Total returns

At 31 October 2017	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	Inception % p.a. (Feb 2008)
Ralton High Yield Australian Shares	3.64	2.95	1.77	17.60	9.83	13.66	11.41	8.15
Income return	*0.00*	*1.55*	*2.13*	*4.45*	*4.46*	*4.58*	*4.82*	*4.97*
Growth return	*3.64*	*1.40*	*-0.35*	*13.15*	*5.37*	*9.08*	*6.59*	*3.18*
S&P/ASX 300 Accum. Index	4.02	4.83	2.20	15.92	7.03	10.18	8.01	4.97
Difference	**-0.38**	**-1.88**	**-0.42**	**1.68**	**2.79**	**3.48**	**3.40**	**3.18**

Performance review

- The S&P/ASX 300 Accumulation Index broke out of its recent trading range, finishing up 4.02% for October. All sectors were positive for the market, with Information Technology and Energy the strongest.
- The Ralton High Yield portfolio returned 3.64% for the month, underperforming the benchmark by 0.38%.
- Stock selection within both Consumer Discretionary and Energy added value for investors, offset by our overweight to Real Estate in October.

Performance attribution

Key contributors

Key contributors	Positioning
Japara Healthcare	Overweight
Aristocrat Leisure	Overweight
Macquarie Atlas Roads	Overweight

Japara Healthcare (JHC, +12.9%) – shares rallied in the month on news that Moelis Australia and associated interests acquired just under 10% of the shares in JHC. Having an experienced property investor take a substantial stake in the business supports our view that JHC's land assets and operating businesses are being undervalued by the market. At the AGM, JHC management noted a near term negative, highlighting that the recent severe flu season across the country had impacted bed utilization in the early months of the current financial year. We will continue to monitor these trends. However, the impact is likely modest as utilization is expected to mean revert throughout the remainder of the year.

Aristocrat Leisure (ALL, +12.1%) – stock price pushed higher in October, reversing part of the poor performance from the September quarter. Although there were no company specific announcements, the share price strength likely relates to a positive reception of ALL's new gaming products at recent industry exhibitions such as G2E in Las Vegas and a weakening of the Australian dollar against the US dollar. We continue to have positive expectations for ALL's market share outlook in the US, backed by its new product launches, recent entry into the Class III stepper category and the expansion of its Digital business.

Macquarie Atlas Roads (MQA, +9.8%) – shares have rallied strongly, following the recent capital raising to support the purchase of an additional 4.9% in the APRR toll road network (key French roads). News that long time CEO, Peter Trent, was set to resign in February 2018, replaced by James Hooke, current CEO of Macquarie Infrastructure Corporation was also well received by the market. Trent has been integral to the restructure, simplification and now expansion of MQA in the last eight years. We reduced our holding in MQA in response to the reduction in yield of its issued shares.

Key detractors

Key detractors	Positioning
Lendlease Group	Overweight
Vicinity Centres	Overweight
IOOF Holdings Ltd	Overweight

Lend Lease (LLC, -9.5%) – recent portfolio addition LLC gave back a part of recent share price gains following a market update in mid-October. Although LLC's update maintained profit expectations for the current year, the composition of earnings and issues broadly within the Australian construction business were not well received by the market. Specifically, this division is now likely to deliver lower EBITDA than the prior year due to losses on some small but problematic contracts. Our logic in revisiting LLC during May centered around increasing the portfolio's exposure to the Australian east coast infrastructure theme. LLC recently restructured its infrastructure team and aims to deliver $4-$5bn in annual revenues from this division. This would nearly double current revenues, with LLC seeking a commensurate improvement in margins. Although these problematic contracts represent a step backwards for this division, these contracts were written and won several years ago. Therefore, we do not view them as representative of management and contract risk structures since put in place.

Vicinity Centres (VCX, -0.4%) – shares in the retail shopping centre owner were flat in a rising market. VCX's September trading update was largely as anticipated, with flat shopping centre sales growth reflecting what we see as a challenged consumer environment. Flagship centre Chadstone continues to grow faster than the broader retail sector, lifting 5% across the same period. VCX continues to advance its development pipeline, with substantial progress at Mandurah and The Glen, while on-selling its older, lesser quality centres. VCX is a little over a third of the way through the recently announced $500m buyback.

IOOF Holdings (IFL, -3.50%) – shares finished lower in an eventful month for the company. In a near-$1bn transaction, IFL has agreed to acquire ANZ's pensions and investment business, increasing debt and raising new equity to fund the transaction. Although initially well received by investors (including ourselves), the transaction will take some time to be approved and completed, which may weigh on investor sentiment. However, the trigger for the share price fall in the month appeared to be the September quarter FUM update which fell short of expectations after a stellar result last quarter. This is not altogether surprising given the likely pull forward of investment ahead of recent Super changes, and is not core to our investment thesis over the medium-term

Portfolio changes

Key additions and material adjustments

We added two new positions to the portfolio in October, **Healthscope Limited (HSO)** and **Inghams Group (ING)**.

