Ralton Australian Equity ex 50 (Smaller Companies)

Portfolio Update | 30 April 2019

Total returns

At 30 April 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 Australian Equity ex 50	1.38	4.49	3.86	0.07	10.03	9.63	12.04	13.60	7.96
Income return	*0.05*	*0.91*	*1.19*	*2.60*	*2.70*	*2.90*	*3.31*	3.56	*3.67*
Growth return	*1.33*	*3.58*	*2.66*	*-2.53*	*7.33*	*6.73*	*8.73*	10.04	*4.29*
S&P/ASX Small Ord Accum. Index	4.11	11.04	11.91	7.18	11.79	9.11	5.25	7.43	1.98
Difference	**-2.74**	**-6.55**	**-8.05**	**-7.11**	**-1.76**	**0.52**	**6.79**	6.17	**5.98**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index returned 4.11% for the month of April, with Consumer Discretionary and Information Technology the top performing sectors and Materials and Energy the weakest performers for the period.
- The Ralton Smaller Companies portfolio returned 1.38% for the month, underperforming the benchmark by 2.74%.
- For the month of April, being underweight Real Estate and Overweight Energy added relative value to the portfolio. The portfolio's overweight to Materials and underweight to Information Technology were the key detractors from portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
Healius Ltd	Overweight
Seven Group Holdings	Overweight
Cooper Energy	Overweight

Healius Ltd (HLS, +18.63%) – outperformed during the month, but has bounced around for the last few months after a proposed takeover by its major shareholder, Jango, was rejected by the board. During April, the stock recovered as the Federal Budget increased funding in a range of areas, including restoring funding increases for the GP services offered in its medical clinics. There is also talk of another takeover bid from various private equity suitors after the Federal election. We continue to back the strategic initiatives of new CEO, Dr Malcolm Parmenter, to deliver a turnaround across the company's operational divisions and see the potential for strong medium-term growth. We look for key indicators of success, such as GP hiring numbers, to gain increased confidence in the turnaround.

Seven Group Holdings (SVW, +11.31%) – performed strongly during April as the company provided a strong trading update that confirmed our investment thesis. SVW has traditionally operated as a conglomerate; however, we see the current management team moving towards a more operational model which should result in a higher valuation. Moreover, the key operating divisions of Westrac and Coates hold leading industry positions and are exposed to the attractive end markets of domestic mining investment and government-sponsored infrastructure. The update indicated that mining companies are continuing to lift spending on capital equipment to take advantage of the strong commodity price environment, as well as the necessity to catch up following a period of underinvestment. The update was even more impressive as the earnings recovery in Coates Group was held back due to weather and contract-related delays in the domestic infrastructure industry. We remain confident that both divisions will continue to take advantage of the strong industry outlook as they both maintain leading positions.

Cooper Energy (COE, +8.00%) – outperformed the market in April as the Sole Gas Project moved closer to delivery. Sole was 98% complete and within budget as at 31 March. COE has advanced the negotiation of new gas contracts for the start-up of Sole and for 2020 and this has "confirmed market appetite and gas pricing consistent with expectations". Overall, we are expecting COE to be well supported into the June quarter as it completes the Sole gas project, announces further new gas contracts, and starts drilling the first of two new and relatively low-risk exploration wells called Annie and Elanora, which are targeting reservoirs that are gas-producing in nearby fields. These prospects are located close to existing infrastructure and therefore offer relatively attractive future low-cost potential tie backs. COE remains one of our preferred investments positioned to benefit from a tightening East Coast Australia gas market.

Key detractors

Key detractors	Positioning
Regis Resources	Overweight
OceanaGold Corp	Overweight
Independence Group	Overweight

Regis Resources (RRL, -9.62%) – underperformed the market over the month of April. The mid-April confirmation that Rosemont underground had delivered an updated mineral resource estimate and is proceeding as expected, whilst positive, failed to turn around the downward-trending RRL share price over the month. The March quarter result was also fairly consistent on the production side, and FY19 guidance has been maintained from the company's Duketon North/South operations in Western Australia, along with additional feed from satellite deposits. First ore from Rosemont underground is expected in the September quarter. This implies underground operations are expected to become a significant contributor at Duketon, but it also introduces increased operational risk. We also see risk with respect to the timing and approval for the longer-dated McPhillamys open pit gold mine development application located 250km west of Sydney, with capital costs estimated to be at the higher end of initial company guidance.

