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 Smaller Companies	-1.37	-12.08	-10.78	-7.77	6.54	8.59	13.06	12.77	7.37
Income return	*0.20*	*0.32*	*1.39*	*2.77*	*2.76*	*2.95*	*3.30*	3.65	*3.66*
Growth return	*-1.56*	*-12.41*	*-12.17*	*-10.55*	*3.77*	*5.63*	*9.76*	9.12	*3.71*
S&P/ASX Small Ord Accum. Index	-4.18	-13.70	-12.75	-8.67	7.45	5.62	4.82	6.87	0.56
Difference	**2.81**	**1.61**	**1.97**	**0.89**	**-0.91**	**2.96**	**8.24**	5.90	**6.81**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index returned -13.70% for the December quarter, with Real Estate and Utilities the top performing sectors and Energy and Consumer Discretionary the weakest performers for the period.
- The Ralton Smaller Companies portfolio returned -12.08% for the quarter, outperforming the benchmark by 1.61%.
- For the December quarter, being overweight Materials and Consumer Staples added relative value to the portfolio. The portfolio's overweight to Communication Services and underweight to Real Estate were the key detractors from portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
OceanaGold Corp	Overweight
Regis Resources	Overweight
Inghams Group	Overweight

OceanaGold Corp (OGC, +17.68%) – strongly outperformed the market in the December quarter, particularly after gaining preliminary New Zealand Regulator approval in late December for all resource consents at Waihi for the Martha underground gold mine and the resumption of mining operations from stage 4 of the Martha open pit activities, subject to final approvals. This decision extends Martha mine life and has increased OGC's confidence in defining a sizeable resource that will support mining activities in the area for at least the next 10 years. This followed the company's October announcement of positive exploration results highlighting continued high-grade gold intersections from the Martha Project. These factors have significantly reduced market concerns with respect to the short mine life of OGC's New Zealand assets. In addition, the company delivered strong production over the quarter from the Didipio mine in the Philippines, mainly due to favourable mining conditions which substantially reduced underground mining costs and from the processing of high grade breccia stockpiles. OGC has a track record of strong shareholder returns and has delivered 34 consecutive quarters of positive return on invested capital (ROIC). Relatively strong operational performance has positioned OGC to potentially reach the top end of its calendar 2018 production guidance of 515-540koz.

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.

Key detractors

Key detractors	Positioning
oOhMedia!	Overweight
WorleyParsons	Overweight
Superloop Ltd	Overweight

oOhMedia! (OML, -33.33%) – underperformed during the December quarter despite confirming that its newly acquired Adshel operations maintained the significant Brisbane City Council contract. Despite the positive announcement, the overall negative sentiment surrounding the domestic consumer continued to weigh on the share price. OML is facing a number of short-term headwinds including risk to advertising budgets as the consumer pulls back from spending and the upcoming Federal election which commonly coincides with a delay in advertising expenditure. Despite these short-term headwinds, we remain focused on the company's strong competitive position and the structural growth inherent in the industry's conversion of key sites from traditional billboards to a digital medium. Moreover, we believe the consolidation that has recently completed in the industry is positive for the competitive environment and should lead to greater stability of returns. Trading at an attractive valuation with the potential to deliver consistent double-digit EPS growth and with abundant balance sheet flexibility, we remain attracted to the strong share price returns available.

WorleyParsons (WOR, -41.04%) – significantly underperformed the market in the December quarter. This was mainly because of the relatively large size of the A$4.6bn acquisition of the Jacobs Engineering Group's (NYSE: JEC) energy, chemicals, and resources business as well as market factors. The Jacobs transaction was announced on 22 October and it was mainly funded by a new A$2.9bn entitlement offer. This large equity raising with immediate dilution (synergy costs of $160m up front but realised over 2 years) led analysts to reduce their company DCF valuations. In addition, market expectation of a shortfall from the underwritten equity raising implied potential for a WOR share overhang following the raising. Weak sentiment towards WOR was further compounded by the fact it's business is leveraged to the hydrocarbon industry. The Brent oil price reached a 2018 peak of US$86/bbl on 4 October, and despite remaining relatively strong at US$80/bbl on 22 October, it steadily eroded to US$54/bbl by 31 December. On 24 December WOR also entered the S&P/ASX 100 Index, implying small cap funds would also now be restricted from owning WOR shares. Near-term market factors have weighed heavily against WOR's share price performance, and yet from a longer-term perspective we see potential for impressive future earnings gains from a successfully merged entity (WOR guidance for EPS +50% post synergies) and from a more favourable macro environment.

