Total returns

At 30 April 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	3.25	2.38	6.17	11.24	11.78	13.19	11.99	9.22	8.76
Income return	*0.06*	*1.03*	*1.35*	*2.66*	*2.87*	*3.08*	*3.45*	3.66	*3.74*
Growth return	*3.18*	*1.35*	*4.81*	*8.58*	*8.91*	*10.12*	*8.53*	5.56	*5.02*
S&P/ASX Small Ord Accum. Index	2.75	0.44	7.11	18.45	11.07	8.05	3.14	1.28	1.48
Difference	**0.50**	**1.94**	**-0.95**	**-7.21**	**0.71**	**5.14**	**8.85**	7.94	**7.28**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index returned 2.75% for April, with Materials and Energy adding value to the index.
- The Ralton Smaller Companies portfolio returned 3.25% for the month, outperforming the benchmark by 0.50%.
- The portfolio's underweight to Consumer Discretionary was a key detractor from portfolio returns, offset by the portfolio's overweight to Energy and Financials.

Performance attribution

Key contributors

Key contributors	Positioning
Healthscope Ltd	Overweight
Speedcast International	Overweight
Infigen Energy	Overweight

Healthscope Ltd (HSO, +23.00%) – outperformed during the month after a conditional takeover offer was received from private equity group BGH Capital with the support of major shareholder Australian Super. HSO was added to the portfolio in late 2017 following a significant fall in the share price and a de-rate in its trading multiple. We have been cautious regarding the potential for a deterioration in the outlook for the private health insurance segment as affordability concerns impacted health insurance participation. The combination of consumers dropping or downgrading coverage and HSO's rapid expansion plans as well as poor operational execution resulted in an earnings disappointment. The fall provided an opportunity for us to build a position below book value with a reasonable margin of safety factoring a conservative view on top line growth and margin, acknowledging the strategic value of the company's assets. The current share price reflects a takeover premium above our fundamental valuation. However, we see potential for a higher bid should bidders look to separate the property assets from the operating group.

Speedcast International (SDA, +15.01%) – benefits from both cyclical and structural drivers as we see it move towards fundamental value. The company will continue to benefit from the growth in data connectivity needs in its key markets and, as the industry leader, SDA is uniquely positioned to deliver a quality service with strong financial outcomes. We continue to gain confidence in the outlook for energy-related expenditure and expect SDA to benefit from a cyclical uplift as 40% of Group revenue is attributable to the Energy division. M&A will continue to be a feature of the company's growth and we feel that recent strong execution will see the market support this strategy going forward. Successful delivery on synergy targets, ongoing strong cash flow generation and debt reduction will alleviate investor concerns and likely lead to a further re-rating of the share price.

Infigen Energy (IFN, +17.95%) – outperformed strongly in April as Brookfield joined the register with a 9% holding bought on market at an entry point of $0.598. At this point in time it is not clear whether BAM will move to a full takeover. However, we see Brookfield as an active shareholder and expect further value realisation over the medium-term. IFN holds a strategic position in the Australian energy market, producing around 1500 MW of power for Australian homes and businesses annually. The wind farms are well established, meaning wind patterns tend to be predictable, and hence, electricity generation is reliable. High debt levels and restrictive cash flows relating to an aggressive financing package from GFC times had meant zero corporate flexibility for IFN. Balance sheet quality has recently improved, driven by strong energy prices, increasing cash flows and an equity raising to support future wind farm developments. This was essential for IFN to be able to implement its new business model as a supplier of energy directly to corporate customers (as opposed to entering into PPAs with Energy Retailers). We expect earnings growth from new projects to drive solid profit growth for IFN, allowing it to strike a more normal balance between capital strategy around operating assets, funding new projects and dividend payments to shareholders.

Key detractors

Key detractors	Positioning
iSelect Ltd	Overweight
Credit Corp Group	Overweight
Japara Healthcare	Overweight

iSelect Ltd (ISU, -50.00%) – issued a disappointing trading update during the month which not only indicated a sharp deterioration in underlying performance, but also led to the removal of the incumbent CEO Scott Wilson. The company reported a deterioration in operating conditions in late March and into April, which impacted their confidence of a recovery into the end of the financial year as well as impacting the bulk of FY18 earnings. We had placed ISU under review given recent management turnover and were expecting to finalise our fundamental review following the Investor Day set for later in the month. The update clearly indicated that the current operational strategy is not appropriate to deal with the dynamic changes underway in the health, telco and energy markets. ISU currently has no installed management, an alarming deterioration in the cash balance and limited liquidity, which confirms that the company no longer fits our investment criteria. Consequently, we resolved to exit the position.

