Total returns

At 30 September 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 Australian Shares	0.04	0.64	7.74	10.24	10.92	10.29	13.56	9.60	7.79
Income return	*0.68*	*1.36*	*2.19*	*4.10*	*4.01*	*3.85*	*4.09*	4.27	*4.31*
Growth return	*-0.65*	*-0.73*	*5.55*	*6.14*	*6.91*	*6.44*	*9.47*	5.33	*3.49*
S&P/ASX 300 Acc Index	-1.19	1.50	9.99	14.03	12.16	8.19	11.16	7.65	5.44
Difference	**1.23**	**-0.87**	**-2.25**	**-3.79**	**-1.24**	**2.10**	**2.40**	**1.95**	**2.35**

Performance review

- The S&P/ASX 300 Accumulation Index returned 1.50% for the September quarter, with Telecommunication Services and Health Care the top performing sectors and Materials and Utilities the weakest performers for the period.
- The Ralton Australian Shares portfolio returned 0.64% for the quarter, underperforming the benchmark by 0.87%.
- For the September Quarter, being overweight Materials and underweight Financials added relative value to the portfolio. The portfolio's underweight to Telecommunication Services and Health Care were the key detractors from portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
OFX Group	Overweight
Woodside Petroleum	Overweight
Northern Star Resources	Overweight

OFX Group (OFX, +30.7%) – delivered strong performance for the portfolio over the quarter after providing a positive update around business momentum for 1Q19 at its AGM in August. OFX's core business is online foreign currency transfers, targeting quality service at far lower cost than the banks who, despite their high fees, still dominate this segment of banking. Upon listing, OFX had a fast-growing, high ROE, reasonably recognised and branded business that had been successful in private hands. Listing brought the pressures of semi-annual profit targets, which combined with a series of management and strategic missteps, led to a loss of focus. New CEO Skander Malcolm has impressive credentials in business across several international jurisdictions. His focus for the time is on simplification, executing well on a small number of tasks and building out the management depth, which he has been doing well thus far. The balance sheet is in good shape and risk measures and compliance, which are vital for this type of business, appear to be well addressed.

Woodside Petroleum (WPL, +8.8%) – has benefited from tightening oil and LNG markets and remains on track to grow its production to 100 million boe by 2020. Recent operational performance at Pluto LNG and Wheatstone LNG has been strong with Wheatstone T-1 and the recently commissioned T-2 unit running above nameplate capacity. In addition, WPL's suite of low-risk LNG growth projects to be tied back to its Burrup Hub are expected to contribute to further increases in LNG production over the next 10 years and they remain on track for a Final Investment Decision (FID) in 2020 for Scarborough and in 2021 for Browse. WPL is a major supplier of LNG to the rapidly growing Asia Pacific market and its LNG projects are underpinned by contracts leveraged to the oil price. The Brent oil price has rallied +19% over the quarter from a low of US$70 per barrel on 15 August to US$83 per barrel on 30 September. Key oil price drivers have been a continuing tightening of the global oil market amid supply-side issues related to ongoing production declines in Venezuela and the early stages of sanction-driven impacts on Iranian exports. Global oil demand growth also appears to be holding up at around 1.4 million bbl/d this year, despite the potential escalation of a US-China trade war and a slowing global economy. Higher than expected LNG demand from China has also extended into 2018 with coal-to-gas switching continuing at a rapid rate. In 2017, Chinese LNG imports increased by 12Mt to 38Mt (+46% increase). According to Wood Mackenzie, Chinese LNG demand growth in 2018 will be at least a further 10 million tonnes to reach 49Mtpa.

Northern Star Resources (NST, +14.3%) – growth strategy has delivered outstanding results at every level. The company achieved record gold sales and production in the June quarter. NST has attractive financial metrics with a sector-leading return on invested capital and a balance sheet at 30 June with cash of $512m and no debt. The Pogo acquisition announced on 30 August at an implied price of US$63/ounce and EV/EBITDA multiple of 2.2x appears highly attractive. This acquisition is EPS accretive and adds 250-260,000 ounces to NST's FY19 production, making NST Australia's second largest gold producer. Pogo is widely expected to deliver on NST's proven formula of growing production, extending mine life and delivery of guidance, as demonstrated at Jundee and Kalgoorlie. This is to be achieved by converting the mining method at Pogo to deliver 2,450,000 ounces of measured and indicated mineral resources located within the mining leases into reserves and the mine plan.