Bought
Healthscope Limited (HSO)
Inghams Group (ING).

Healthscope Limited (HSO) – we added Australia's number two hospital operator to the portfolio in October. The stock was relisted via IPO in mid-2014. The share price rallied circa 50% at its peak before recently reverting toward the IPO price, and now below, where we view the valuation as interesting. Recent concerns included the exit of longstanding CEO Rob Cooke and a slow-down in hospital admissions during calendar year 2016 which coincided with HSO bringing more bed capacity onto the market. Newly opened greenfield hospitals have also taken slightly longer than expected to reach budget targets.

Broader private health insurance (PHI) affordability concerns have also weighed on the stock. This will likely cap PHI participation in years to come, although we expect that the core of HSO's patients, the 50-plus age demographic, will attempt to maintain PHI to secure access to their preferred hospitals and surgeons. Recent reform measures outlined by the Federal Government appear supportive of PHI. On this basis, and assuming HSO can grow admissions by around 2-3% per annum, we believe HSO offers reasonable value over the medium-term.

Ingham's Group (ING) – we purchased a small position in poultry provider, ING. As Australia's largest poultry supplier with operations spread across the country, Ingham's is a household name. Long a family owned and managed business, ING recently listed on the public markets. The company culture and strategy is morphing from these family roots toward a modern, efficient, fast-moving consumer goods company. The company has a well-respected CEO and has established clear targets around productivity and profit objectives across a range of business areas. These targets appear attainable, which is important as they form part of the prospectus figures. Beyond the initial phase, we expect ING has considerable scope to improve profits, margins and cash flows. ING is one of the dominant suppliers of poultry in Australia, whose buyers include the key supermarkets. We believe ING has reasonable bargaining power with its customers and draw some parallels to Tassal Group (TGR) where supply constraints, breeding cycles and quarantine all provided protection against competition. BBQ chickens are one of the key drivers of foot traffic into supermarkets, and hence, Coles and Woolworths need ING's chickens to drive sales.

Key disposals and material adjustments

Sold
Incitec Pivot (IPL)

With Incitec Pivot (IPL) shares rallying since our initial purchase, we decided to sell our holding and lock in some profits. As we had expected, the recent rally in the oil price somewhat supported the pricing for urea and ammonia, which in turn supports IPL profits. There is some expectation of capital management building in the lead-up to November's full year result. We view this as a possibility, although note that with ammonia prices still somewhat depressed, the scope for any excess cash generation is modest. Further, the incoming CEO, Jeanne Johns, is quite likely to take a cautious view on capital management at this stage.

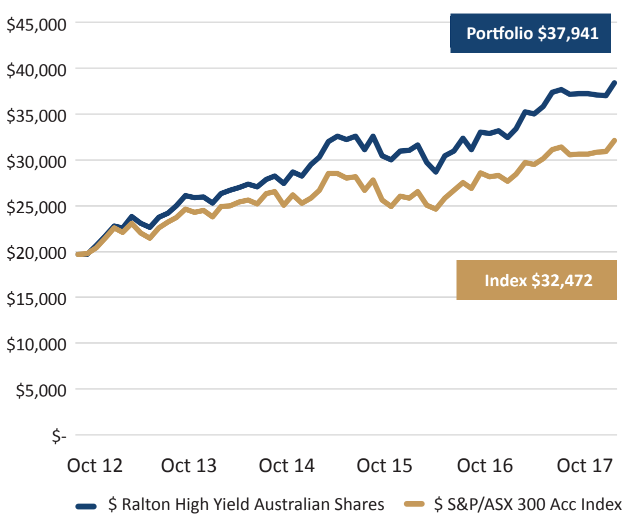
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Staples	10.9%	7.3%	3.5%
Materials	18.5%	17.0%	1.5%
Real Estate	9.6%	8.2%	1.5%
Telecommunication Services	4.4%	3.0%	1.4%
Health Care	7.4%	7.1%	0.3%
Utilities	2.4%	2.1%	0.2%
Energy	4.8%	4.6%	0.2%
Information Technology	1.7%	1.9%	-0.2%
Consumer Discretionary	4.4%	4.9%	-0.4%
Financials (ex-Property)	34.3%	36.4%	-2.2%
Industrials	1.6%	7.4%	-5.8%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
National Australia Bank Limited	NAB
ANZ Banking Group Limited	ANZ
BHP Billiton Limited	BHP
Westpac Banking Corp	WBC
Woolworths Limited	WOW
Telstra Corporation	TLS
Vicinity Centres	VCX
Commonwealth Bank of Australia	CBA
Caltex Australia Limited	CTX
Boral Limited	BLD

Performance comparison of $20,000*



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Performance of the Ralton Wholesale High Yield 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.

#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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