Credit Corp Group (CCP, -7.31%) – 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 position in the Australian market remains strong and we see increasing opportunity in the US business as large banks look to exit the debt recovery segment, an environment that should favour CCP as a new entrant with a strong capability. The market appears overly focused on increased pricing of ledgers in the Australian market, but CCP has remained disciplined in not overbidding and as such, historical strong returns should be retained. CCP offers a strong management team coupled with an attractive growth opportunity in the US market.

Japara Healthcare (JHC, -5.72%) – has struggled as the market continues to focus on short term pressure points, including a decline in government reimbursement and a rise in labour costs across its portfolio. 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. We acknowledge prior to the ACFI freeze lifting in FY19, the coming year looks challenging for both the company and the industry. In the medium term, a 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 the investment. Our view that JHC's land assets and operating businesses are being undervalued by investors remains unchanged.

Portfolio changes

Key additions and material adjustments

Bought
Collins Food (CKF)

We acquired a position in **Collins Food (CKF)** during April. The company is the largest franchisee of KFC restaurants in Australia and is investing in a growing network of KFC store fronts in Europe. Following an underwhelming 1H18 result, which was more reflective of short term issues, CKF has de-rated and now is trading at a material discount to its peers. We believe CKF's valuation is an attractive entry point given the strong growth outlook underpinned by a store rollout program in Australia, CKF's recent entry into Germany and Netherlands, a disciplined focus on operational improvement and margin expansion as well as the potential for further acquisitions in key markets. Furthermore, the initial response to CKF's pilot Taco Bell store in Queensland has proved positive. However, at this stage we are yet to ascribe any potential upside into our valuation.

Key disposals and material adjustments

Sold
Costa Group (CGC)
Ainsworth Gaming (AGI)
Australian Pharmaceutical Industries (API)
Pact Group (PGH)

We moved to exit a number of positions in the portfolio during April as we perceived the risk/return trade off as unattractive. **Costa Group (CGC)** has been a very strong performer for the portfolio. However, we view the current share price as factoring in the strong earnings outlook. **Ainsworth Gaming (AGI)** and **Australian Pharmaceutical Industries (API)** were both removed due to concerns that competition may impact future profitability. Finally, the **Pact Group (PGH)** holding was removed from the portfolio as headwinds from rising input costs which cannot be passed through to the customers in an increasingly competitive environment outweighs the strong yield attributes of the stock.

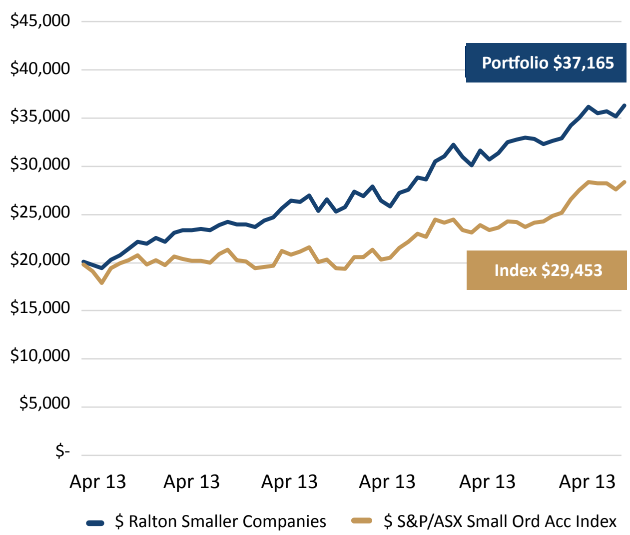
Sector allocation

GICS sector	Ralton	Index	+/-
Health Care	16.4%	6.6%	9.7%
Financials	11.6%	7.1%	4.5%
Telecommunication Services	6.1%	2.8%	3.3%
Utilities	2.7%	0.5%	2.2%
Consumer Staples	10.8%	8.7%	2.1%
Energy	9.7%	7.7%	2.0%
Information Technology	7.9%	8.4%	-0.5%
Real Estate	7.7%	10.8%	-3.1%
Industrials	3.0%	8.5%	-5.5%
Materials	13.4%	20.1%	-6.7%
Consumer Discretionary	10.7%	18.8%	-8.1%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings[#]

Company name	ASX code
Worleyparsons Limited	WOR
OFX Group Ltd	OFX
Speedcast International Ltd	SDA
Regis Resources	RRL
Tassal Group Limited	TGR
Nufarm Limited	NUF
Primary Health Care	PRY
Healthscope Limited	HSO
Nextdc Limited	NXT
Aveo Group	AOG

Performance comparison of $20,000[*]



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