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 Smaller Companies	0.02	1.49	7.99	15.70	14.30	12.63	15.75	11.29	8.86
Income return	*0.30*	*1.07*	*1.39*	*2.72*	*2.82*	*2.98*	*3.44*	3.67	*3.72*
Growth return	*-0.28*	*0.42*	*6.60*	*12.98*	*11.49*	*9.65*	*12.31*	7.62	*5.14*
S&P/ASX Small Ord Accum. Index	-0.35	1.10	8.86	20.32	16.97	8.75	6.96	4.78	1.97
Difference	**0.37**	**0.38**	**-0.87**	**-4.62**	**-2.66**	**3.89**	**8.80**	6.51	**6.89**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index returned 1.10% for the September Quarter, with Information Technology and Energy the top performing sectors and Materials and Consumer Staples the weakest performers for the period.
- The Ralton Smaller Companies portfolio returned 1.49% for the quarter, outperforming the benchmark by 0.38%.
- For the September Quarter, being overweight Financials and underweight Materials added relative value to the portfolio. The portfolio's underweight to Information Technology and overweight to Telecommunication Services were the key detractors from portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
Mayne Pharma	Overweight
OFX Group	Overweight
Credit Corp	Overweight

Mayne Pharma (MYX, +49.5%) – continued its strong recent performance during reporting season as the company confirmed that industry pressures that marred recent results continue to subside. The company has seen a return to more normal levels of price deflation following significant pressure brought about by the merger of key distribution partners. Broad industry pressure has seen key competitors reduce capacity as well as exit less profitable drug lines which has reduced competition. MYX has also undertaken initiatives to open new distribution channels that have driven both margin and sales. Key product releases will drive growth in 2019 and beyond. Given its improving balance sheet, we expect the company to play a role in any industry M&A.

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.

Credit Corp (CCP, +23.2%) – performed very strongly for the quarter after reporting its FY18 result at the top-end of guidance and providing a positive outlook on the year ahead. Much of this represented a recovery in the share price after the company was subject to an attack through a report from an undisclosed source about its accounting practices and the operation of its lending business. These issues were subsequently shown to lack merit. CCP has three business lines. The Australian debt ledger (or books of bad debts to recover) is a mature business. CCP is looking to replicate the same business in the US and has finally started to make inroads in that market after 6 years. The US operation will be a crucial driver of future growth. Finally, the group provides personal loans with an average duration of around 20 months. This book continues to grow as the banks pull back from the personal lending business. Subject to economic conditions, we expect this group to provide sustainable growth in coming periods from its US and domestic personal loans businesses.

Key detractors

Key detractors	Positioning
Speedcast International	Overweight
Regis Resources	Overweight
Nufarm Ltd	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.

Regis Resources (RRL, -27.3%) – retraced during the quarter post a disappointing June quarterly report that highlighted cost concerns and a flat production guidance outlook. The market remains concerned about an outlook for rising costs at the Duketon gold operation in WA, particularly from the increased mining of new satellite deposits with higher stripping ratios, as well as greater haul distances from satellite deposits to the central plant being adversely impacted by higher diesel prices. While we remain conscious that the broader mining sector is facing increasing costs after a period of fiscal discipline, Regis remains an attractive exposure to what we see as an improving environment for gold producers. Fundamentally, the FY18 result was ahead of expectations and reaffirmed RRL's track record of delivering increasing revenue, EBITDA and NPAT. RRL also has low operational risk and has delivered solid margins through the cycle. The company has a strong balance sheet and delivers a dividend yield above the market average, providing valuation support. Moreover, recent US dollar weakness is likely the most significant contributor to the recent uptick in gold prices and considering the potential for rising geopolitical tension, we think risks remain skewed to the upside.

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.

Portfolio changes

Key additions and material adjustments

Bought
Bapcor Ltd (BAP)
Downer (DOW)
Mineral Resources Ltd (MIN)

We added a position in **Bapcor Ltd (BAP)** to the portfolio during the quarter as we expect the company will continue to deliver solid growth with lower volatility than the market over the medium term. BAP's key competitive advantage lies within its supply chain, efficiently servicing the fragmented auto service sector. Furthermore, we see the opportunity for continued investment in wholesale parts, retail as well as the company's initial investment in Asia as providing long term growth which is yet to be fully appreciated by the market.

The portfolio added a position in **Downer (DOW)** during the quarter. We are attracted to the positive outlook for Downer as we expect its key market of infrastructure and mining-related spending to strengthen over the forecast period. We think the market underappreciates management's strong track record of operational execution and capital management which has driven growth and cash flow as the stock trades at a discount to the broader index.

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
Amatil Ltd (CCL)
IOOF Holdings (IFL)

There were two disposals from the portfolio during the quarter. Firstly, we disposed of the holding in **Coca-Cola Amatil Ltd (CCL)** as it was approaching its valuation. 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.

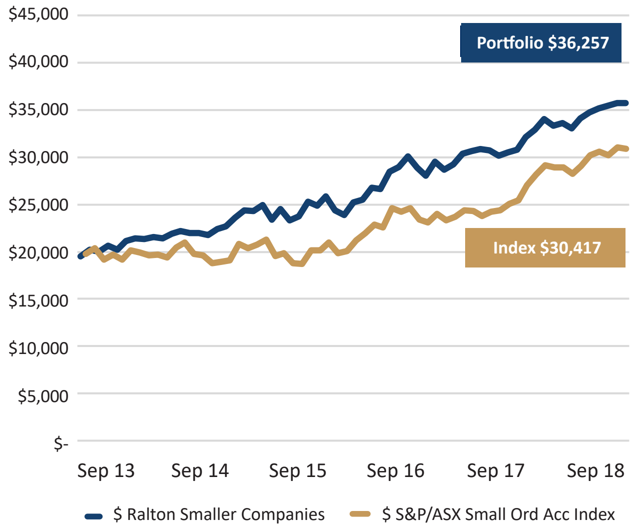
Sector allocation

GICS sector	Ralton	Index	+/-
Financials	9.1%	8.4%	0.7%
Real Estate	6.7%	10.1%	-3.4%
Industrials	5.5%	7.8%	-2.3%
Materials	15.9%	16.9%	-1.0%
Energy	11.3%	8.4%	3.0%
Telecommunication Services	8.6%	8.7%	0.0%
Consumer Discretionary	13.1%	13.4%	-0.3%
Utilities	2.1%	0.5%	1.6%
Consumer Staples	8.0%	8.4%	-0.4%
Health Care	12.6%	6.8%	5.9%
Information Technology	7.0%	10.7%	-3.7%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
WorleyParsons Ltd	WOR
Bapcor Limited	BAP
Mineral Resources Ltd	MIN
Steadfast Group Ltd	SDF
Ooh!Media Limited	OML
Tassal Group Limited	TGR
Independence Group	IGO
OFX Group Ltd	OFX
Mayne Pharma Ltd	MYX
Super Ret Rep Ltd	SUL

Performance comparison of $20,000*



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