Total returns

At 31 October 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	-0.88	-1.44	2.55	12.36	11.06	9.06	11.99	*9.97*	8.11
Income return	*0.00*	*1.34*	*2.19*	*5.11*	*4.86*	*4.72*	*4.75*	*4.89*	*5.02*
Growth return	*-0.88*	*-2.78*	*0.36*	*7.25*	*6.20*	*4.34*	*7.24*	*5.08*	*3.09*
S&P/ASX 300 Accum. Index	-0.38	-0.78	7.73	19.50	12.53	8.56	10.38	*8.23*	5.95
Difference	**-0.50**	**-0.66**	**-5.19**	**-7.14**	**-1.47**	**0.51**	**1.62**	*1.74*	**2.16**

Performance review

- The S&P/ASX 300 Accumulation Index returned -0.38% for the month of October, with Health Care and Industrials the top performing sectors and Financials and Materials the weakest performers for the period.
- The Ralton Dividend Builder portfolio returned -0.88% for the month, underperforming the benchmark by 0.50%.
- For the month of October, being overweight Consumer Discretionary and Materials added relative value to the portfolio. The portfolio's underweight to Health Care and overweight to Utilities were the key detractors from portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
Vicinity Centres	Overweight
Star Entertainment Group	Overweight
Challenger	Overweight

Vicinity Centres (VCX, +3.89%) – performed strongly in October as a value rotation took place, with the market anticipating some pick up in retail trading conditions in light of the RBA's recent series of rate cuts and tax cuts from the Federal Budget. The recent pick-up in house prices should support sentiment, leading to a lift in spend. Although the hoped-for Keppel asset sale transaction was not completed, management have persisted with the FFO-accretive share buyback (2.5% of outstanding shares) to support NTA. With a healthy yield and trading at an 8% discount to NTA, VCX remains well placed to reap the benefits of a steadily improving retail environment.

Star Entertainment Group (SGR, +7.80%) – performed strongly in October as the market reacted positively to an upbeat update from the company at their AGM, guiding to earnings marginally ahead of market expectations. Given commentary regarding a cautious consumer and concern relating to the volatile Asian VIP business, the market was pleased to hear the company confirm growth within the domestic operations as well as in the VIP business. Our thesis in owning SGR has been centered around the fact that the market remains short-sighted in extrapolating recent weak trading into the future while undervaluing the strong earnings potential from the unique assets as well as the impending development in Sydney, Brisbane and Gold Coast. Short-term catalysts include the resolution of the Queensland Government's request for bids to build a second casino on the Gold Coast where we view a negotiated outcome is likely, ultimately leading to a re-rate. We are also cognisant that SGR is a potential target for an offshore casino operator following the recent investment by Melco into Crown Australia.

Challenger (CGF, +8.01%) – recovered during the month after delivering positive annuity flows for the previous quarter and the rates environment improving for the sale of annuity products. As we have previously highlighted, in the short-term, the disruption to the financial planning industry in the major financial institutions following the Hayne Royal Commission 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 front, we saw the first quarter of increased annuity purchase under the new arrangements with substantial shareholder, Mitsui Sumitomo Primary Life Insurance Company. 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.

Key detractors

Key detractors	Positioning
Spark Infrastructure Group	Overweight
Westpac Banking Corporation	Overweight
Nine Entertainment Holdings	Overweight

Spark Infrastructure Group (SKI, -6.48%) – underperformed the market in October as it continued to be adversely affected by a weakening distribution outlook. The South Australia Power Networks (SAPN) draft decision announced on 8 October 2019 forecast nominal regulated asset base (RAB) growth of 0.6% pa and incorporated a 1.32% risk free rate (based on a 20-day average in July) vs. 0.87% today. The draft decision growth rate was lower than market expectations, and the difference in the risk free rate introduces potential mark-to-market downside risk to revenues. Furthermore, SKI remains 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's 49% interest in SAPN represents ~33% of SKI's overall asset base.

Westpac Banking Corporation (WBC, -4.82%) – underperformed after releasing FY19 results which were weaker than the market had expected. This was a disappointing result and highlights the pressure on the banks following the Hayne Royal Commission. With limited balance sheet growth expectations and margin pressures, the outlook for interest income clearly appears challenging. The re-based dividend should be sustainable at current levels until the bad debt cycle re-emerges. WBC also announced a capital raising to build its buffers – this means it is now positioned to deal with the RBNZ's proposed new capital rules if they come out in the current form.

Nine Entertainment Holdings (NEC, -5.88%) – underperformed the market during the month in response to negative updates from key peers. Primarily, Southern Cross Radio (SXL) indicated advertising markets remain weak with limited visibility in the all-important Christmas period. We see the announcement as a poor readthrough for NEC's operations as radio is now only 7% of earnings with greater than 50% of EBIT now coming from the high growth new media in Stan, Domain Holdings and their digital properties. Nine Entertainment is set to deliver double digit compound growth over the new three years as these new media assets grow while the core traditional media assets stabilise their earnings. Trading at a significant discount to the market, with an above market yield and strong balance sheet, we look forward to strong value realisation as the market builds comfort and earnings are delivered.

