

## Total returns

At 31 December 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	0.26	-6.49	-4.66	-0.13	7.26	8.35	12.88	11.53	7.47
Income return	0.18	0.82	2.51	4.97	4.68	4.61	4.76	4.90	4.96
Growth return	0.08	-7.31	-7.17	-5.10	2.58	3.73	8.13	6.63	2.51
S&P/ASX 300 Accum. Index	-0.23	-8.41	-7.03	-3.06	6.65	5.60	9.45	8.91	4.47
<b>Difference</b>	<b>0.49</b>	<b>1.91</b>	<b>2.37</b>	<b>2.93</b>	<b>0.61</b>	<b>2.75</b>	<b>3.43</b>	<b>2.62</b>	<b>3.01</b>

## Performance review

- The S&P/ASX 300 Accumulation Index returned -8.41% for the December quarter, with Utilities and Consumer Staples the top performing sectors and Consumer Discretionary and Energy the weakest performers for the period.
- The Ralton High Yield portfolio returned -6.49% for the quarter, outperforming the benchmark by 1.91%.
- For the December quarter, being overweight Consumer Staples and Materials added relative value to the portfolio. The portfolio's underweight to Real Estate and overweight to Consumer Discretionary were the key detractors from portfolio returns.

## Performance attribution

### Key contributors

Key contributors	Positioning
Regis Resources	Overweight
Inghams Group	Overweight
Woolworths Group	Overweight

**Regis Resources (RRL, +29.84%)** – strongly outperformed the market over the December quarter. We are expecting improved timing of shipments to support a steady increase in RRL's gold sales over the remainder of FY19. RRL gold production over 1Q FY19 was above the mid-point of company guidance and costs were below the bottom of company guidance. The delivery of a lower mining stripping ratio was a key factor behind the solid improvement in RRL's operating costs over 1Q FY19, although Duketon costs may remain relatively high over 2Q FY19 as pre-stripping mining at the next satellite projects gets completed. RRL's A\$40m growth capital budget is weighted more towards 1H FY19 from activity related to the pre-strips and tailings dam lifts. This spend is expected to deliver improved 2H FY19 cashflow from Duketon in support of future RRL dividend payments. The Rosemont underground development is progressing and is expected to be in full ore production by December 2019. The environment impact statement (EIS) and definitive feasibility study (DFS) in support of an investment decision for the McPhillamys organic growth project are to be completed in 3Q FY19 with initial

indications that capex will be at the upper end range of A\$215m +/- 25%. RRL remains an established Australian gold industry leader in terms of its capital management and shareholder returns.

**Inghams Group (ING, +14.76%)** – posted a strong return during the December quarter, outperforming the broader market. The total return included a 33c per share capital return confirming the company's confidence in the capital position. The market has rewarded the company's defensive qualities and multiple growth drivers. Market concerns surrounding the exit of well-regarded CEO Mick McMahon and rising feed costs had kept the stock under pressure, however, the company continued to communicate confidence that price increases are able to offset input inflation and the company continues to execute on its cost-out program. Moreover, ING retains a strong balance sheet and at the FY18 result confirmed their intention to execute a buyback as well as invest in value-add and further cost out programs that will continue to see the company deliver sustainable growth for the foreseeable future. We expect ING to continue to deliver medium-term growth from a combination of top line growth, driven by volume and price/mix, and further cost out programs, driving margins to levels enjoyed by global peers.

**Woolworths Group (WOW, +4.77%)** – outperformed in December as the Australian equity market staged a late rally to end the quarter marginally lower. During November the company confirmed our previous view that prior quarter sales weakness was transitory and indicated that September and October had seen an improvement in sales momentum. Moreover, WOW announced the sale of the petrol business and we view it is likely that the \$1.75bn funds received will be distributed to shareholders in a tax-effective manner. Overall, the outlook for the supermarket industry looks solid as we see further evidence of an increasingly rational competitive environment and the easing of deflation that has weighed on supermarket top line growth. Management execution remains strong and balance sheet strength offers flexibility. Valuation remains undemanding compared to domestic defensive names.

### Key detractors

Key detractors	Positioning
Aristocrat Leisure	Overweight
Woodside Petroleum	Overweight
Boral Ltd	Overweight

**Aristocrat Leisure (ALL, -23.21%)** – underperformed during the December quarter as the announced FY18 result led to increased investor uncertainty regarding increasing investment and the rate and timeline of returns. ALL continues to invest in its core business, however, it is the elevated investment in the digital business that has caused the stock to underperform over the last quarter. Furthermore, with earnings in 2019 now 2H-weighted, the market marked the stock down due to elevated uncertainty. We remain positive on the outlook for the company as we see the company’s willingness to invest behind their strong competitive position as a core driver of ALL’s long-term performance. We remain vigilant to key competitors gaining market traction through increasing investment, however, key offshore competitors remain over-indebted and 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, at the current valuation we feel the Australian market is discounting the strong earnings outlook supported by multiple growth options within ALL’s core slot operations, expansion into adjacent markets, and continued momentum in its digital businesses broadly supported by a strong US economic backdrop.

