Total returns

At 31 August 2017	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	Inception % p.a. (Feb 2008)
Ralton Smaller Companies	1.16	-1.09	4.31	5.47	10.98	14.90	13.30	8.15
Income return	*0.35*	*0.57*	*1.51*	*3.04*	*3.06*	*3.32*	*3.62*	*3.79*
Growth return	*0.81*	*-1.66*	*2.80*	*2.43*	*7.92*	*11.59*	*9.68*	*4.36*
S&P/ASX Small Ord Accum. Index	2.71	5.12	5.44	3.20	5.68	5.72	3.35	0.11
Difference	**-1.55**	**-6.21**	**-1.13**	**2.27**	**5.30**	**9.18**	**9.94**	**8.04**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index added 2.71% for August, outperforming the large cap benchmark by nearly 2% and benefitting from strong returns from the Energy and Materials sectors.
- The Ralton Smaller Companies portfolio returned 1.16% for the month, underperforming the benchmark by 1.55%.
- Stock selection within Health Care detracted value from the portfolio, as did our underweight to Industrials. By sector, our best returns came from Information Technology.

Performance attribution

Key contributors

Key contributors	Positioning
Northern Star	Overweight
IOOF Holdings	Overweight
Evolution Mining	Overweight

Reporting season was the key driver for many of our portfolio holdings in August. Listed companies report their financial progress for the completed period (half or full-year results) and provide outlook commentary on the period ahead.

The portfolio's gold holdings, **Northern Star (NST, +18.4%)** and **Evolution Mining (EVN, +9.0%)** were strong contributors to portfolio returns for August. Increasing North Korean geopolitical tensions saw the gold price push 3% higher in August, passing through the US$1300/ oz mark and boosting the gold sector in turn. At a stock level, NST held its strategy and site tour in the month, highlighting good progress on mine life extensions via resource and reserve upgrades across its assets, particularly the Jundee and Kalgoorlie mines. Also evident was the core focus on technology and productivity gains, driven in part by NST's use of internal mining teams, a somewhat differentiating feature in the industry. Management expect further gains on all of these measures and retain a strong cash balance, which can be used to continue to drill out resources across the current mines or alternatively pursue mergers and acquisitions.

Turning to EVN, the company reported a very clean set of financial results and mine operating performance in FY17. Combined with moves by the board to boost to the dividend EVN's results were well received by investors.

IOOF Holdings (IFL, +10%) – a solid profit result for IOOF, boosted by strong industry FUM flows and the benefit of an increase in the number of financial planners operating under the IFL banner, was well received by investors. This profit number was supported by cost savings called out by the CFO at the half year result and delivered in spades for the second half of the year. It was pleasing to see the growth in planner numbers as we believe this reflects the attractiveness of the IOOF platform. As we have written previously, IOOF has worked extensively on the flexibility, or 'open architecture', of its investment platforms which allows advisers to personalise investment services rather than being restricted to in-house product offers. We like IOOF's focus on the customer which differentiates it from the big banks and other large financial institutions.

Key detractors

Key detractors	Positioning
Japara Healthcare	Overweight
iSelect Ltd	Overweight
Mayne Pharma Ltd	Overweight

Japara Healthcare (JHC,-17.2%) – a low quality FY17 profit result and guidance for the coming year disappointed investors in nursing home operator Japara. The key pressure point for JHC was the fall in government reimbursement and rise in labour costs across its portfolio. These government fee freezes were already known to the market, having driven a material fall in JHC shares from their 2015 peak, ahead of our initial purchase. However, the degree and duration of these factors, together with recent labour cost pressures – JHC has a strong bias to Victoria where public nurse EBA-driven pay rises have been above the nation's average – are set to crimp margins in the coming year. In response, JHC is seeking to improve efficiencies and boost margins. However, ahead of the ACFI freeze lifting in FY19, the coming year looks challenging for JHC and the industry. In the medium term, return of CPI type government fee increases, a shift toward discretionary payments and scale benefits as JHC bed numbers increase paint a more positive outlook for our investment. Our view that JHC's land assets and operating businesses are being undervalued by investors remains unchanged.

iSelect Limited (ISU, -17%) – ISU's FY17 profit met the company's forecast earnings range for the financial year, though fell some $1.5m short of the top of its guidance. The 'shortfall' was driven by some consumer softness in the fourth quarter in the Energy and Telco sector, a smaller tax-driven private health insurance push in late June and increased investment in its South African consultant centres, which was a decision made in March against a slightly more positive trading backdrop. The market's disappointment was severe as investors quickly revisited the credibility issues of the 'old ISU' and wiped a good portion of the last year's share price gains from ISU's value. In the medium term, we believe that ISU's offering to consumers, its linkage with key product providers, increasing diversification of earnings streams and the positive steps taken by the management team have not disappeared. The net cash backing of the balance sheet, ongoing share buyback and valuation support add strength to our conviction. We will be looking for positive signals that ISU remains on track to hit FY18 targets before increasing our position.

