Total returns

At 30 September 2018	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. (Feb 2008)
Ralton High Yield Australian Shares	-0.41	1.96	10.72	13.42	11.56	10.60	14.42	*10.51*	8.34
Income return	*0.75*	*1.68*	*2.65*	*4.93*	*4.67*	*4.62*	*4.82*	*4.96*	*5.00*
Growth return	*-1.16*	*0.28*	*8.07*	*8.49*	*6.89*	*5.98*	*9.60*	*5.55*	*3.33*
S&P/ASX 300 Accum. Index	-1.19	1.50	9.99	14.03	12.16	8.19	11.16	*7.65*	5.44
Difference	**0.78**	**0.46**	**0.72**	**-0.61**	**-0.60**	**2.41**	**3.27**	*2.86*	**2.90**

Performance review

- The S&P/ASX 300 Accumulation Index returned 1.50% for the September quarter, with Telecommunication Services and Health Care the top performing sectors and Materials and Utilities the weakest performers for the period.
- The Ralton Australian Shares portfolio returned 1.96% for the quarter, outperforming the benchmark by 0.46%.
- For the September Quarter, being overweight Materials and Consumer Discretionary added relative value to the portfolio. The portfolio's underweight to Industrials and Health Care were the key detractors from portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
Woodside Petroleum	Overweight
Tabcorp Holdings	Overweight
Tassal Group	Overweight

Woodside Petroleum (WPL, +8.8%) – has benefited from tightening oil and LNG markets and remains on track to grow its production to 100 million boe by 2020. Recent operational performance at Pluto LNG and Wheatstone LNG has been strong with Wheatstone T-1 and the recently commissioned T-2 unit running above nameplate capacity. In addition, WPL's suite of low-risk LNG growth projects to be tied back to its Burrup Hub are expected to contribute to further increases in LNG production over the next 10 years and they remain on track for a Final Investment Decision (FID) in 2020 for Scarborough and in 2021 for Browse. WPL is a major supplier of LNG to the rapidly growing Asia Pacific market and its LNG projects are underpinned by contracts leveraged to the oil price. The Brent oil price has rallied +19% over the quarter from a low of US$70 per barrel on 15 August to US$83 per barrel on 30 September. Key oil price drivers have been a continuing tightening of the global oil market amid supply-side issues related to ongoing production declines in Venezuela and the early stages of sanction-driven impacts on Iranian exports. Global oil demand growth also appears to be holding up at around 1.4 million bbl/d this year, despite the potential escalation of a US-China trade war and a slowing global economy. Higher than expected LNG demand from China has also extended into 2018 with coal-to-gas switching continuing at a rapid rate. In 2017, Chinese LNG imports increased by 12Mt to 38Mt (+46% increase). According to Wood Mackenzie, Chinese LNG demand growth in 2018 will be at least a further 10 million tonnes to reach 49Mtpa.

Tabcorp Group (TAH, 9.4%) – outperformed the market during the quarter as the company reported a positive result and evidence that recent changes made to Powerball are resulting in strong consumer take-up. The FY18 result confirmed our positive view on the outlook for the company as the wagering division showed resilience in the face of strong competition, the lotteries division illustrated strong growth and margin expansion and the company continues to execute well on the merger of Tatts and Tabcorp core operations. Post the merger, the company is in a stronger position to compete with aggressive international online gaming operators as well as deliver multi-year growth, driven by a combination of cost-out and top line growth. Regulatory changes currently being implemented, including a state-based POC (Point of Consumption) tax, should lead to a more rational market as corporate bookmakers become less profitable. Defensive earnings growth, a strong management team and a balance sheet with the capacity to support its strategic agenda combined with an undervalued share price supports our position.

