Total returns

At 31 July 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	3.23	0.09	4.59	-3.44	6.22	9.12	12.91	12.29	7.79
Income return	*0.04*	*0.23*	*1.14*	*2.45*	*2.70*	*2.89*	*3.21*	3.50	*3.61*
Growth return	*3.20*	*-0.14*	*3.44*	*-5.89*	*3.52*	*6.23*	*9.70*	8.79	*4.18*
S&P/ASX Small Ord Accum. Index	4.51	4.15	15.65	7.61	9.27	9.18	8.29	5.86	2.29
Difference	**-1.28**	**-4.06**	**-11.06**	**-11.04**	**-3.05**	**-0.06**	**4.62**	6.43	**5.49**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index returned 4.51% for the month of July, with Materials and Consumer Discretionary the top performing sectors and Communication Services and Utilities the weakest performers for the period.
- The Ralton Ex 50 portfolio returned 3.23% for the month, underperforming the benchmark by 1.28%.
- For the month of July, being overweight Energy and Consumer Discretionary added relative value to the portfolio. The portfolio's overweight to Communication Services and underweight to Health Care were the key detractors from portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
Beach Energy	Overweight
Independence Group	Overweight
Collins Foods	Overweight

Beach Energy (BPT, +7.30%) – outperformed the market in July. BPT has paid down Lattice acquisition debt earlier than initially expected, extracted Lattice operating efficiencies, and has generated improved Cooper Basin oil production volumes (Bauer field extension) while reducing operating costs. The Lattice acquisition has delivered exposure to 15% of the Eastern Australia gas market. Legacy gas contracts with Origin Energy are priced at lower levels (historically A$4-5/GJ), however, decontracting contracts and new volumes are able to capture higher pricing that is currently at the A$8-10/GJ level. In mid-June BPT was added to the S&P/ASX 100 Index. BPT's share price has responded favourably to FY19 production and EBITDA guidance upgrades and now exceeds our price target / valuation.

Independence Group (IGO, +13.98%) – significantly outperformed the market in July. IGO's preliminary June quarter report confirmed Nova metal (nickel, copper and cobalt) production growth exceeded company guidance, while Tropicana (gold) was in line. Nova is a high quality asset that has continuously exceeded production estimates outlined in its feasibility study with the processing plant operation now constrained to around 1.5Mtpa. IGO has also benefited from the +18% surge in the USD nickel price during July, related to the pending export ban from Indonesia and falling LME stockpiles. IGO is our preferred nickel exposure for its quality assets and strong FCF generation (net cash). IGO has an active exploration program that has potential to deliver another Nova style deposit which would generate significant future value.

Collins Foods (CKF, +4.58%) – performed strongly in July as the company delivered a solid FY19 result confirming the positive outlook for the company. CKF is the largest franchisee of KFC restaurants in Australia and is investing in a growing network of KFC store fronts in Europe. The delivery channel exhibited strong growth and was one of the main drivers of same store sales growth within CKF's Australian network (largely due to the continued increase in food delivery services like Uber Eats and Menulog and well as its in-house Delivery App). This more than compensated for a weaker European result, largely driven by seasonally poor weather conditions. Looking forward, we expect CKF to continue to generate above-market growth underpinned by a store rollout program in Australia, CKF's recent entry into Germany and the Netherlands, a disciplined focus on operational improvement and margin expansion, as well as the potential for further acquisitions in key markets. Furthermore, Taco Bell stores in Queensland continue to perform well with the company opening another four stores. Ten additional Taco Bell restaurants will be rolled out before year-end which should drive long-term growth. Valuation remains attractive.

Key detractors

Key detractors	Positioning
Speedcast International	Overweight
Superloop	Overweight
Healius	Overweight

Speedcast International (SDA, -45.83%) – is a leading provider of satellite-based communications services

to remote locations with limited or no access to fibre. The industry is in a phase of structural growth as data usage increases, and as a leader SDA should be able to benefit accordingly. Unfortunately, in July the company announced a disappointing downgrade to CY19 earnings guidance, despite only recently confirming earnings expectations. Key drivers of the downgrade were poorer than expected execution on a significant contract and lower than expected synergies from a recent acquisition. The decline in earnings has not only placed the company's balance sheet at risk but has also confirmed prior concerns that SDA does not have the management capacity to capture industry growth whilst walking through the integration of an acquisition. Despite an attractive headline valuation, SDA no longer meets the key indicators that the team sets as benchmarks for portfolio inclusion. As a result, we have moved to exit the position and have recycled funds into improved risk/return opportunities.

Superloop (SLC, -36.36%) – provided a disappointing update in July, which the market took negatively. The update highlighted that the FY19 result would be impacted by the delay of a material sales agreement. It is understood that negotiations continue, however timing is uncertain and as such investors de-rated the stock due to elevated uncertainty. The downgrade to guidance is evidence of further difficulties in operational execution as the company transitions to a more sustainable business model under new management. SLC has not achieved the necessary sales traction to improve its earnings base via the increased utilisation of its key assets. Only three months ago, SLC was in final negotiations for a whole of company transaction at $1.95 per share, which supported our view that the assets have fundamental value above the current share price. We remain invested as we see strong strategic value in the assets which will be realised through M&A or improved execution as fibre assets are monetised through sales agreements.

