Total returns

At 30 June 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	1.18	6.41	3.36	14.34	14.37	14.68	13.11	10.82	8.93
Income return	*0.26*	*0.33*	*1.36*	*2.71*	*2.87*	*3.05*	*3.43*	3.67	*3.70*
Growth return	*0.92*	*6.09*	*2.00*	*11.64*	*11.50*	*11.63*	*9.68*	7.15	*5.22*
S&P/ASX Small Ord Accum. Index	1.06	7.67	4.67	24.25	15.01	11.56	4.89	2.59	1.91
Difference	**0.13**	**-1.26**	**-1.31**	**-9.90**	**-0.64**	**3.12**	**8.22**	8.23	**7.01**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index returned 7.67% for June quarter, with Energy and Consumer Discretionary adding value to the index.
- The Ralton Smaller Companies portfolio returned 6.41% for the quarter, underperforming the benchmark by 1.26%.
- The portfolio's underweight to Consumer Discretionary was a key detractor from portfolio returns, offset by the portfolio's overweight to Telecommunication Services and underweight to Materials.

Performance attribution

Key contributors

Key contributors	Positioning
Healthscope Ltd	Overweight
Superloop Ltd	Overweight
Cooper Energy	Overweight
Metcash Limited	Underweight

Healthscope Ltd (HSO, +14.21%) – was added to the portfolio in late 2017 following a significant fall in the share price and a de-rate in its trading multiple. While 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 share price 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. During the quarter, HSO received a number of bids. However, in late May HSO management released the outcome of a long-awaited portfolio review – a downgrade to previously announced earnings guidance and the decision to not progress with either of the proposed bids. Trading above fair value with significant industry uncertainty and poor operational execution, we decided to exit the stock to crystallise strong gains.

Superloop Ltd (SLC, +26.32%) – performed strongly following its inaugural investor day in May. SLC again outlined its strategy to become a leading independent provider of connected infrastructure across Asia. Specifically, SLC operates and rents 'dark fibre' cables in Singapore and Hong Kong to key customers as well as holding a leadership position in wireless broadband in the Australian market, competing directly with the NBN. Management outlined their strategy to monetise the significant and strategic portfolio of assets it has developed over the preceding period. The company is now moving from a build stage to monetisation. To facilitate this change, it has significantly increased its sales force in all markets. We expect the company will be in a position to drive significant sales momentum by the end of CY18, at which point infrastructure, systems and its sales force will be fully developed. With the stock trading near book value with significant spare capacity in current assets, we are positive on the future opportunity.

Cooper Energy (COE, +28.33%) – provides attractive South East Australian gas market exposure through a portfolio of production assets located close to markets and infrastructure in the Gippsland and Otway Basins. Sole gas project (COE 100%) development activities over the June quarter included the successful drilling and completion of the Sole-3 well. The ramp up of production from the Sole gas field will be transformative for Cooper, as it is expected to more than triple Cooper's overall production to ~6mmboe per annum by FY20. The acquisition of an additional 40% equity interest in the Minerva Gas Plant from BHP has increased Cooper's stake in Minerva to 50%. Minerva provides a highly competitive gas processing option for gas produced from the Casino, Henry and other fields in the Otway Basin. Casino (COE 50%) production operations were also optimised from the successful completion of the Casino-5 workover during the quarter. Marketing of Cooper's uncontracted and de-contracting gas volumes continued over the quarter. The Cooper board was also strengthened through the appointment of Betsy Donaghey (ex-Woodside) as a non-executive director.

Metcash Limited (MTS, -16.61%) – Metcash underperformed during the quarter due to the announcement of a loss of a supply contract with a key retailer in the South Australian market. It is understood that the Drakes franchise will cease sourcing product from Metcash and move to invest in its own supply chain including a competing distribution centre in the Adelaide market. The announcement highlighted the inherent risks in the low margin food business and comes at an unfortunate juncture as the business is facing sustained competition from incumbents Woolworths and Coles and the rollout of Aldi in WA and SA. While we are attracted to the strong growth outlook for the Hardware and Alcohol divisions, we remain underwhelmed by the anaemic growth and competition headwinds facing the Food division. Although the company is trading on a lower multiple than the market and has a strong balance sheet, earnings downside risk and recent management turnover see us remain at underweight

Key detractors

Key detractors	Positioning
iSelect Ltd	Overweight
Primary Health Care	Overweight
Greencross Ltd	Overweight

iSelect Ltd (ISU, -20.10%) – issued a disappointing trading update during the quarter, 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 the bulk of full year 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 currently underway in the health, telco and energy markets. The company currently had no installed management, an alarming deterioration in its cash balance which confirmed that ISU no longer fit our investment criteria. Consequently, we resolved to exit the position.

