Total returns

At 31 July 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 Smaller Companies	-1.73	-1.47	5.24	5.98	11.01	15.65	13.22	8.09
Income return	*0.06*	*0.27*	*1.33*	*2.82*	*3.03*	*3.41*	*3.66*	*3.78*
Growth return	*-1.78*	*-1.74*	*3.92*	*3.16*	*7.98*	*12.24*	*9.56*	*4.31*
S&P/ASX Small Ord Accum. Index	0.34	0.24	4.00	-1.09	5.55	5.77	3.22	-0.17
Difference	**-2.07**	**-1.71**	**1.25**	**7.07**	**5.46**	**9.88**	**10.00**	**8.26**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index added 0.34% for July, with strength in Energy, Materials and Industrials a positive for the benchmark, offset by weakness in Real Estate and Health Care.
- The Ralton Smaller Companies portfolio returned -1.73% for the month, underperforming the benchmark by 2.07%.
- Stock selection within Materials detracted value from the portfolio, as did our overweight to Health Care. One offset to these positions was our overweight position in Energy.

Performance attribution

Key contributors

Key contributors	Positioning
Ainsworth Game Technology	Overweight
Beach Energy Limited	Overweight
WorleyParsons Ltd	Overweight

Ainsworth Game Technology (AGI, +11.6%) – shares in AGI continued their recent rally, reflecting investors' conviction the turnaround of the business is gaining traction. Industry feedback continues to suggest that AGI's latest game offerings are gaining share in the key US market. In Australia, AGI's market share has likely bottomed and if the increase in current research and development spend flows through to a more competitive panel of games as we expect, then AGI is likely to win back some lost share in this market also. This remains subject to execution, which we continue to monitor and look toward the full year results in August for further signposts on the company's turnaround.

Beach Energy Limited (BPT, +18.3%) – a rebounding oil price was supportive of BPT shares in July. BPT also updated investors with its quarterly production report and outlook for the coming financial year's capex and exploration budget. After the merger with Drillsearch in 2015, BPT has undergone a period of consolidation, simplifying its business and prioritising its drilling program. Recent milestones include the sale of non-core assets and gas tenements, delivery of $40m in synergies from the Drillsearch merger and progress on improving drilling techniques, productivity and costs. With these steps now in place, BPT has indicated it will step up its drilling program, guiding to a more than 50% increase in spend, with some $220m-$260m planned expenditure in FY18. BPT is targeting replacement of current FY18 year production with the drilling program and committing to a production target of greater than 10mm boe over the next 3 years. BPT remains focused on its core assets in the Cooper and Eromanga basins as well as proving up reserves for future production.

WorleyParsons Ltd (WOR, +5%) – engineering contractor WorleyParsons was also a beneficiary from the rising oil price across the month. Ralton continue to have a positive thesis on WOR since it was added to the portfolio mid-2016. WOR's actions to downsize its operations are progressing well and capital expenditure across the broader energy sector appears to be nearing a bottom, which suggests further steep declines in WOR's profits are unlikely. We also expect CFO Honan's actions to improve cash flow and repair the balance sheet to continue to progress. Recent commentary by Worley in the press together with earlier updates from Worley's investor day in June certainly suggest that this has been the case. Assuming the OPEC-led production cuts in the oil sector hold, we expect the rebalancing of oil markets to be brought forward, which should in turn stabilise prices and increase demand for new projects, maintenance and brownfield activities and therefore trigger increased demand for WOR's services. We continue to monitor OPEC supply cuts closely.

Key detractors

Key detractors	Positioning
Evolution Mining Limited	Overweight
Nextdc Limited	Overweight
Speedcast International Ltd	Overweight

Evolution Mining Limited (EVN, -7.8%) – shares in gold miner EVN detracted value for the month, driven by the 2% decline in the Australian dollar gold price. There was nothing unusual from our perspective in the company's quarterly mining report to trigger the decline. Irrespective of one month's share price movement, we continue to hold EVN as our preferred gold stock, and highlight its ownership of long-life mining assets, which are well positioned on the cost curve.