OceanaGold Corp (OGC, -10.34%) – underperformed the market over the month of April. At the end of March OGC announced its annual Resource and Reserve statement for the year ended December 31, 2018. This confirmed that year-on-year growth in reserves offset only 36% of 2018 mining depletion, however, growth at Waihi in New Zealand delivered a 42% year-on-year increase in inferred gold resources. Historical production levels at Waihi are not expected to be achieved until full ramp up of the Martha underground operations, which is unlikely before the beginning of FY20, in our view. Longer-term production growth is driven by Haile and from Macraes demonstrating an ability to deliver a life-extension. OGC is a high-margin, multinational gold producer with four operating assets and a pipeline of exploration opportunities.

Independence Group (IGO, -8.23%) – underperformed the market over the month of April. After posting a strong March quarter result, base metals prices were adversely affected by a slower global economic growth outlook in April, and the USD nickel price fell 6% over April, largely from fear that global stainless-steel production will be cut in the near term. In contrast, the IGO March quarterly delivered strong Nova performance, where higher grade and productivity and an improved nickel price (+16% in AUD over the quarter) drove higher sales revenue. Nova cost improvement was also aided by copper by-product credits. Tropicana posted lower gold production and, as a result, gold sold was 14% lower than the December quarter. IGO's pre-feasibility study is progressing to identify an opportunity to produce nickel sulphate and cobalt sulphate products, but the next update is not expected until the December quarter, suggesting potential project timing slippage. The limited Nova reserve life (currently around 7 years) presents an issue with respect to the future contribution from this potential project. Nova and Tropicana remain on track to deliver on company FY19 production guidance, but with costs expected to be at the top end of the company's guidance range.

Portfolio changes

Key additions and material adjustments

Bought
Mayne Pharma Group (MYX)
Premier Investments (PMV)

Mayne Pharma Group (MYX) was added to the portfolio in April as past concerns over industry competition are now reflected in an improved valuation and we have a more positive outlook. Looking ahead, the company has a strong product pipeline that we expect to be monetised. Moreover, there is an increasing chance of a return of accretive M&A. Finally, given the weaker economic data from the global economy we are attracted to the company's non-cyclical USD earnings stream.

Premier Investments (PMV) was added to the portfolio in April as we feel the current share price underappreciates the strong growth outlook for the company's key growth brands in Smiggle and Peter Alexander as well as the strong cashflow generated from its lower growth Australian brands. Management has proved itself as sound through the economic cycle and the prospect of both fiscal and monetary stimulus leads us to increase our exposure to a sector which currently suffers from very negative sentiment.

Key disposals and material adjustments

Sold
Nil

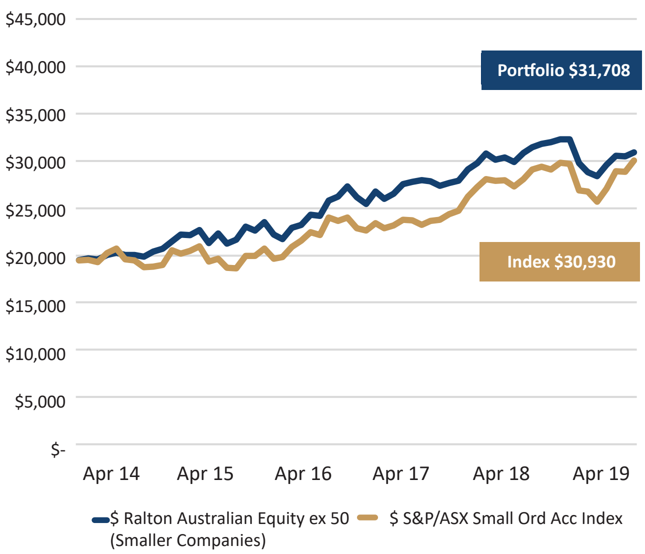
Sector allocation

GICS sector	Ralton	Index	+/-
Energy	10.3%	5.2%	5.2%
Health Care	11.7%	6.6%	5.1%
Materials	20.6%	17.7%	2.9%
Utilities	2.9%	0.4%	2.5%
Telecommunication Services	8.0%	5.9%	2.2%
Industrials	7.2%	7.7%	-0.6%
Financials	8.6%	9.5%	-0.9%
Consumer Staples	5.9%	7.8%	-1.9%
Consumer Discretionary	14.0%	15.9%	-1.9%
Information Technology	8.7%	12.4%	-3.8%
Real Estate	2.1%	11.0%	-8.8%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
Tassal Group Limited	TGR
Seven Group Holdings	SVW
Mineral Resources.	MIN
Healius	HLS
Nextdc Limited	NXT
Steadfast Group Ltd	SDF
Independence Group	IGO
Cooper Energy Ltd	COE
Regis Resources	RRL
Ooh!Media Limited	OML

Performance comparison of $20,000*



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Performance of the Ralton Australian Equity ex 50 Portfolio (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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