Total returns

At 31 May 2016	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 Leaders	5.07	12.96	5.79	0.56	11.64	10.48	11.85	6.71
Income return	*0.61*	*1.24*	*1.97*	*4.22*	*4.08*	*4.42*	*4.34*	*4.44*
Growth return	*4.46*	*11.72*	*3.82*	*-3.66*	*7.55*	*6.06*	*7.51*	*2.27*
S&P/ASX 100 Accum. Index	3.04	11.52	6.02	-2.95	7.73	7.93	10.06	4.40
Difference	**2.03**	**1.44**	**-0.23**	**3.51**	**3.91**	**2.55**	**1.79**	**2.31**

Performance review

- The S&P/ASX 100 Accumulation Index pushed higher again in May, adding 3.04%, with Health Care and Information Technology the top performing sectors.
- The Ralton Leaders portfolio was up 5.07% for May, outperforming the benchmark by 2.03%.
- For the month, being overweight Consumer Discretionary and Health Care stocks added to relative and absolute performance for the portfolio.

Performance attribution

Key contributors

Key contributors	Positioning
Aristocrat Leisure Limited (ALL)	Overweight
Cybg PLC (CYB)	Overweight
QBE Insurance Group Ltd (QBE)	Overweight

Aristocrat Leisure Limited (ALL, +28.6%) – added significant value to the portfolio following a 20% upgrade to profit guidance for the 2016 financial year. The profit uplift was driven by a number of factors including market share gains in Australia and North America, continued growth in participation gaming machine installations (annuity-style income) and continued stellar growth for the Digital division (from a low base). This growth reflects the continued investment in product by ALL through its studio strategy. Looking forward, we believe ALL's operating momentum should continue while its main peers remain distracted by their own large-scale acquisitions. With a strong balance sheet and free cash flow, ALL has the option of increasing distributions or making another acquisition. We are comfortable with ALL pursuing acquisitions given its success integrating VGT and Product Madness.

Cybg PLC (CYB, +35.1%) – shares in mid-tier UK bank, Clydesdale and Yorkshire Banking Group, rose across the month as 'Brexit' fears eased and following the well-received half-year profit result – the first major update since CYB demerged from NAB earlier this year. The key driver of the strong result was the achievements on costs to date and the full-year guidance around costs. Specifically for the current year, CYB lowered its cost-to-income ratio guidance by a little over 2%, but also clearly stated its intent to continue to lower costs in the years to come. Given that the potential to lower the bank's cost-to-income ratio (from a very high 72% into the high 50s) was part of our thesis for adding to the holding post-demerger, this was a pleasing result. Other aspects of the result were broadly as expected and CYB has now made all key appointments of senior executives post the demerger.

One risk to any UK business at present is the pending Brexit vote or referendum in the UK which is focused on remaining in the European Union, scheduled for 23 June. We continue to monitor this event closely as we note that in the short term, there is potential for disruption to the UK financial system should a 'yes' vote occur.

QBE Insurance Group Ltd (QBE, +11.6%) – a well-received investor briefing in May, together with a currency tailwind from the falling Australian dollar, drove QBE shares higher in May. After several years of restructuring, QBE is now better positioned to produce reliable profit growth despite the soft premium environment and low interest rates. The insurance book has been materially de-risked, reinsurance restructured to reduce earnings volatility, productivity improvements have been delivered and the balance sheet is much improved (now positioned as equivalent to an S&P AA rating). Further, after many years of shrinking the business, QBE is now in a position to drive growth in its insurance business. The group should also deliver a strong and growing dividend yield over the coming years.