Key detractors

Key detractors	Positioning
SpeedCast International	Overweight
Nufarm Ltd	Overweight
Aristocrat Leisure	Overweight

SpeedCast International (SDA, -35.0%) – fell sharply in the quarter as the company reported a 1H18 result below expectations. While earnings forecasts were revised down, the market further de-rated the stock as management credibility was brought into question as the company only recently confirmed their comfort with market expectations. The primary driver of the miss was the energy division, and while a recovery in activity is evident, it appears to be taking longer than expected to flow through to contract awards. Also, the company made an acquisition, and while boosting earnings in the future, it again brought SDA's elevated gearing levels into focus. Although a disappointing outcome, we view the share price decline as an overreaction and expect the stock to recover from depressed levels over time. We remain confident that sustained higher oil prices will result in improved performance in the energy division and move our expectations of recovery to the 2019 calendar year. In addition, we believe the current low valuation does not reflect the company's strong industry position and the structural growth evident in demand for data that is driving organic growth across the broader group.

Nufarm Ltd (NUF, -24.4%) – underperformed the market during the quarter as the company's outlook was impacted by weak seasonal conditions and elevated concern regarding their glyphosate (weed killer) products. During July the company substantially downgraded its earnings outlook. The main driver of the downgrade was dry conditions in Australia, which saw a substantial drop in sales in the crop protection market. The weak seasonal conditions continued through both June and July which are the crucial months for the NUF business in this market. Looking forward, there is now an expectation of a dry spring which will constrain sales into FY19 as well. Regarding glyphosate, we remain vigilant as to the future of the chemicals' use. However, global studies to date indicate the product's safety. Furthermore, the chemical now only makes up 10% of NUF's annual sales. We also hold the view that the market is capitalising the short-term earnings impact from weather over the medium term which is providing a good opportunity to buy shares at depressed levels. We remain positive on the medium-term outlook for the group given the diversity of the markets it operates in, the recent European acquisitions and the upside potential from the Omega 3 commercialisation.

Aristocrat Leisure (ALL, -8.0%) – trended lower during the quarter as stock performance was driven by weaker US casino operator performance and minor EPS downgrades from domestic brokers on approach to the FY18 result. We continue to believe ALL is in a strong competitive position as over-indebted US peers 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, we feel the Australian market is discounting the strong earnings outlook for the newly formed Digital division. Pleasingly, ALL is not reliant on any single growth driver as we see sustainable growth from its core slot operations, expansion into adjacent markets, continued momentum in its digital businesses as well as a strong US economic backdrop driving future performance. Valuation remains attractive as outperformance to date has been driven by strong EPS growth rather than PE expansion.

Portfolio changes

Key additions and material adjustments

Bought
Woodside Petroleum (WPL)
Mineral Resources Ltd (MIN)

We added **Woodside Petroleum (WPL)** to the portfolio during the quarter as the company is a highly attractive long-term energy sector investment for exposure to rapidly growing Asian LNG demand based on its growing tier one (high quality and low-cost) LNG project production base. WPL generates substantial free cash flow, rising earnings, and has a sector-leading dividend yield. WPL's significant resource base is supportive towards a future commitment to low-risk LNG project expansions, and the company is leveraged to high equity in Pluto LNG (90%) and the Scarborough LNG (75%) Pluto tieback developments.

