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 Dividend Builder	1.34	5.15	13.89	8.58	12.58	10.33	13.96	*12.08*	8.37
Income return	*0.20*	*0.92*	*2.86*	*5.47*	*4.91*	*4.77*	*4.84*	*4.97*	*5.05*
Growth return	*1.14*	*4.23*	*11.02*	*3.11*	*7.67*	*5.55*	*9.12*	*7.10*	*3.31*
S&P/ASX 300 Accum. Index	3.64	8.05	19.84	11.42	12.82	8.88	11.83	*9.91*	5.93
Difference	**-2.30**	**-2.90**	**-5.96**	**-2.84**	**-0.24**	**1.45**	**2.13**	*2.17*	**2.43**

Performance review

- The S&P/ASX 300 Accumulation Index returned 8.05% for the June quarter, with Financials and Materials the top performing sectors and Energy and Utilities the weakest performers for the period.
- The Ralton Dividend Builder portfolio returned 5.15% for the quarter, underperforming the benchmark by 2.90%.
- For the June quarter, being underweight Information Technology and overweight Consumer Discretionary added relative value to the portfolio. The portfolio's overweight to Materials and underweight to Health Care were the key detractors from portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
Aristocrat Leisure	Overweight
Amcor	Overweight
Commonwealth Bank of Australia	Overweight

Aristocrat Leisure (ALL, +25.34%) – delivered a strong 1H19 result which saw a restoration of investor confidence in management during the quarter. The key drivers of the result were continued strength in the core slots business, with growth in adjacent markets starting to gain traction. The market was looking for improvement in ALL's Digital business and the better than expected result saw renewed strength in the share price. Digital earnings have been a key area for concern and the 1H19 result revealed that recent investment is driving growth. Further, margins look to be sustainably higher than assumed. The result confirmed positive indications from surveys released during the prior quarter showing the company's gaming machine products continue to be industry leading and continue to take share from over-geared competitors. Despite the recent strong performance, at the current valuation we feel the 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. The US economic backdrop remains supportive as low interest rates and tax cuts continue to support investment and consumer spending.

Amcor (AMC, +5.20%) - the global packaging company, outperformed the market during the quarter as it completed the merger with Bemis. The merged entity began trading from mid-June with the principal listing in the US and a secondary listing in Australia. The acquisition of Bemis is a strategically significant move by AMC as it gives the group a diversified global footprint across Flexible and Rigid Plastics. AMC has the opportunity to continue to take share given its scale benefits (greater resin purchasing scale, manufacturing and innovation capabilities) and it should continue to generate solid organic growth in emerging markets as more sophisticated packaging moves through the supply chain. The combined business is strongly cash generative and has a strong balance sheet, which will support acquisitive growth or buy-backs. The greater scale in the US provides AMC with a base to begin consolidating that market further now as well. The combined group is targeting $180m of synergy benefits, and based on managements' past track record, we believe this is achievable. The company is aware of customer concerns around the use of plastic packaging and is working with them to develop more environmentally friendly options. AMC's scale places it in a far better position than peers to drive this transition. Overall, we believe AMC continues to offer a solid medium-term growth story.

Commonwealth Bank of Australia (CBA, +17.19%) - outperformed during the quarter, as fears about the worst case for the housing market and the future of franking for retirees eased and investors returned to seeking yield. The banking sector overall benefited as the Liberal government was unexpectedly returned to power in the recent Federal election. The Labor party's plan to change negative gearing arrangements for investment properties had been expected to put further downward pressure on property prices, which would have been negative for the banks from a credit growth perspective and would potentially have led to an increase in impairment charges. Also, their plan to remove the refund of excess franking credits for retirees was another negative for higher yielding stocks. Whilst the credit supercycle is over, CBA should continue to be able to

deliver some modest earnings growth and a solid fully-franked dividend. This is sustainable provided we do not see a deterioration in the credit cycle.

Key detractors

Key detractors	Positioning
Regis Resources	Overweight
Vicinity Centres	Overweight
Challenger	Overweight

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.

Vicinity Centres (VCX, -5.77%) – underperformed the market during the quarter after reporting a moderation in total center sales growth early in the quarter. Management recently highlighted that it would look to retain the assets identified for the Keppel fund on balance sheet and invest ~$80m to improve the centers over several years. The failure to complete this $1b of asset sales means the balance sheet is weaker than we had expected. With underlying conditions expected to remain somewhat challenging due to soft retail conditions and expectations of softening cap rates for lower quality assets, the share price has been under pressure. We believe this is more than reflected in the current discount to book value the stock is trading at. Although VCX is not a direct beneficiary of an improvement in the retail sales outlook, the stock should benefit from an improvement in the broader retail sales environment. We expect this improvement to come through with the RBA's cash rate now at 1.00% and with additional support from the tax cuts contained in the Federal Budget. VCX continues to trade at a substantial discount to its NTA and has modest gearing relative to peers.

