Total returns

At 31 August 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	-4.85%	-2.86%	-3.70%	-8.86%	3.91%	7.77%	11.41%	10.88%	7.27%
Income return	*0.41%*	*0.58%*	*1.16%*	*2.19%*	*2.79%*	*2.92%*	*3.15%*	3.49%	*3.62%*
Growth return	*-5.26%*	*-3.44%*	*-4.87%*	*-11.06%*	*1.12%*	*4.86%*	*8.26%*	7.39%	*3.65%*
S&P/ASX Small Ord Accum. Index	-3.85%	1.41%	4.14%	0.95%	8.41%	7.82%	7.24%	4.79%	1.93%
Difference	**-1.00%**	**-4.27%**	**-7.84%**	**-9.81%**	**-4.51%**	**-0.05%**	**4.17%**	**6.08%**	**5.34%**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index returned -3.85% for the month of August, with Real Estate and Health Care the top performing sectors and Materials and Information Technology the weakest performers for the period.
- The Ralton Ex 50 portfolio returned -4.85% for the month, underperforming the benchmark by 1.00%.
- For the month of August, being underweight Consumer Discretionary and Information Technology added relative value to the portfolio. The portfolio's underweight to Real Estate and Materials were the key detractors from portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
Healius	Overweight
Super Retail Group	Overweight
Smartgroup Corporation	Overweight

Healius (HLS, +9.56%) – performed strongly in August as the FY19 result confirmed our view that the turnaround is gathering momentum. Key indicators included better than expected GP hirings in the second half of 2019, a foundation stone that will underpin improved profitability in their underutilised medical centre portfolio. Moreover, the pathology result indicated a return to normal revenue growth trends with the addition of improved EBIT margins as the pathology industry begins to show more rational behaviour. The company indicated that 2020 profitability will be ahead of 2019 and we are forecasting 10% growth which is less than the annualisation of the strong second half. As such we think there is possibility that the company will continue to positively surprise the market. In addition, 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. 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.

Super Retail Group (SUL, +3.89%) – outperformed in August as consecutive rates cuts in May and June as well as improved confidence following the May election result appear to have assisted the company in delivering a better than expected result. In a trading update included in this year's result, management indicated that sales continued to be strong and in line with industry feedback and that competitors remain rational. As such margins look to remain stable. The recent management transition to Anthony Hegarty provides strategic stability and we are supportive of his track record managing the Leisure division through a difficult period. Following a period of strong performance, valuation appears less attractive and as such we are reviewing the position and considering a number of alternative opportunities gleaned from a volatile reporting season.

Smartgroup Corporation (SIQ, +18.72%) – outperformed during August, delivering a strong result that illustrated the company's ability to deliver strong growth despite industry headwinds. The company delivered 4.3% growth in salary packages and 2.7% growth in novated leases, taking share in the latter as the industry faced the headwind of a 9% decline in new car sales over the year. The company has proved itself to be a well-managed leader in the leasing space and is exposed to structural growth in the government and healthcare segments of the economy. 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. Trading at an attractive multiple below market and historical averages, coupled with a strong balance sheet and a track record of strong cashflow and dividends, we continue to be positive on the outlook.

Key detractors

Key detractors	Positioning
oOh!Media	Overweight
WorleyParsons	Overweight
Tassal Group	Overweight

oOh!Media (OML, -31.32%) – delivered a surprise downgrade to FY19 consensus expectations prior to its 1H19 result driving the stock down as the market digested a weak start to the second half of the year. Prior guidance that a pickup in orders would be seen following the election was recently confirmed at the company's AGM. However, it appears confidence in certain segments of the economy is taking longer to recover. Large spenders, banks and auto have all deferred spending until their respective industries show signs of improvement. We are seeing housing activity improve, and this aligns with management's comments that the fourth quarter is looking significantly better. However, elevated levels of uncertainty saw the market sell off OML aggressively. 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 expect the share price to re-rate.

WorleyParsons (WOR, -23.90%) – significantly underperformed the market in August. In our view, WOR has been adversely impacted by the broader sell-down of global engineering contractor names on the back of the US-China trade war and perceptions of a weakening global macroeconomic environment. WOR's strong correlation with the oil price has also had an impact as Brent oil fell sharply in early August due to perceptions of an acceleration in global oil production over the next year as trade tensions crimp global growth and the outlook for global oil demand. The share price was also affected by the FY19 result, as the market appeared to be confused as to whether the result was a miss or in-line, largely due to the limited disclosure around underlying performance ex-Jacobs. WOR's new FY20 forward guidance was limited to industry macro outlook factors, which did little to ease investor concerns. We believe WOR is oversold and we have a positive view on the company based on strong FY20 projected earnings growth, and the realisation of new cost, margin and revenue synergies from the Jacobs acquisition.