Tassal Group (TGR, +9.4%) – added value during the quarter as the market welcomed a strong result despite warmer water conditions, which impacted the company's closest peer, HUON Aquaculture. Operations benefited from strong pricing in the half as global salmon prices remain elevated and the domestic market remained marginally undersupplied. These favourable market conditions are set to continue as HUON remains short of fish, losing a significant part of their 2019 salmon production as a large storm tore through their operations in one of their more exposed sites. As such, TGR looks set to benefit from having an ample supply of Salmon into an undersupplied market moving into the strong Christmas period. In addition, TGR completed their expansion into the Prawn industry, which looks to have strong market fundamentals and should lead to sustainable mediumterm growth. We expect TGR to continue to deliver low double-digit earnings growth and at a valuation lower than the broader Industrials market, delivering a strong dividend. As such, we are confident of continued outperformance.

Key detractors

Key detractors	Positioning
Aristocrat Leisure	Overweight
Woolworths Group	Overweight
Amcor Ltd	Overweight

Aristocrat Leisure (ALL, -8.0%) – trended lower during the quarter as stock performance was driven by weaker US casino operator performance and minor EPS downgrades from domestic brokers on approach to the FY18 result. We continue to believe ALL is in a strong competitive position as over-indebted US peers continue to underspend on product development. As such, we remain confident that ALL's current suite of land-based products will continue to take share in a market that is supported by strong US consumer confidence. In addition, we feel the Australian market is discounting the strong earnings outlook for the newly formed Digital division. Pleasingly, ALL is not reliant on any single growth driver as we see sustainable growth from its core slot operations, expansion into adjacent markets, continued momentum in its digital businesses as well as a strong US economic backdrop driving future performance. Valuation remains attractive as outperformance to date has been driven by strong EPS growth rather than PE expansion.

Woolworths Group (WOW, -8.0%) – underperformed during the quarter as the market digested a weaker-than-expected 1Q update for its supermarket division. In addition, the company indicated that margins were unlikely to expand following a significant recovery. Instead, the company will look to invest to maintain their leadership position. We see the weaker-than-expected 1Q19 sales number as transitory as sales have moved to Coles due to the highly successful 'Little Shop' campaign as well as Coles providing free reusable bags as shoppers struggled to change shopping habits with retailers looking to cease the use of disposable bags. Key drivers of performance within WOW remain strong, including transaction numbers and customer satisfaction. Overall, the outlook for the supermarket industry looks solid with Coles likely to become a rational competitor after its spin-out from WES and food price deflation beginning to ease. Management execution remains strong. Balance sheet strength offers flexibility and valuation remains undemanding compared to domestic defensive names.

Amcor Ltd (AMC, -5.1%) – the global packaging company, declined over the quarter as the market digested the implications of its all-scrip bid for US-based Bemis and its FY18 result came in below investors' expectations. 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. While AMC has paid a full price, it has a history of successfully integrating acquisitions and can move to make more accretive bolt-on acquisitions in the US market following the integration of Bemis. By making an all-scrip bid, the group leaves itself with a strong balance sheet after the deal is completed and both businesses are cash generative. At the results, AMC indicated rising raw material costs could continue to be a drag in 1H19 before the cost recovery from customers starts to provide a larger offset in 2H19. This was a disappointment as we had expected there to be a benefit on this front across the full year. Also, the issues the group was facing in North America in its Rigid's business should ease as Pepsi continues to see a lift in volumes after raising its marketing for its key brands. After a recent meeting with the company to follow-up on the Bemis acquisition and cost pressures, we continue to be comfortable with our holding in the stock.

Portfolio changes

Key additions and material adjustments

Bought
Downer EDI Limited (DOW)
Mineral Resources Ltd (MIN)

The portfolio added a position in **Downer EDI Limited (DOW)** during the quarter. We are attracted to the positive outlook for Downer as we expect its key market of infrastructure and mining-related spending to strengthen over the forecast period. We think the market underappreciates management's strong track record of operational execution and capital management which has driven growth and cash flow as the stock trades at a discount to the broader index.

