Total returns

At 30 September 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	2.40	0.84	6.03	7.38	10.64	10.18	12.72	*9.95*	8.25
Income return	*0.66*	*1.34*	*2.28*	*5.11*	*4.86*	*4.72*	*4.75*	*4.90*	*5.06*
Growth return	*1.73*	*-0.51*	*3.75*	*2.27*	*5.78*	*5.46*	*7.97*	*5.05*	*3.20*
S&P/ASX 300 Accum. Index	1.91	2.55	10.80	12.57	11.85	9.55	10.89	*8.05*	6.03
Difference	**0.49**	**-1.71**	**-4.77**	**-5.18**	**-1.21**	**0.64**	**1.83**	*1.90*	**2.22**

Performance review

- The S&P/ASX 300 Accumulation Index returned 2.55% for the September quarter, with Financials and Consumer Staples the top performing sectors and Materials and Communication Services the weakest performers for the period.
- The Ralton Dividend Builder portfolio returned 0.84% for the quarter, underperforming the benchmark by 1.71%.
- For the September quarter, being overweight Consumer Discretionary and Communication Services added relative value to the portfolio. The portfolio's underweight to Health Care and Consumer Staples were the key detractors from portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
James Hardie Industries	Overweight
Super Retail Group	Overweight
Spark New Zealand	Overweight

James Hardie Industries (JHX, +32.94%) – performed strongly during the September quarter as the market responded positively to a better than expected Q1 2020 result. Lead indicators had been mixed going into the result including weakness in US House Sales and Starts while conversely mortgage rates continue to decline, resulting in increased affordability and industry confidence. It appears the latter is the appropriate indicator as JHX provided a positive outlook for US home construction with the expectation that they will continue to deliver strong growth above the industry average going forward. The company is currently seeing tailwinds from lower input costs as well as momentum in their cost out program and, as such, JHX has the choice to either supercharge growth through lower pricing or decide to keep margin benefits and pay them to shareholders. We expect management to reinvest margin to deliver earnings over the medium term. JHX's strong market position in the US siding market and longer-dated opportunity in Europe provides the opportunity to invest in long-term growth. Further, a strong management team combined with valuation upside should deliver strong returns to shareholders.

Super Retail Group (SUL, +20.53%) – outperformed in the September quarter 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 the August reporting season. In a trading update included in this year's result, management indicated that sales continued to be strong 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. An improved outlook and solid management execution have resulted in a period of strong performance during which SUL has approached our view of intrinsic value. As such, we have removed the position from the portfolio following a fundamental review.

Spark New Zealand (SPK, +7.35%) – is a key player in the NZ broadband and mobiles market and was added to the portfolio during the quarter. The business has undergone a significant cost out exercise which has left SPK in a strong position to benefit from its recently announced growth initiative. The FY19 result indicated that the company is on a strong footing moving forward, cost out continues and capital investment is delivering improved competitive positioning. The major concern heading into the result was whether the dividend was sustainable in an environment of increased capital investment as the company invests in its 5G rollout as well as its media strategy. The company again illustrated its strong operational execution as it confirmed the 6%+ yield was sustainable given earnings strength and tight capital management. The company continues to offer an attractive yield and growth outlook and is trading at a discount to the Australian telco market.

Key detractors

Key detractors	Positioning
Amcor	Overweight
Spark Infrastructure	Overweight
Ramsay Health Care	Overweight

Amcor (AMC, -11.98%) – the global packaging company, underperformed the market during the quarter as it gave back part of the outperformance following its 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 highly cash generative and has a strong balance sheet, which will support acquisitive growth or share buybacks. 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.

Spark Infrastructure Group (SKI, -11.11%) – underperformed the market in the September quarter. SKI's 1H19 result has maintained 2019 distribution guidance of at least 15 cps, however, it has also warned that distributions may need to rebase lower to offset the revenue declines anticipated for the next five year regulatory reset period, beginning July 2020 for SAPN, and July 2021 for VPN. SKI is also under cash flow pressure from lower expected returns associated with its pending change to a tax paying status, noting that distributions are expected to be funded from after tax standalone operating cash flows. SKI has identified substantial growth opportunities in Transgrid and for distribution assets in enhanced grid stability and electrifying transportation, but it believes regulators are offering insufficient returns under the rate-of-return guidelines (RORG) on distribution network assets in order to adequately compensate for development risk. We are attracted to the defensive characteristics of the earnings stream generated from SKI's high-quality electricity distribution networks, but business conditions and SKI's distribution outlook have deteriorated from the start of the year.

Ramsay Health Care (RHC, -10.20%) – underperformed during the September quarter as a combination of a weaker than expected result and continued poor private health industry data drove negative investor sentiment. The FY19 result released in August illustrated a strong core set of assets in Australia that continues to perform well in a challenging market with the newly acquired Capio (northern European hospital operator) assets taking longer to integrate than first assumed. Rounding out the divisional analysis, both the United Kingdom and France continue to show an improving outlook with volumes and unit price per procedure pointing to a positive trajectory. We see the Capio integration issues as short-term in nature and look to a strong 2020 from both the Australian division as recent projects ramp up as well as a continued turnaround in the UK and France. Ramsay remains the largest private hospital operator in Australia, which places them in a strong position to negotiate favourable contract agreements with the pressured insurance operators as well as providing them with an enhanced ability to attract and retain the best doctors and nursing staff. Trading at a discount to history and its recently acquired peer, HSO, we look forward to strong share price performance as growth is realised in 2020.