Nextdc Limited (NXT, -8.9%) – a somewhat defensive move by NXT to acquire the landlord for three of its current data centres was greeted cautiously by investors. NXT responded aggressively to 360 Capital's attempted takeover of Asia Pacific Data Centres (AJD), firstly purchasing stock in AJD on market and then proposing a counter offer to acquire all the shares in AJD. AJD was effectively created by NXT in 2013 as a method of selling its landholdings, and so freeing up capital to fund the build out of its data centre footprint. The strategy has proven successful in terms of NXT's business progress and capital structure. With NXT now in a more favourable capital position, the company clearly feels that owning the properties makes commercial sense. With NXT funding the $200m plus acquisition from current cash and debt facilities, the purchase has somewhat reduced NXT's outright capital flexibility, though the company stresses that future growth requirements – fitting out new data centres to meet customer demand – will be funded from future cash flows and current debt facilities. Implicitly, NXT is saying that it will not raise equity to fund current expansion plans. We believe that in time, this transaction may lead NXT to tap the capital markets for future expansions of its data centre network, perhaps earlier than would otherwise have been the case.

Speedcast International (SDA, -9.7%) – investors took a similarly cautious view towards SDA's acquisition of US focused UltiSat. As a medium sized player, UltiSat sits right in the sweet spot for SDA's remote telecommunication consolidation play. UltiSat's focus on government clients will broaden and diversify SDA's client concentration and risk. UltiSat and SDA's existing government contracts will now be managed in a soon to be formed 'Government' division, under the leadership of UltiSat CEO, Mohammed Abutaleb.

What has concerned investors is the short time span between this acquisition and SDA's acquisition of the much larger Harris CapRock just last year. As such, UltiSat brings further integration risk and increases debt levels. As part of the announcement, SDA confirmed that the Harris CapRock integration was running ahead of schedule with 87% of the planned synergies for 2017 already delivered. Successful delivery on these targets in full, together with a period of strong cash flow generation and debt reduction will alleviate investor concerns and likely lead to a material re-rating of the share price. We look toward the company's half year audited accounts in August to confirm progress and monitor our investment thesis.

Portfolio changes

Key additions and material adjustments

We added one new stock to the portfolio in July.

Bought
Viva Energy REIT (VVR)

Viva Energy REIT (VVR) – we further increased our exposure to the A-REIT segment with the purchase of VVR for the portfolio. VVR is a long WALE business with exposure to Shell service stations. The REIT owns over 400 petrol stations across Australia, predominantly branded Coles Express or Shell. The combination of its long term stable leases with built in annual growth, plus the capacity to make accretive acquisitions, provides a vehicle with an attractive growing yield and moderate earnings growth.

Key disposals and material adjustments

There were no outright stock sales for month, although we reduced our holding in **SuperLoop (SLC)** following recent price strength.

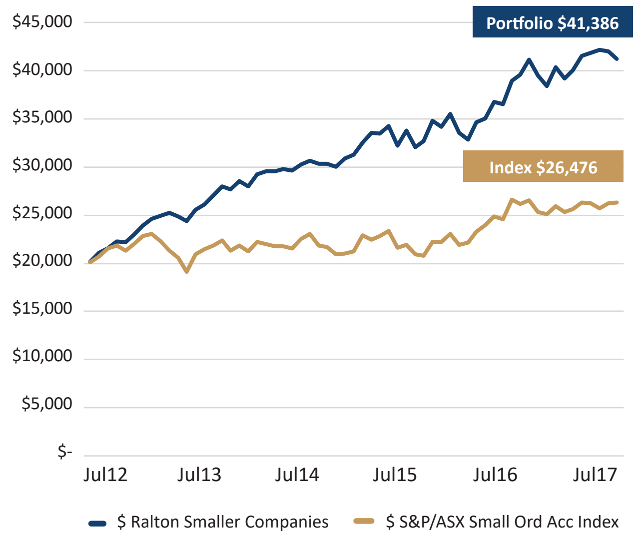
Sector allocation

GICS sector	Ralton	Index	+/-
Health Care	15.7%	6.4%	9.3%
Materials	19.7%	16.3%	3.4%
Telecommunication Services	5.2%	1.9%	3.3%
Utilities	2.8%	0.6%	2.1%
Consumer Staples	10.0%	9.6%	0.4%
Energy	5.9%	5.9%	-0.1%
Financials	7.4%	7.6%	-0.2%
Information Technology	5.6%	6.4%	-0.8%
Industrials	8.8%	9.9%	-1.0%
Real Estate	7.1%	13.9%	-6.8%
Consumer Discretionary	11.9%	21.5%	-9.7%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
Fisher & Paykel Healthcare Corp Ltd	FPH
Ainsworth Game Technology Ltd	AGI
WorleyParsons Limited	WOR
Japara Healthcare Ltd	JHC
iSelect Ltd	ISU
Nextdc Limited	NXT
Tassal Group Limited	TGR
Qube Holdings Ltd	QUB
Fletcher Building Limited (Australia)	FBU
Pact Group Holdings Ltd	PGH

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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