Healius (HLS, -2.98%) – De-rated during the month as the market reacted to media reports that the company was positioning itself for a negative announcement. Late in the month, the much-anticipated release confirmed that the CFO and head of Pathology would leave the business. On a positive note, HLS confirmed guidance and indicated that key markers of the turnaround remain supportive. We await the FY19 result to gain more detail on the progress of the turnaround. We retain the view that there is a high 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.

Portfolio changes

Key additions and material adjustments

Bought
OZ Minerals (OZL)
Spark New Zealand (SPK)
FlexiGroup (FXL)
Smart Group (SIQ)

We have added **OZ Minerals (OZL)** to our portfolio for its quality assets and growth in copper and gold production. OZL has a portfolio of long life / low cost assets that generate robust cashflows backed by the Prominent Hill operating mine. Future growth in copper and gold production is driven by Carrapateena, which clocked its first ore in April 2019 and is on track for commissioning from 4Q 2019.

Spark New Zealand (SPK) is a key player in the NZ broadband and mobiles market and was added to the portfolio in July. The business has undergone a significant cost out exercise which has left Spark in a strong position to benefit from its recently announced growth initiative. The company offers an attractive yield and growth outlook and is trading at a discount to the Australian telco market.

FlexiGroup (FXL) was added to the portfolio during July. As FXL is trading at a discount to its book value, we view the company's growing presence in the buy now, pay later space as unappreciated by investors. Recent trends and the signing of key partners supports the businesses momentum.

Smart Group (SIQ) was added to the portfolio during July, as the company has proved itself to be a well-managed leader in the leasing space and the company is exposed to structural growth in government employment. Post-election, we view the risk of regulatory change as low and recent stimulus should drive an improved outlook for SIQ's important car leasing division.

Key disposals and material adjustments

Sold
ARQ Group (ARQ)
Blackmores (BKL)
Beach Petroleum (BPT)
Speedcast International (SDA)

ARQ Group (ARQ) has failed to capitalise on corporate investment in digital customer solutions. Recent execution has been poor and the recent share sale by the CEO prior to an earnings downgrade does raise concerns about the quality and alignment of management. Consequently, we removed the stock and reinvested the funds in more attractive risk / return opportunities.

Blackmores (BKL) is exposed to the attractive growth opportunity in Asian wellness supplements. However, we are increasingly concerned as the company makes changes to its distribution channels. Recent management changes increase risk. As valuation does not yet reflect these risks, we moved to exit the position.

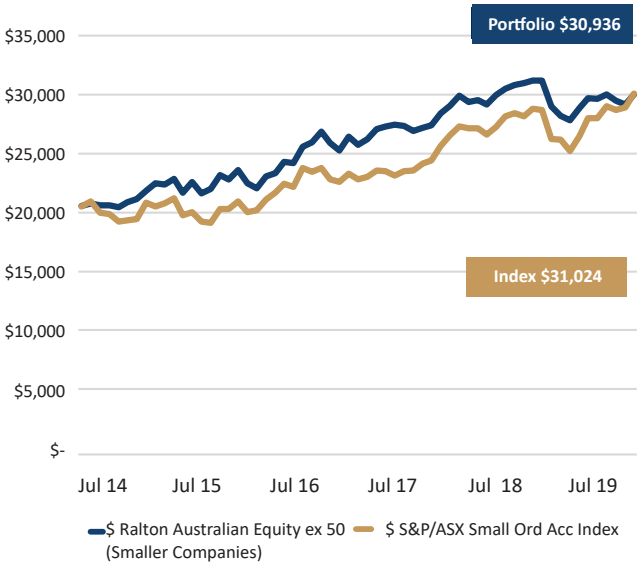
We have elected to sell our **Beach Petroleum (BPT)** holding as its share price has responded favourably to recent company FY19 production and EBITDA guidance upgrades and it now exceeds our price target / valuation.

While operating in an attractive industry, **Speedcast International (SDA)** has executed poorly in capturing industry growth as well as extracting benefits from its acquisitions. The company's balance sheet is under stress as a result of recent earnings downgrades. Consequently, we removed the position and recycled the funds into more attractive opportunities.

Sector allocation

GICS sector	Ralton	Index	+/-
Financials	13.9%	11.0%	3.0%
Real Estate	2.2%	11.7%	-9.6%
Industrials	8.6%	7.8%	0.7%
Materials	22.4%	21.0%	1.4%
Energy	7.6%	3.3%	4.3%
Telecommunication Services	7.4%	5.4%	2.0%
Consumer Discretionary	15.0%	14.3%	0.6%
Utilities	3.0%	0.4%	2.6%
Consumer Staples	4.5%	7.4%	-2.9%
Health Care	8.4%	7.1%	1.3%
Information Technology	7.0%	10.4%	-3.4%
Total	**100.0%**	**100.0%**	**0.0%**

Performance comparison of $20,000*



Top 10 holdings#

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

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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.

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