Superloop (SLC, -31.53%) – was weaker across the quarter in the absence of news flow. The weakness is largely attributed to the market digesting a weaker than expected FY18 result against the backdrop of a broader selloff in technology stocks. It has become apparent that the company has not achieved the necessary sales traction to deliver on the potential that increased utilisation of its key assets would mean for its earnings base. As such, the company has been executing a re-focus of strategy, which has included a range of key personnel changes under the guidance of Drew Kelton who replaced Bevan Slattery in early 2018. Operationally, the company continues to transition from a period where it has built out its infrastructure base towards a sales driven company where we expect to see sales driving strong margins as infrastructure capacity is utilised. Future sales of SLC's dark fibre services to key customers in Singapore and Hong Kong will be a key determinant of the SLC share price. In addition, we look for stabilisation in its BigAir business as it seeks to take advantage of technology advances driving customers away from traditional broadband providers.

Portfolio changes

Key additions and material adjustments

Bought
Northern Star Resources (NST)

We added more gold exposure to the portfolio via **Northern Star Resources (NST)** during the December quarter. NST has a disciplined technical and commercial focus. NST is expected to improve the performance of the recently acquired Pogo mining operation and deliver higher mill utilisation rates. Strong drilling results from successful exploration activities are also expected to support increases in resources and conversion of existing resources to reserves.

Key disposals and material adjustments

Sold
Inghams Group (ING)
Skycity Entertainment (SKC)

We removed **Inghams Group (ING)** from the portfolio during the quarter given the strong appreciation in the share price and increasing risks surrounding input cost increases from feed. We also removed **Skycity Entertainment (SKC)** during the quarter. We have been impressed by the operational performance of the casino operator under new management. However, given the elevated level of capex and potential disruption impacts on operations from the Adelaide and Auckland casino expansions as well as a weaker consumer outlook we have resolved to exit the position.

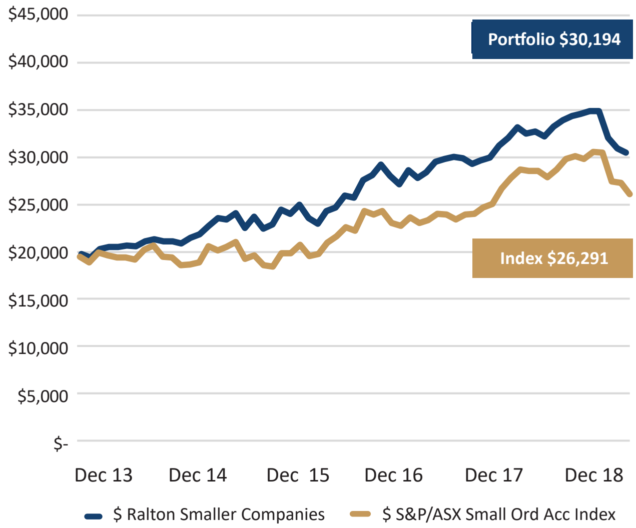
Sector allocation

GICS sector	Ralton	Index	+/-
Materials	25.4%	19.5%	5.9%
Utilities	3.3%	0.5%	2.9%
Energy	9.1%	6.3%	2.8%
Health Care	8.1%	6.2%	1.8%
Telecommunication Services	7.5%	5.9%	1.6%
Financials	7.0%	8.2%	-1.2%
Industrials	5.5%	7.0%	-1.4%
Consumer Discretionary	13.4%	14.8%	-1.4%
Information Technology	8.9%	10.6%	-1.7%
Consumer Staples	6.6%	9.1%	-2.5%
Real Estate	5.3%	12.0%	-6.7%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
Mineral Resources Ltd	MIN
Tassal Group Limited	TGR
Nufarm Limited	NUF
OceanaGold Corp.	OGC
Bapcor Limited	BAP
Regis Resources	RRL
Independence Group	IGO
Steadfast Group Ltd	SDF
Cooper Energy Ltd	COE
Nextdc Limited	NXT

Performance comparison of $20,000*



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