Total returns

At 30 June 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	-1.11	-1.71	5.51	-5.86	7.43	8.94	12.67	12.49	7.55
Income return	*0.14*	*0.24*	*1.11*	*2.53*	*2.68*	*2.88*	*3.24*	3.51	*3.64*
Growth return	*-1.24*	*-1.95*	*4.41*	*-8.38*	*4.75*	*6.06*	*9.44*	8.98	*3.91*
S&P/ASX Small Ord Accum. Index	0.92	3.75	16.81	1.92	10.66	9.26	7.58	6.30	1.92
Difference	**-2.02**	**-5.46**	**-11.30**	**-7.78**	**-3.23**	**-0.33**	**5.09**	6.18	**5.63**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index returned 3.75% for the June quarter, with Industrials and Information Technology the top performing sectors and Consumer Staples and Energy the weakest performers for the period.
- The Ralton Ex 50 portfolio returned -1.71% for the quarter, underperforming the benchmark by 5.46%.
- For the June quarter, being underweight Consumer Staples and overweight Energy added relative value to the portfolio. The portfolio's underweight to Information Technology and overweight to Materials were the key detractors from portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
Northern Star Resources	Overweight
Seven Group Holdings	Overweight
Healius	Overweight

Northern Star Resources (NST, +30.17%) – gained traction in May (+19%) and June (+20%) to end up significantly outperforming the market and the gold price over the June quarter. In general, gold stocks have attracted buying as a hedge against weakening macro data (geopolitical tensions, US-China trade risks, etc.) and expectations of further easing from central banks (outlook for a weakening USD). NST's sector-leading share price performance further reflects expectations that it will meet its FY19 gold production guidance of 850,000 – 900,000 ounces by delivering record June quarter production from a combination of mining higher volumes and from accessing high-grade ore bodies. NST management is also expecting a significant fall in Pogo costs (AISC), largely due to the final charge of mobile equipment delivering higher production volumes in the June quarter. NST further plans to deliver a maiden Pogo JORC reserve by the middle of this year, backed by data obtained from its active drilling program.

Seven Group Holdings (SVW, +5.06%) – performed solidly during the quarter as the company provided a strong trading update that confirmed our investment thesis. SVW has traditionally operated as a conglomerate; however, we see the current management team moving towards a more operational model which should result in a higher valuation. Moreover, the key operating divisions of Westrac and Coates hold leading industry positions and are exposed to the attractive end markets of domestic mining investment and government-sponsored infrastructure. The update indicated that mining companies are continuing to lift spending on capital equipment to take advantage of the strong commodity price environment, as well as the necessity to catch up following a period of underinvestment. The update was even more impressive as the earnings recovery in Coates Group was held back due to weather and contract-related delays in the domestic infrastructure industry. We remain confident that both divisions will continue to take advantage of the strong industry outlook as they both maintain leading positions.

Healius (HLS, +14.83%) – garnered support during the quarter as the market refocused on the likelihood of a takeover by either its major shareholder, Jango, or potential interest from a number of private equity groups. Suitors are attracted to the company's strong network of medical and pathology centres and the intellectual property gained from running the assets. Whether or not a bid is concluded, we continue to back the strategic initiatives of new CEO, Dr Malcolm Parmenter, to deliver a turnaround across the company's operational divisions and see the potential for strong medium-term growth. We look to key indicators of success, such as GP hiring numbers, to gain increased confidence in the turnaround.

Key detractors

Key detractors	Positioning
ARQ Group	Overweight
Link Administration Holdings	Overweight
Regis Resources	Overweight

ARQ Group (ARQ, -65.40%) – delivered a shock earnings downgrade in late June which resulted in a material decline in the share price. Given recent positive

commentary from management, indications that the Enterprise division had fallen short of expectations has increased our concern that the company is struggling to deliver on expected operational improvements. Adding to our concern regarding management, we were not pleased to see the CEO sell shares prior to the announcement. We acknowledge ARQ remains one of the leading online services and digital solutions providers in Australia; however, execution issues as well as a stretched balance sheet raises concerns. The portfolio holding is currently under review.

Link Administration Holdings (LNK, -32.25%) - was a substantial negative contributor to the performance of the portfolio during the quarter after the company downgraded earnings substantially just prior to the end of June. This is the second downgrade in the past 12 months and relates to the Funds Administration (changes to low balance super account laws in Australia) 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 given it was not trading expensively to begin with, but believe the stock offers sound substantial upside over the next few years.