Key detractors

Key detractors	Positioning
AMP Limited (AMP)	Overweight
The Star Entertainment Group (SGR)	Overweight
IOOF Holdings Limited (IFL)	Overweight

AMP Limited (AMP, -4.1%) – a disappointing market update from AMP at its AGM saw the shares underperform in a strong month for the market. The key negative from its update was further issues in its Wealth

Protection division. Since AMP first identified problems in this division, the company has highlighted it would take time to work through the current policy issues in its life and income protection books. This has included restructuring products and pricing changes which all take time to work through the system. The update was disappointing as we thought the division's earnings had at least bottomed after the full-year 2015 results. However, the group's focus on reducing churn and allowing limited growth in the book should ultimately drive a material uplift in earnings. Our investment thesis for AMP is focused on the stabilisation of the Wealth Protection business and on its continued multi-year transformation and business simplification program. This simplification and efficiency drive has seen AMP continue to drive costs down so it can maintain margins even with the move to 'MySuper'. Also, AMP is seeing strong growth in AMP Capital as it continues to benefit from FUM flows from its international operations, in particular the Chinese joint venture.

IOOF Holdings Limited (IFL, -7.7%) – shares in wealth management company, IFL, also underperformed following a somewhat modest profit downgrade. IFL flagged that underlying net profit for the current financial year will be broadly in line with last year's profit figure. This was several per cent below market expectations, with revenues for IFL "adversely affected by equity market devaluations." So, yes, market volatility has affected fund balances and likely tempered in-flows. It also appears likely IFL were 'cleansing' the market with its current profit expectations ahead of a possible acquisition, in turn requiring a potential capital raising. Specifically, IFL were in the running to purchase NSW-focused State Super Financial Services (SSFS). As it turned out, IFL were not the successful bidder.

The Star Entertainment Group Ltd (SGR, 0.0%) – shares in SGR, one of our larger holdings, was flat in a rising market and hence underperformed on a relative basis. For the rolling 12 months to the end of May, SGR has however returned 21%. Our medium-term view on SGR is that ongoing strong operational execution will see the Sydney casino continue to win local market share and underpin profit growth for its key asset. In QLD, SGR is now well positioned as it moves toward turning soil on the new casino and entertainment precinct at Queen's Wharf. From SGR's perspective, the project should provide a growth option in the medium term and given SGR is well partnered, the capital commitments for SGR are highly manageable.

Portfolio changes

Key additions and material adjustments

Bought
Boral Limited (BLD)
Spark Infrastructure Group (SKI)

Boral Limited (BLD) – we purchased a new position in the construction material and building products group, BLD. Mike Kane (MD) has done a good job restructuring the group and the business is positioned to benefit from: (a) the coming east coast rail and road infrastructure spending surge (offset in part by the slowdown in apartment developments); (b) the ongoing recovery in the US market; and (c) the growth from a low base in its Asian business for the Gypsum joint venture. Looking at these in more detail, the east coast infrastructure spend should boost demand for cement and asphalt. BLD is a key player in these markets and we believe it should be able to finally demonstrate pricing power given the scale of the planned projects. We sense BLD's US building products division, having turned the corner to profitability for the first time since 2006, can now be a beneficiary of the growth in US housing starts – annual new builds remain well below typical 'mid-cycle' volumes. Given the pain the US housing industry has gone through since the GFC, we expect BLD to deliver perhaps better profits from lower volumes given it is now a far more streamlined and slimmed down business. Finally, Kane was also instrumental in forming a joint venture between his former US employer and BLD's own international plasterboard division, creating the Gypsum joint venture. We believe Gypsum can continue to benefit in terms of growth from its lightweight product and opportunity set in key Asian markets.

Spark Infrastructure Group (SKI) – the portfolio added a small position in SKI, which owns and manages regulated electricity distribution assets (i.e. the poles and wires) in Victoria and South Australia. Also, SKI was part of a consortium that purchased the Transgrid assets (a NSW based poles and wires business) from the NSW state government last year. With recent regulatory decisions delivering a favourable outcome for SKI and the underlying assets, together with the recent sell-down of SKI's strategic equity holding in DUET Group (DUE), we expect that the enhanced free cash flow will allow SKI to increase its forecast distribution to investors in the near term.

