditions, which will likely flow through to soft FY19 earnings. At the Macquarie Conference in April, NUF reiterated its focus on achieving working capital and gearing reductions notwithstanding the weak US cropping conditions and a challenging Australian season. By way of one-off plans, management indicated that they would attempt to reduce drought-related inventory build in Australia, provide discounts for early payment, and use greater receivables securitization in Latin America. NUF will also move to full control of their supply chain in Europe. While we remain attracted to the growth driven by the recently expanded operations in Europe, plant efficiency projects and the first contribution from the Omega 3 venture, we remain conscious of the seasonally elevated risks, including near-record high gearing, which could lead to a further equity raise should seasonal conditions fail to improve. We elected to review the position during the month and will look to revisit the stock as seasonal conditions begin to improve.

Portfolio changes

Key additions and material adjustments

Bought
NIB Holdings (NHF)

NIB Holdings (NHF) was added to the portfolio in May as it continues to grow strongly through diversification while investing in measures to lower costs, despite a challenged environment for the private medical industry. The failure of Labor to win the 2019 election removes the 2% pricing cap risk and improves the outlook for the sector.

Key disposals and material adjustments

Sold
Nufarm (NUF)
Ansell (ANN)
Regis Resources (RRL)

We elected to exit **Nufarm (NUF)** during the month as we await further clarity around the impact of weak 2019 US cropping conditions on crop protection sales into the region.

Ansell (ANN) was removed from the portfolio in May as the return of tariff tensions between the United States and China will likely result in lower growth and higher input costs within Ansell's key manufacturing markets. Furthermore, recent strong performance saw the share price reach our intrinsic valuation.

We have exited **Regis Resources (RRL)** as we forecast a weak production growth outlook and have concerns with respect to the timing and cost of the McPhillamys open pit gold mine development.

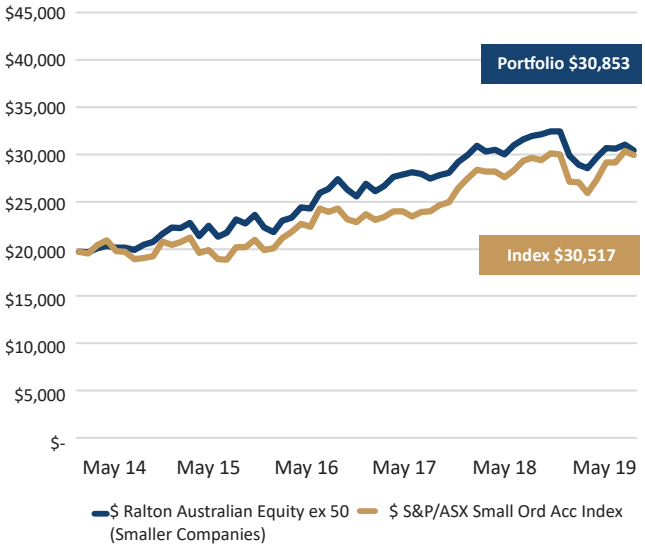
Sector allocation

GICS sector	Ralton	Index	+/-
Energy	10.0%	5.0%	5.1%
Financials	13.5%	9.7%	3.9%
Utilities	3.2%	0.4%	2.7%
Telecommunication Services	8.9%	6.3%	2.6%
Health Care	9.2%	6.9%	2.3%
Consumer Discretionary	15.2%	15.5%	-0.2%
Industrials	7.1%	8.0%	-0.9%
Consumer Staples	5.9%	7.4%	-1.4%
Information Technology	8.5%	10.8%	-2.2%
Materials	16.1%	18.8%	-2.7%
Real Estate	2.3%	11.3%	-9.1%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
NIB Holdings Limited	NHF
Mineral Resources	MIN
Seven Group Holdings	SVW
Tassal Group Limited	TGR
Healius	HLS
Nextdc Limited	NXT
Ooh!Media Limited	OML
Super Ret Rep Ltd	SUL
Independence Group	IGO
Cooper Energy Ltd	COE

Performance comparison of $20,000*



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Performance of the Ralton Australian Equity ex 50 Portfolio (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.