The portfolio added **Mineral Resources Ltd (MIN)** during the quarter, whose long-term core business is mining services operations involving building, owning, operating and contracting out crushing and screening circuits for the Australian mining industry. MIN has crushing contracts with some of the world's largest mining companies in iron ore, gold and lithium operations, as well as its own operating assets. MIN's business operations range from being a pure contractor to partial and full ownership of ore bodies/mines. MIN's lithium assets include the Mt Marion spodumene mine (43%) and the Wodgina spodumene development project (100%). Wodgina is the world's largest hard-rock lithium asset. A key near-term MIN share price driver is an expected upgrade of the Wodgina resource and the proposed sell-down of 49% of the asset, as well as progress with the associated downstream spodumene and hydroxide plant development. MIN's profit share business model and integrated operations from full pit-to-end customer services are a key growth area for the company.

Key disposals and material adjustments

Sold
Worley Parsons (WOR)
Oil Search (OSH)
IOOF Holdings (IFL)
Telstra Corporation (TLS)

There were some disposals from the portfolio during the quarter. We disposed of the holdings in **Worley Parsons (WOR)**, as it had reached our valuation, and **Oil Search (OSH)**. The proceeds from these stocks were-deployed into better value opportunities in the Energy sector which we continue to have a favourable view of given the fundamentals in the oil and LNG markets, and the rising risk of geopolitical events causing a spike in oil prices given the low level of surplus capacity in the market. We also disposed of our holding in **IOOF Holdings (IFL)** during the quarter as we are becoming more concerned about the structural implications of the Royal Commission in the financial services industry. While we remain attracted to IFL's competitive position, which we expect to be strengthened by the pending acquisition of ANZ Wealth Management, the lack of clarity around the outcomes for the industry makes it particularly challenging to determine an appropriate valuation at this point. The portfolio exited its position in **Telstra Corporation (TLS)** during the quarter, selling into strength as the stock rebounded strongly off its recent lows. While the TPG and Vodafone merger should enable a more rational mobile market, we expect the short-term competitive intensity to remain.

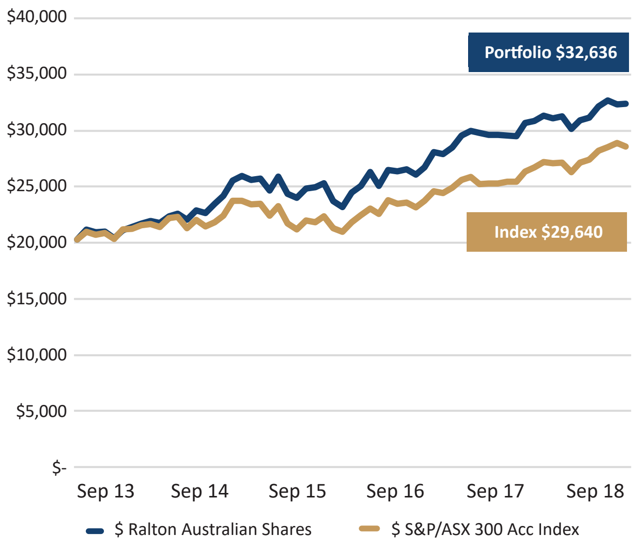
Sector allocation

GICS sector	Ralton	Index	+/-
Materials	25.7%	17.9%	7.8%
Consumer Discretionary	10.6%	4.3%	6.3%
Energy	8.0%	6.0%	2.0%
Consumer Staples	8.8%	7.8%	1.0%
Information Technology	2.3%	2.3%	-0.1%
Financials	30.9%	31.9%	-1.0%
Utilities	0.0%	1.9%	-1.9%
Telecommunication Services	1.5%	3.8%	-2.3%
Health Care	6.1%	8.6%	-2.5%
Real Estate	4.0%	7.7%	-3.6%
Industrials	2.1%	7.7%	-5.7%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
BHP Billiton Limited	BHP
Woolworths Limited	WOW
Woodside Petroleum	WPL
ANZ Banking Grp Ltd	ANZ
Westpac Banking Corp	WBC
Aristocrat Leisure	ALL
National Australia Bank Limited	NAB
Macquarie Group Ltd	MQG
Amcor Limited	AMC
Suncorp Group Ltd	SUN

Performance comparison of $20,000*



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Performance of the Ralton Wholesale 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 an in index. There is no guarantee these objectives will be met.

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