The portfolio added **Mineral Resources Ltd (MIN)** during the quarter, whose long-term core business is mining services operations involving building, owning, operating and contracting out crushing and screening circuits for the Australian mining industry. MIN has crushing contracts with some of the world's largest mining companies in iron ore, gold and lithium operations, as well as its own operating assets. MIN's business operations range from being a pure contractor to partial and full ownership of ore bodies/mines. MIN's lithium assets include the Mt Marion spodumene mine (43%) and the Wodgina spodumene development project (100%). Wodgina is the world's largest hard-rock lithium asset. A key near-term MIN share price driver is an expected upgrade of the Wodgina resource and the proposed sell-down of 49% of the asset, as well as progress with the associated downstream spodumene and hydroxide plant development. MIN's profit share business model and integrated operations from full pit-to-end customer services are a key growth area for the company.

Key disposals and material adjustments

Sold
Viva Energy REIT (VVR)
IOOF Holdings (IFL)
AGL Energy (AGL)
Coca-Cola Amatil (CCL)

There were several disposals from the portfolio during the quarter. Firstly, we disposed of the holding in the **Viva Energy REIT (VVR)** as it was approaching its valuation and we had the opportunity to deploy the cash into other attractive opportunities. We also disposed of our holding in **IOOF Holdings (IFL)** during the quarter as we are becoming more concerned about the structural implications of the Royal Commission in the financial services industry. While we remain attracted to IFL's competitive position, which we expect to be strengthened by the pending acquisition of ANZ Wealth Management, the lack of clarity around the outcomes for the industry makes it particularly challenging to determine an appropriate valuation at this point. We also exited our position in **AGL Energy (AGL)** during the quarter. We see AGL attracting heightened regulatory uncertainty over FY19, specifically around the threat of potential Australian Government imposed price intervention. Company guidance is also for a relatively flat FY19 earnings outlook based on expectations of "moderating future wholesale electricity prices" combined with higher electricity input costs (spot coal and gas prices). This scenario implies AGL will be likely be facing wholesale electricity margin compression in FY19. We also exited our position in **Coca-Cola Amatil (CCL)** as we believe the current valuation appropriately reflects the stabilisation of key drivers under CEO Alison Watkins. We also acknowledge continued headwinds with consumers drinking less carbonated beverages and heightened emerging market risk in the Indonesian segment.

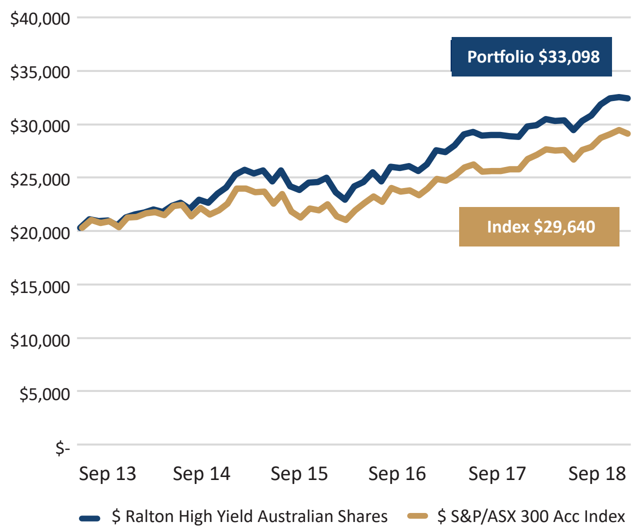
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	10.7%	4.3%	6.4%
Materials	21.1%	17.9%	3.2%
Consumer Staples	10.4%	7.8%	2.5%
Financials	33.8%	31.9%	1.9%
Energy	7.7%	6.0%	1.7%
Utilities	2.9%	1.9%	1.0%
Telecommunication Services	3.0%	3.8%	-0.8%
Real Estate	5.6%	7.7%	-2.1%
Information Technology	0.0%	2.3%	-2.3%
Industrials	4.8%	7.7%	-2.9%
Health Care	0.0%	8.6%	-8.6%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
BHP Billiton Limited	BHP
Commonwealth Bank	CBA
ANZ Banking Group Limited	ANZ
National Australia Bank Limited	NAB
Woolworths Limited	WOW
Woodside Petroleum	WPL
Macquarie Group Ltd	MQG
Westpac Banking Corp	WBC
Amcor Limited	AMC
Suncorp Group Ltd	SUN

Performance comparison of $20,000*



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