**Woodside Petroleum (WPL, -18.82%)** – underperformed the market following the sharp global oil price downturn in the December quarter. Future oil price support is expected from OPEC’s agreement to remove 1.2 million bpd from the market for six months from January 2019, plus we see potential for an extension to the OPEC-led oil production cut backs. WPL enhanced its long-term growth profile over the December quarter after it agreed to commence front-end engineering design (FEED) activities for both the SNE Field Phase 1 Oil Development (WPL 35%) offshore Senegal and for the Pluto LNG Train 2 expansion project in Western Australia. The SNE floating production, storage and offtake (FPSO) vessel is expected to start up in 2022 with a gross production capacity of around 100,000 bpd. WPL is also targeting a final investment decision (FID) for the Pluto LNG T-2 expansion project in 2020 and start up in 2024. The Pluto LNG project expansion is underpinned by the development of the 7.3 Tcf (2C, 100%) Scarborough gas resource (WPL 75%), located offshore Western Australia. We remain attracted to WPL’s growth projects and exposure to Asia’s growing appetite for natural gas - China’s LNG demand grew by 48% in 2018.

**Boral Ltd (BLD, -28.51%)** – de-rated during the December quarter as investors became increasingly concerned with the potential for a weaker outlook in the US housing market. Late in October Boral released a market update which confirmed 1Q had been below expectations. Interestingly the weakness was not centered within the US or Australian housing activity. Rather, extreme weather seen in the US and Australian east coast had impacted activity levels. Outside of the weather related operational impact, the underlying market remains robust with US housing activity still exhibiting growth and a significant backlog of Australian infrastructure is yet to complete. Boral remains confident that US housing construction has many years to run and while activity is currently subdued (with US Homebuilders also falling during the period), growth remains, albeit at a lower level. The recent FY18 result showed that Boral has growth drivers broadly spread across its Australian and United States operations and illustrated that the company continues to manage operations well in the face of increasing input costs, which have impacted peers. Key drivers remain in place as US housing activity is supported by under-supply and current government infrastructure spend more than offsets housing weakness within BLD’s domestic operations. The potential for long-term growth is also evident in the company’s expanding US FlyAsh operations. BLD is trading at attractive multiples, delivers a strong yield and we remain confident in the company’s outlook.

### Portfolio changes

#### Key additions and material adjustments

Bought
Nil

#### Key disposals and material adjustments

Sold
Sydney Airport (SYD)

We disposed of our holding in **Sydney Airport (SYD)** as the stock appeared fully valued, particularly after we had gained evidence that traffic growth figures for Chinese visitors coming to Australia was slowing. In addition, regulatory risk for SYD is rising with the Federal Government due to release its draft recommendation from a review of Australian airport regulation in February 2019.

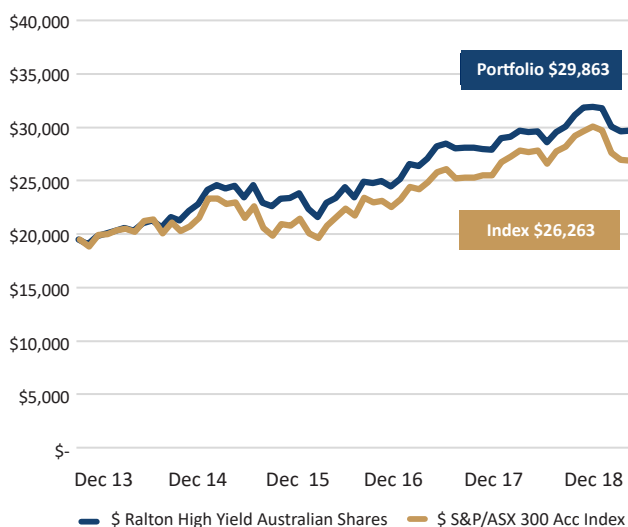
## Sector allocation

GICS sector	Ralton	Index	+/-
Materials	25.4%	18.1%	7.3%
Consumer Staples	11.0%	5.8%	5.2%
Consumer Discretionary	11.2%	6.4%	4.8%
Energy	8.1%	5.4%	2.7%
Utilities	4.1%	2.0%	2.1%
Telecommunication Services	2.9%	3.5%	-0.6%
Financials	30.4%	32.2%	-1.7%
Information Technology	0.0%	2.2%	-2.2%
Real Estate	5.0%	7.6%	-2.7%
Industrials	2.0%	8.0%	-6.0%
Health Care	0.0%	8.8%	-8.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

## Top 10 holdings<sup>#</sup>

Company name	ASX code
BHP Billiton Limited	BHP
Commonwealth Bank	CBA
ANZ Banking Group Limited	ANZ
Woolworths Limited	WOW
Woodside Petroleum	WPL
Arcor Limited	AMC
Vicinity Centres	VCX
Westpac Banking Corp	WBC
Suncorp Group Ltd	SUN
Aristocrat Leisure	ALL

## Performance comparison of \$20,000\*



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Performance of the 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 in an 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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