Primary Health Care (PRY, -10.51%) – is one of Australia's largest healthcare service providers, supporting GP clinics, dentistry, radiology and pathology. With new CEO, Dr Malcolm Parmenter joining PRY, having successfully led Sonic Healthcare's GP division, we have a more positive view on PRY and see solid turnaround potential delivering medium term growth. During the quarter the company underperformed due to a select number of broker research reports highlighting short term headwinds with the potential to impact earnings in the short term. However, our investment thesis is premised on the view that a series of operational initiatives and modest capital investment can drive improved patient service, GP satisfaction and profitability of the medical clinics in turn driving medium term growth and improved returns to shareholders. In addition, recent Medicare data indicates improved momentum in radiology and pathology divisions, supporting our positive outlook.

Greencross Ltd (GXL, -15.31%) – provided a disappointing market update during the quarter which resulted in investors selling down the stock. New CEO Simon Hickey has wasted no time in reviewing the key priorities for the company and has responded to increased competition in the retail division and disappointing trading in the veterinary business. A lower earnings outlook was forecast as well as non- cash impairments to previously initiated store and IT projects. Management indicated that a cost-out program would be initiated. However, expectations of a continuing competitive retail and vet clinic environment, a likely re-shaping of the company's strategic priorities and elevated debt levels has led us to exit the position with the funds reinvested into more attractive opportunities.

Portfolio changes

Key additions and material adjustments

Bought
Collins Food (CKF)
Ooh!Media (OML)

We acquired a position in **Collins Food (CKF)** during the quarter. 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 for the Taco Bell opportunity.

The portfolio also added a position in Australia's outdoor media operator **Ooh!Media (OML)** during the quarter. The company offers the combination of exposure to a growing advertising medium with the opportunity to invest capital in its core network at attractive returns. Management has a strong track record of execution with a competitive advantage in their digital capability.

Key disposals and material adjustments

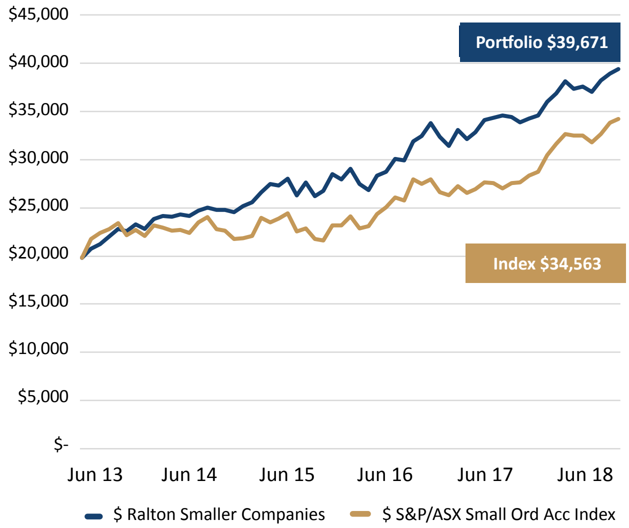
Sold
Healthscope Ltd (HSO)
Costa Group (CGC)
Pact Group (PGH)
Greencross (GXL)
Australian Pharmaceutical Industries (API)
Ainsworth Gaming (AGI)
Aristocrat Leisure (ALL)

There were a series of portfolio disposals during the quarter as we took profits on a number of positions. Specifically, **Healthscope (HSO)** following a number of takeover bids, **Costa Group (CGC)** as it had reached our valuation and **Pact Group (PGH)** as we saw a number of headwinds to earnings from rising costs. Our holdings in **Greencross (GXL)** and **Australian Pharmaceutical Industries (API)** were removed as the retail headwinds for both become more apparent. Finally, the **Ainsworth Gaming (AGI)** position was disposed of as it continues to struggle against the industry leader, **Aristocrat Leisure (ALL)**.

Sector allocation

GICS sector	Ralton	Index	+/-
Health Care	13.2%	6.8%	6.4%
Energy	10.5%	6.3%	4.2%
Telecommunication Services	6.9%	2.7%	4.2%
Financials	10.8%	7.2%	3.6%
Utilities	2.6%	0.5%	2.1%
Consumer Staples	11.2%	9.4%	1.8%
Information Technology	8.7%	9.0%	-0.3%
Real Estate	7.7%	10.8%	-3.1%
Materials	14.8%	19.5%	-4.7%
Industrials	2.8%	8.9%	-6.1%
Consumer Discretionary	10.8%	19.0%	-8.2%
Total	**100.0%**	**100.0%**	**0.0%**

Performance comparison of $20,000*



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Performance of the 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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