Tassal Group (TGR, -16.12%) – underperformed during the month following management's decision to raise additional capital to support and accelerate the rollout of the prawns growth initiative. Whilst salmon industry fundamentals remain positive, more meaningful changes to TGR's production profile will require new leases being made available, implying a slower rate of growth in the core business in the near-to-medium-term. Despite the slowing growth outlook in the salmon business, the prawns opportunity provides favourable geographic and product diversification as well as significantly stronger margin and a faster capital and working capital cycle, which will support returns and PE expansion as cashflow conversion improves. In a fragmented industry, TGR's aquaculture and retail channel experience suggest that the prawns expansion is a sage step by management which we believe will enable TGR to continue to achieve its targeted 10% NPAT growth p.a. in the medium-term. Further, TGR's competitive position has improved in CY19, as key competitor HUO has been having issues with growth. Valuation remains attractive at current levels and TGR offers a sustainable and growing yield. As such, we remain positive on this attractive market opportunity.

Portfolio changes

Key additions and material adjustments

Bought
Credit Corp Group (CCP)
Webjet (WEB)

We decided to add **Credit Corp Group (CCP)** back into the portfolio during the month after reviewing the recent result. CCP has three business lines. The Australian debt ledger (or books of bad debts to recover) has been growing slowly in recent years given the increasingly competitive environment. These conditions have improved for CCP as the major banks become more focused on the way their customers are treated during the debt recovery process following issues flagged during the Hayne Royal Commission. Price alone is no longer the sole motivating factor for the banks. CCP also announced the acquisition of another key player in the space, Baycorp, just prior to the end of the month. This takes another competitor out of the market. CCP is looking to replicate the same business in the US and has finally started to make good inroads in that market after 6 years. The US operation will be a crucial driver of future growth. Finally, the group provides personal loans with an average duration of around 20 months. This book continues to grow as the banks pull back from the personal lending business. Subject to economic conditions, we expect CCP to provide sustainable growth in coming periods from its key business lines.

Webjet (WEB) has successfully diversified away from its domestic flight and hotel business and has invested to build the second largest global position in the provision of hotel beds to aggregator partners. The company is consistently delivering strong growth at a group level. The current valuation does not reflect the strong market position or the sustainable growth and as such, we added WEB to the portfolio. Management's track record remains strong and the balance sheet provides strength and optionality for incremental earnings through further M&A.

Key disposals and material adjustments

Sold
OFX Group (OFX)
Super Retail Group (SUL)

We decided to remove the portfolio's holding in **OFX Group (OFX)** during August in favour of more attractive opportunities.

Super Retail Group (SUL) was removed from the portfolio following a strong FY19 result in which the company indicated that they continue to manage a challenging retail environment better than peers. However, the valuation opportunity at the time of investment has been achieved and we see comparatively greater upside from other opportunities in names exposed to an improving consumer.

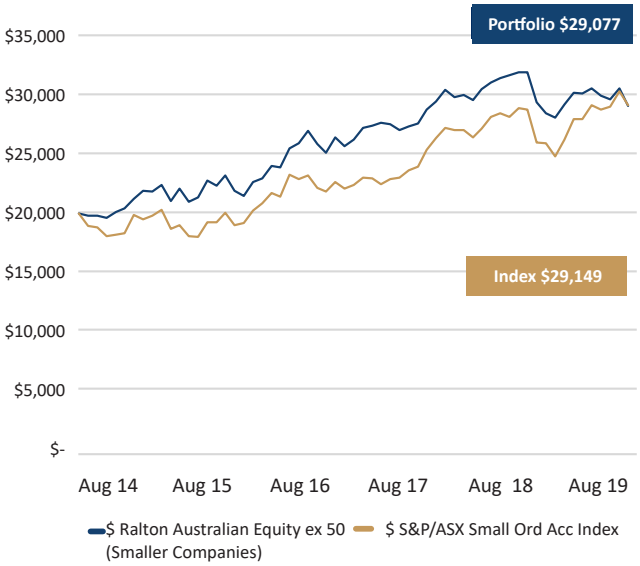
Sector allocation

GICS sector	Ralton	Index	+/-
Financials	14.9%	11.0%	3.9%
Real Estate	2.4%	13.1%	-10.8%
Industrials	9.8%	8.2%	1.6%
Materials	20.4%	20.9%	-0.5%
Energy	6.4%	3.2%	3.2%
Telecommunication Services	6.9%	5.4%	1.6%
Consumer Discretionary	14.7%	14.6%	0.1%
Utilities	3.2%	0.6%	2.7%
Consumer Staples	4.3%	7.3%	-3.1%
Health Care	9.5%	7.8%	1.7%
Information Technology	7.5%	7.9%	-0.4%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
NIB Holdings Limited	NHF
Independence Group	IGO
Steadfast Group Ltd	SDF
Healius	HLS
Tassal Group Limited	TGR
Cooper Energy Ltd	COE
Seven Group Holdings	SVW
Nextdc Limited	NXT
Bapcor Limited	BAP
Link Admin Hldg	LNK

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.