Portfolio changes

Key additions and material adjustments

Bought
Spark New Zealand (SPK)
Transurban Group (TCL)
GPT Group (GPT)

Spark New Zealand (SPK) is a key player in the NZ broadband and mobiles market and was added to the portfolio during the quarter. The business has undergone a significant cost out exercise which has left SPK 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.

Transurban Group (TCL) was added to the portfolio during the quarter. TCL is Australia's premier toll road operator and it is supported by the defensive nature of its high-quality earnings, track record of solid dividend distribution growth and long-duration growth profile. The free cash flow coverage of TCL's 59cps FY19 distribution was 96.8%. The FY20 distribution guidance of 62cps, implies growth of 5.1% on the FY19 distribution, which will represent the 11th consecutive year that TCL has grown distributions by more than 5% per year.

The portfolio added **GPT Group (GPT)** during the quarter to diversify its exposure to the AREIT sector and provide an additional element of defensiveness in the current low bond rate environment. GPT's portfolio is spread across Australian retail, office, and logistics/industrial assets, and management has been actively remixing

the book away from retail and toward the structurally supported logistics sub-sector. We are attracted to GPT because of the resilience of its retail portfolio in a soft retail environment, its strongly performing office portfolio, and the operational strength of the growing logistics portfolio. Further, we see the solid growth in GPT's funds management business as a provider of additional earnings certainty, which is a key attraction in an increasingly uncertain economic environment.

Key disposals and material adjustments

Sold
Macquarie Group (MQG)
Super Retail Group (SUL)
Mineral Resources (MIN)

Macquarie Group (MQG) was removed from the portfolio during the quarter. Whilst we remain attracted to the highly successful asset management business, and in particular, the infrastructure assets, we see rising financial market risks which would adversely impact the other areas of the groups business. As such, we elected to dispose of the position.

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.

We elected to remove our stake in **Mineral Resources (MIN)** during the quarter as the current weak lithium trading environment has increased offtake risk to the extent that we now see potential for Albemarle to withhold spodumene sales for the next 12 months or until prices firm up. Mount Marion's FY20 lithium shipment volumes and costs are expected to be adversely affected by water supply issues that restrict the ability to produce higher-quality 6% spodumene. The profitability of the Iron Valley operations also becomes marginal at reduced iron ore prices. We retain a positive outlook on MIN's FY20 mining services operation, increased Koolyanobbing iron ore shipments, and expect completion of the Albemarle transaction soon, subject to FIRB and third-party approvals.

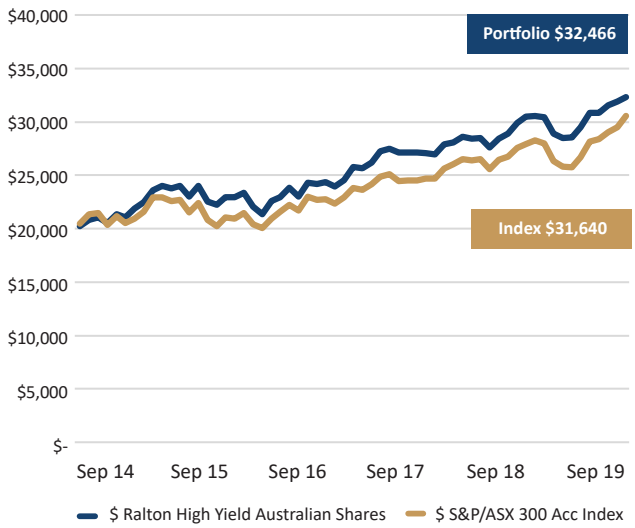
Sector allocation

GICS sector	Ralton	Index	+/-
Financials	30.0%	32.1%	-2.0%
Real Estate	8.5%	7.9%	0.6%
Industrials	2.7%	8.1%	-5.4%
Materials	19.7%	17.3%	2.4%
Energy	6.5%	5.0%	1.5%
Telecommunication Services	6.6%	3.6%	3.1%
Consumer Discretionary	10.7%	6.6%	4.1%
Utilities	3.7%	1.8%	1.8%
Consumer Staples	5.9%	5.9%	0.0%
Health Care	5.6%	9.1%	-3.5%
Information Technology	0.0%	2.7%	-2.7%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
Westpac Banking Corp	WBC
ANZ Banking Grp Ltd	ANZ
BHP Group Limited	BHP
Commonwealth Bank.	CBA
Amcor PLC	AMC
Vicinity Centres	VCX
James Hardie Indust	JHX
Aristocrat Leisure	ALL
Telstra Corporation.	TLS
Woolworths Group Ltd	WOW

Performance comparison of $20,000*



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Performance of the Ralton Dividend Builder Portfolio (Ralton Wholesale High Yield Australian Shares 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 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.

#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.