Regis Resources (RRL, -0.38%) – contributed to the underperformance of the portfolio during the June quarter. We elected to exit our position in RRL during the quarter as we reassessed some of the key assumptions underlying our investment thesis. We concluded there was risk around production growth and the cost outlook (rising issue across the gold mining sector), and we also have concerns with respect to the timing and cost of the McPhillamys open pit gold mine development. We see potential for FY20 cost guidance to disappoint the market from the mining of satellite ore bodies with higher strips / lower grades located further away from processing equipment. Further, the permitting of McPhillamys continues to take longer to progress than anticipated. Consequently, first gold from the McPhillamys open pit gold mine development is now unlikely prior to FY22, with capital costs potentially above the higher end of initial company guidance, in our view.

Portfolio changes

Key additions and material adjustments

Bought
Mayne Pharma Group (MYX)
Premier Investments (PMV)
NIB Holdings (NHF)
Pact Group Holdings (PGH)

Mayne Pharma Group (MYX) was added to the portfolio in April as past concerns over industry competition are now reflected in an improved valuation and we have a more positive outlook. Looking ahead, the company has a strong product pipeline that we expect to be monetised. Moreover, there is an increasing chance of a return of accretive M&A. Finally, given the weaker economic data from the global economy we are attracted to the company's non-cyclical USD earnings stream.

Premier Investments (PMV) was added to the portfolio in April as we feel the current share price underappreciates the strong growth outlook for the company's key growth brands in Smiggle and Peter Alexander as well as the strong cashflow generated from its lower growth Australian brands. Management has proved itself as sound through the economic cycle and the prospect of both fiscal and monetary stimulus leads us to increase our exposure to a sector which currently suffers from very negative sentiment.

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.

Pact Group Holdings (PGH) has been under significant pressure due to recent operational issues raising concerns regarding balance sheet sustainability. During the quarter the company delivered an update that de-risked the outlook materially by refinancing their debt at attractive rates as well as confirming they will meet current earnings expectations. The removal of two significant risks enabled the portfolio to add a position at an attractive valuation which should deliver strong medium-term performance as the company executes on its turnaround under the new CEO.

Key disposals and material adjustments

Sold
Nufarm (NUF)
Ansell (ANN)
Regis Resources (RRL)
Cybg Plc (CYB)

We elected to exit **Nufarm (NUF)** during the quarter 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.

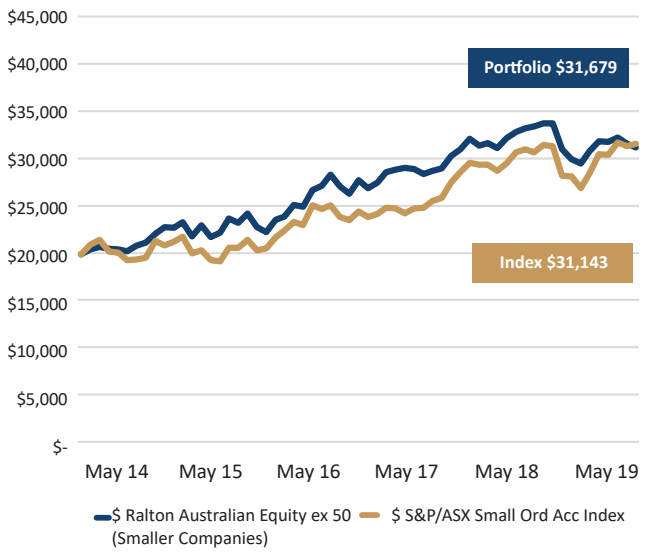
We have exited **Regis Resources (RRL)** as we forecast a weak production growth outlook and have concerns with respect to the timing and cost of the McPhillamys open pit gold mine development.

Whilst **Cybg Plc (CYB)** looks cheap on a medium-term view after the acquisition of Virgin Money, the backdrop has changed since we first acquired the stock. We had expected the resolution of Brexit to occur, with or without an agreement, and to provide a basis for consumers and business to move forward. However, the political wrangling over the exit arrangements continue with no clear sign of a resolution. Our view was further confirmed after attending the investor day. The expected synergies from the merger seem achievable, however, other aspects of the future direction of the group left us concerned.

Sector allocation

GICS sector	Ralton	Index	+/-
Energy	9.8%	3.4%	6.3%
Utilities	3.3%	0.4%	2.9%
Telecommunication Services	8.1%	5.9%	2.3%
Health Care	8.9%	7.2%	1.7%
Financials	12.3%	11.0%	1.2%
Consumer Discretionary	14.2%	14.4%	-0.2%
Materials	20.2%	20.5%	-0.3%
Consumer Staples	6.0%	7.3%	-1.4%
Information Technology	8.1%	9.6%	-1.5%
Industrials	7.0%	8.6%	-1.6%
Real Estate	2.3%	11.6%	-9.4%
Total	**100.0%**	**100.0%**	**0.0%**

Performance comparison of $20,000*



Top 10 holdings#

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

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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.