Key disposals and material adjustments

Sold
Lend Lease Group (LLC)

Lend Lease Group (LLC) – we exited one of our longer-held positions, LLC, during May. Operating results and execution on strategic objectives have been delivered in recent years and this has been pleasing. However, as we sit today, we felt that better opportunities existed outside the portfolio. As discussed above, BLD offers strong exposure to the pending infrastructure surge along Australia's east coast in particular, and although LLC via its construction business offers some exposure to this thematic, the impact on LLC is much smaller at a company level. Further, LLC is less likely to have the pricing power BLD is aiming to achieve. Secondly, we note the ongoing noise around the apartment-settlement risk that lies ahead of LLC. Specifically, the Australian banks are pulling back on funding investors (at the direction of APRA) and foreign purchasers. In addition, mainland Chinese purchasers also face the problem that it is now much harder to move funds out of China than a couple of years ago when many of these purchase contracts were signed. While Chinese banks may step up and fund the settlement by the offshore borrowers, we have no visibility on the likelihood of this.

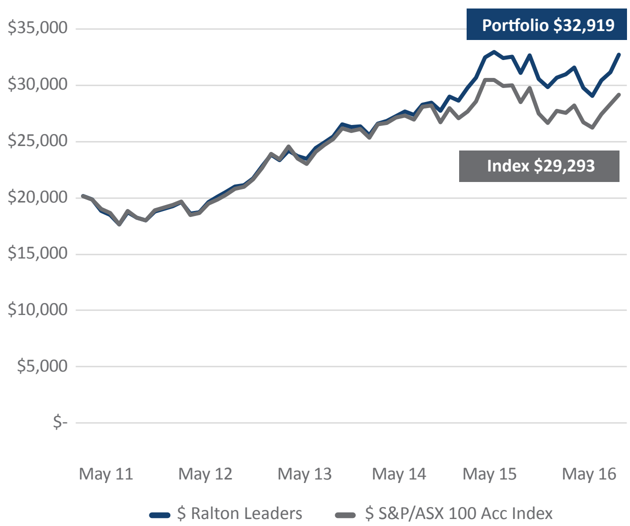
Sector allocation

GICS sector	Ralton	Index	+/-
Financials (ex-Property)	44.4%	39.6%	4.8%
Consumer Discretionary	7.5%	3.4%	4.1%
Consumer Staples	10.2%	6.7%	3.5%
Health Care	10.5%	7.3%	3.2%
Information Technology	3.4%	0.6%	2.7%
Energy	5.0%	4.1%	0.9%
Industrials	7.0%	7.8%	-0.8%
Utilities	1.4%	2.5%	-1.2%
Materials	9.2%	13.2%	-3.9%
Telecommunication Services	1.5%	5.9%	-4.5%
Property	0.0%	8.8%	-8.8%
Total	**100.0%**	**100.0%**	

Top 10 holdings#

Company name	ASX code
Westpac Banking Corporation	WBC
Commonwealth Bank of Australia	CBA
National Australia Bank Limited	NAB
CSL Limited	CSL
QBE Insurance Group Limited	QBE
Aristocrat Leisure Limited	ALL
AMP Limited	AMP
Brambles Limited	BXB
Sonic Healthcare Limited	SHL
Cybg PLC	CYB

Performance comparison of $20,000*



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* The performance comparison of $20,000 over 5 years is for illustrative purposes only. All returns shown are based on Australian dollar figures. Past performance is not a reliable indicator of future performance. The total returns shown are prepared on an exit-to-exit basis (i.e. they include all ongoing fees and expenses and assume reinvestment of all distributions). They do not take personal taxation into account. The comparison with the S&P/ASX 100 Accumulation Index is for comparative purposes only. Index returns do not allow for transactional, management, operational or tax costs. An index is not managed and investors cannot invest directly in an 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.