Portfolio changes

Key additions and material adjustments

Bought
Nine Entertainment (NEC)
Evolution Mining (EVN)
Inghams Group (ING)
Origin Energy (ORG)

The portfolio added **Nine Entertainment (NEC)** during October. Since re-listing, NEC has assembled a range of media assets including Channel 9, Stan, Fairfax newspapers, Domain and radio. The improved outlook for domestic housing, lower rates, tax cuts, etc, has changed the backdrop for NEC. On our estimates, 50% of the SOTP value for NEC is now contributed by new media assets (Stan, Domain and BVOD). The group has a strong balance sheet and the dividend is sustainable, making it an attractive candidate for portfolio inclusion.

The portfolio added **Evolution Mining (EVN)** during October based on an expectation of a material increase in future dividend payments from the new dividend policy, which is based on 50% of Group FCF. EVN has delivered good operating performance from its core Ernest Henry and Mt Cowal operations, and we expect positive future drilling results over the next 12 months at GRE46 and Dalwhinnie. EVN has sector leading earnings leverage to the spot gold price (low level of hedging).

The portfolio added **Inghams Group (ING**) during October following the company's strategy day. At the strategy day new MD, Jim Leighton, highlighted the focus on driving a mix shift to higher value products (which should drive price improvement), a sustained reduction in capex and improved asset utilisation (driving returns), and a focus on cost out, with several clear examples given. On top of this, volumes remain supported by the structural trend of poultry consumption growth, which itself is supported by elevated prices in red meat alternatives. We are also of the view that we are at a peak in the seasonal cycle, and a decline in feed costs moving forward will drive margin expansion, in line with management's expectations. These attributes coupled with an attractive yield made ING a strong candidate for portfolio inclusion.

The portfolio added **Origin Energy (ORG)** during October for its strong and stable cash flows generated from its LNG and utility business operations. ORG's Integrated Gas operations at APLNG have delivered improved operating performance and the company is well positioned in the Australian domestic gas market. A lower forecast year on year contribution from Electricity Markets is expected to be partly offset by annualised cost saving of $50m in FY20

growing to $100m by FY21. We are forecasting a rising ORG dividend yield (dividend payment guidance is 30-50% of FCF).

Key disposals and material adjustments

Sold
Healius (HLS)
Ramsay Healthcare (RHC)

Healius (HLS) is part way through a well-structured turnaround under CEO Michael Parmenter which appears to be gathering momentum. However, we are less certain that the proposed acquisition by a major shareholder will crystallise value in the short term. Given the low yield and medium-term investment time horizon we have removed the stock, preferring higher yielding names with more immediate catalysts.

Ramsay Healthcare (RHC) remains a strong long-term investment proposition due to the underlying positive thematic of the ageing population. However, earnings remain volatile in the short term as Australians continue to leave the private health insurance industry. Given the low yield and medium-term investment time horizon, we have removed the stock, preferring higher yielding names with more immediate catalysts.

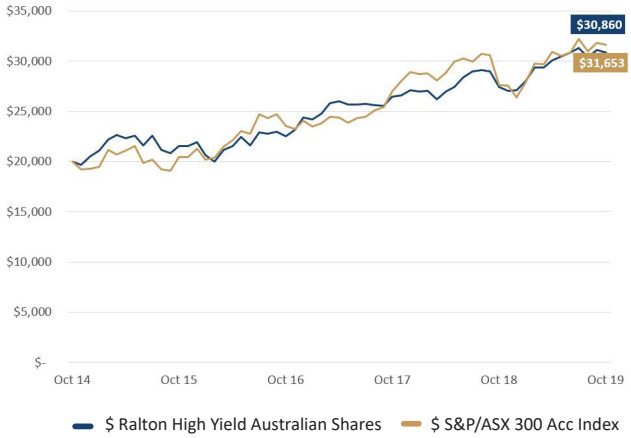
Sector allocation

GICS sector	Ralton	Index	+/-
Financials	28.5%	31.1%	-2.6%
Real Estate	8.2%	8.0%	0.2%
Industrials	2.6%	8.3%	-5.7%
Materials	23.2%	17.2%	6.0%
Energy	8.5%	5.1%	3.3%
Telecommunication Services	8.6%	3.5%	5.1%
Consumer Discretionary	10.6%	6.7%	4.0%
Utilities	2.1%	1.9%	0.3%
Consumer Staples	7.8%	5.8%	1.9%
Health Care	0.0%	9.8%	-9.8%
Information Technology	0.0%	2.6%	-2.6%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

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

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.