Mayne Pharma Ltd (MYX, -30.2%) – concerns around the pricing outlook for MYX's portfolio of US generic drugs weighed on the shares in August. The shares are off some 65% from 2016's prior peak, and although we only began to invest early this year, the share price move since we first invested is certainly material. At present, the investment community is intently focused on the problem child, the generics division, and seeking clarity on when the current price pressures will end. While the current product price deflation is a surprise, we do not believe it will be sustained, nor do we believe that MYX has failed to understand the US industry as many seem to feel. We remain quite positive on MYX's other divisions, its branded dermatology franchise and MCS – a contract services provider to multiple pharmaceutical clients and a key part of the pharma ecosystem. Both are good quality businesses, operating in growth segments with some degree of differentiation. Once the market can look past the current generics price issue, the focus and value upside from MYX's other operations should become more clear. MYX also has an extensive R&D pipeline for generics, plus a half share in US listed HedgePath pharmaceuticals which has a market cap of circa US$130m. We do not factor these R&D options in the pipeline, but look for MYX to continue to advance various projects toward commercialization.

Portfolio changes

Key additions and material adjustments

We added one new stock to the portfolio in July.

Bought
Credit Corp Group (CCP)

Credit Corp Group (CCP) – In simple terms, CCP purchases debt ledgers or books of bad debt and works to reclaim a share of the debts. Banks and other credit organisations are typically the sellers, as they often want to avoid the publicity of chasing debts from clients who fail to meet loan obligations. CCP's key drivers are the flow of debt ledgers, its ability to price risk and its systems and processes for pursuing clients, often recouping money via various remedial actions. CCP's Australian operations have been running well for some time on all of the above scores. Of more interest in a valuation sense is CCP's smaller US business, where after developing a presence patiently over several years, CCP is now seeing the market and opportunities open up.

Key disposals and material adjustments

There were no outright stock sales for month, although we reduced our holding in **SuperLoop (SLC)** early in the month following price strength and ahead of the FY17 results. This proved a sensible decision given early progress on signing up customers to its dark fibre assets in Hong Kong and Singapore has been modest, as is often the case with sales ramp up stories. Post results, we remain optimistic that SLC is on track to boost sales and customers in the region, and we will continue to monitor this closely.

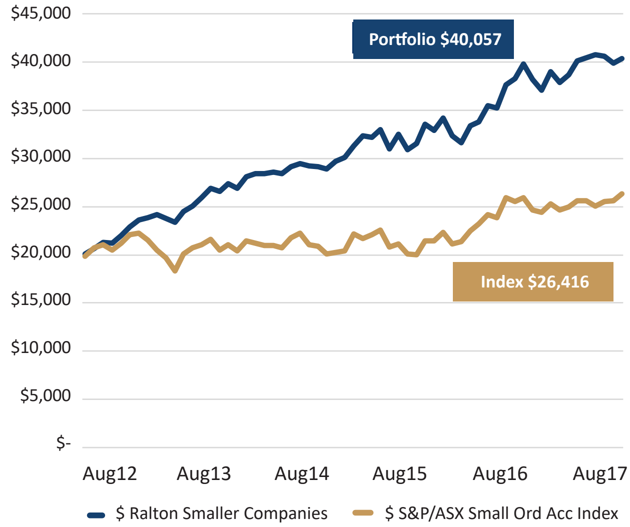
Sector allocation

GICS sector	Ralton	Index	+/-
Health Care	14.5%	5.9%	8.6%
Telecommunication Services	5.3%	1.9%	3.5%
Utilities	2.8%	0.6%	2.1%
Financials	9.7%	7.8%	1.8%
Materials	18.1%	16.9%	1.2%
Energy	6.5%	6.1%	0.4%
Information Technology	6.4%	6.2%	0.1%
Consumer Staples	10.3%	10.2%	0.1%
Industrials	8.8%	9.3%	-0.4%
Real Estate	7.5%	14.4%	-6.9%
Consumer Discretionary	10.0%	20.6%	-10.5%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
Fisher & Paykel Healthcare Corp Ltd	FPH
Worleyparsons Limited	WOR
Macquarie Atlas Roads Limited	MQA
Nextdc Ltd	NXT
Evolution Mining Ltd	EVN
Fletcher Building Limited (Australia)	FBU
Macquarie Atlas Roads Limited	MQA
Northern Star Resources Ltd	NST
Qube Holdings Ltd	QUB
Japara Healthcare Ltd	JHC

Performance comparison of $20,000*



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Performance of the 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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