Challenger (CGF, -19.81%) – fell during the quarter as short-term headwinds continue to pressure the core annuity business. CGF came out of the Hayne Royal Commission with its reputation intact and it is the key beneficiary from government pension rule changes that favour retirees acquiring annuities for their retirement asset mix. However, in the short-term, the disruption to the financial planning industry in the major financial institutions has negatively impacted flows into annuities more than expected. Whilst the independent advisors are a key target group, there will be short-term costs associated with the move deeper into this segment of the market. The medium to long-term outlook for this business is very solid given the aging of the Australian population and the government's desire to see people allocate at least part of their retirement savings to an annuity. On the Japanese annuity investor front, we have seen a deal signed recently with their partner and substantial shareholder, Mitsui Sumitomo Primary Life Insurance Company, which will deliver a substantial uplift in the volume of AUD and USD annuities to CGF on a medium-term basis. Although the near-term pressure on the business has been more than we had expected when we added the holding, the medium-term outlook for the business remains intact.

Portfolio changes

Key additions and material adjustments

Bought
Challenger Group (CGF)
Healius Ltd (HLS)
Ramsay Healthcare (RHC)

During the month we added a holding in **Challenger Group (CGF)** which provides investment management services to investors in the accumulation and the pension phases. Through Challenger Life, CGF is a leading provider of annuities and guaranteed income streams for domestic and Japanese investors. Also, CGF operates the multi-boutique funds management group, Fidante. We have taken the opportunity to add the holding after a substantial fall in the share price triggered by a sharp decline in flows into the Life business. We view the drivers of this slowdown as temporary in nature. The medium to long-term outlook for this business is very solid given the aging of the Australian population and the government's desire to see people allocate at least part of their retirement savings to an annuity. On the Japanese annuity investor front, we have seen a deal signed recently with their partner and substantial shareholder, Mitsui Sumitomo Primary Life Insurance Company, which will deliver a substantial uplift in the volume of AUD and USD annuities to CGF on a medium-term basis

During the month we added a holding in **Healius Ltd (HLS)**. HLS has been held in another portfolio and we are becoming increasingly confident in the strategic

initiatives of new CEO, Dr Malcolm Parmenter to deliver a turnaround across the company's operational divisions. As such, we 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.

Ramsay Healthcare (RHC) was added to the portfolio in May due to our view that a liberal leadership will support the private health care industry as well as evidence that offshore markets including France and the UK are showing signs of stabilisation. We are of the view that current management will continue to drive growth from a strong set of assets and global demographic tailwinds.

Key disposals and material adjustments

Sold
Regis Resources (RRL)
Cybg Plc (CYB)

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.

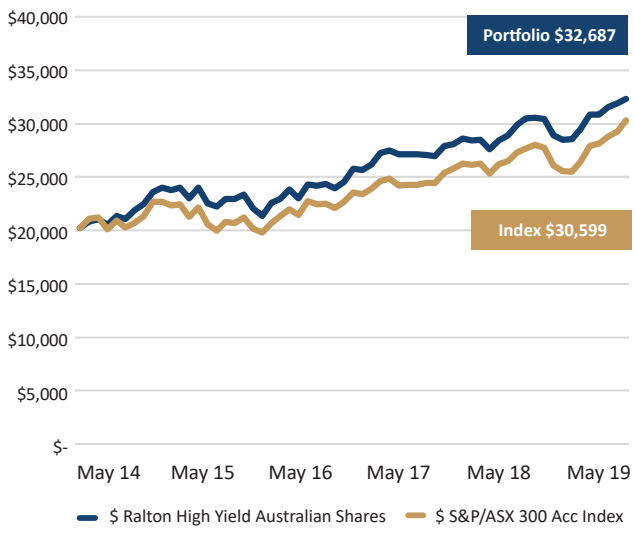
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	11.8%	6.2%	5.6%
Financials	35.8%	31.5%	4.3%
Materials	22.5%	18.9%	3.6%
Utilities	4.0%	1.9%	2.1%
Energy	6.5%	5.3%	1.3%
Consumer Staples	5.6%	5.5%	0.1%
Telecommunication Services	3.4%	3.9%	-0.4%
Information Technology	0.0%	2.4%	-2.4%
Real Estate	4.8%	7.7%	-2.8%
Health Care	5.6%	8.6%	-3.0%
Industrials	0.0%	8.3%	-8.3%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
Commonwealth Bank.	CBA
ANZ Banking Grp Ltd	ANZ
BHP Group Limited	BHP
Westpac Banking Corp	WBC
Amcor PLC	AMC
Vicinity Centres	VCX
Suncorp Group Ltd	SUN
Aristocrat Leisure	ALL
Woodside Petroleum	WPL
Spark Infrastructure	SKI

Performance comparison of $20,000*



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*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.

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