Total returns

At 30 June 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	-5.21	2.12	-1.68	-0.15	10.13	9.70	10.46	5.97
Income return	*0.65*	*1.30*	*2.60*	*4.82*	*4.24*	*4.55*	*4.44*	*4.47*
Growth return	*-5.87*	*0.82*	*-4.28*	*-4.97*	*5.88*	*5.14*	*6.02*	*1.49*
S&P/ASX 100 Accum. Index	-2.56	3.78	0.67	-0.35	7.53	7.73	9.04	4.04
Difference	**-2.65**	**-1.66**	**-2.35**	**0.21**	**2.59**	**1.97**	**1.43**	**1.93**

Performance review

- The S&P/ASX 100 Accumulation Index increased in value in the June quarter, adding 3.78% with Health Care and Materials, largely resources, the top performing sectors.
- The Ralton Leaders portfolio was up 2.12% for the quarter, underperforming the benchmark by 1.66%.
- For the quarter, being overweight Consumer Discretionary and Health Care stocks added to relative and absolute performance for the portfolio. Despite these positives, stock selection within Financials, together with being underweight resources, detracted from overall returns.

Performance attribution

Key contributors

Key contributors	Positioning
Aristocrat Leisure Limited (ALL)	Overweight
Sonic Healthcare (SHL)	Overweight
CSL Limited (CSL)	Overweight

Aristocrat Leisure (ALL, +34.0%) – 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 further 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.

Sonic Healthcare (SHL, +14.8%) – in a somewhat unusual outcome, SHL was a beneficiary of regulatory change in Australia during the quarter. Your local GP, if they have a pathology lab on site, has likely been receiving rent for its pathology room well above the going market rate for similar space. The Federal Government has proposed to effectively re-regulate pathology collection centre rents. Such a proposal would see rental rates fall and revert to a market rent, saving the industry tens of millions of dollars. SHL and its industry support group have long lobbied for such reform. Proposed Federal Government pathology fee cuts from last December proved decidedly unpopular with the electorate, as this would have meant the imposition of co-payments by pathology companies to offset the lost revenue. By providing the rental cost cut to the pathology sector, pathologists will not need to impose co-payments (i.e. the burden now falls on the GPs). For SHL, we would expect the net outcome to be either neutral at a profit level, or perhaps an overall benefit – subject to the timing and degree of rental and staffing cuts.

This proposal appeared to provide clarity for SHL's Australian pathology operations, although we note the focus Medicare ("Mediscare") attracted during the Federal election and the sensitivity of the voting public to any changes – perceived or actual – to the government health system. To be very clear though, if the status quo remains, meaning no bulk billing fee cuts and no pathology collection centre rent reform, then for SHL this will have no material impact on its expected profitability.

CSL Limited (CSL, +10.6%) – shares in blood plasma producer, CSL, were boosted by recent regulatory approvals and pending product launches for key recombinant products in the haemophilia setting. These 'new' products aim to reduce treatment frequency by increasing drug life in the body and also lowering the complication or reaction rate from continued dosing that patients typically suffer from and mark a step-change in treatment options for the CSL portfolio. Our positive view on these new products has been a key reason behind our large holding in CSL and we note that market forecasts for these new products have somewhat caught up with our view.

Key detractors

Key detractors	Positioning
AMP Limited (AMP)	Overweight
Computershare Limited (CPU)	Overweight
The Star Entertainment Group (SGR)	Overweight

AMP Limited (AMP, -10.9%) – a disappointing market update from AMP at its AGM saw the shares underperform in a solid quarter for the market as a whole. The key negative from the AGM update was further issues in its Wealth Protection division. Since AMP first identified issues 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.

The success of the 'leave' vote in the UK "Brexit" referendum saw heavy selling in financial stocks late in the quarter. For the portfolio this saw both **Computershare Limited (CPU, -6.2%)** and **QBE Insurance Group (QBE, -4.4%)** retrace gains made earlier in the quarter. For both stocks, there are two key impacts, firstly each company has operations and profits in the UK and hence, with the UK currency falling post the vote, this leads to a translational headwind on UK domestic operations and profits. Secondly, the ensuing volatility saw a flight to defensive investment options in the short term, which saw bond yields fall. Both CPU and QBE profits are exposed to investment returns from bond yields and hence lower bond yields equates to lower profit expectations. Although somewhat simplistic, this was certainly how the market saw matters in the immediate days post Brexit.

The Star Entertainment Group (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 June, SGR has however returned 24%. 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. Our investment view is further supported by ongoing growth in tourism into Australia, particularly from Asia, with casinos being a key beneficiary. Tourism is currently one segment of the economy that is expanding, benefits from the falling Australia dollar and hence supports domestic GDP in the face of ongoing declines in the mining sector.

Portfolio changes

Key additions and material adjustments

Bought
Boral Limited (BLD)
Spark Infrastructure Group (SKI)
Telstra Corporation (TLS)
Henderson Group (HGG)
Aurizon Holdings (AZJ)

There were several new stock additions to the portfolio in the June quarter, each discussed below.

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 is 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.

Telstra Corporation (TLS) – following share price weakness we added TLS back into the portfolio. TLS has the dominant mobile phone network and the dominant position in the broadband market. Although, TLS has had a spate of network issues over the last six months which will likely see a lift in customer churn in its mobile business despite its efforts to appease customers with 'free demand days' etc. TLS's traditional core networks business is winding down. For this reason, TLS will receive a series of payments associated with the migration of the national network to the NBN in the coming years. These cash flows support and underpin a likely strong dividend payment from TLS and the reinvestment required to replace the earnings stream from the wind down of the core network business. This includes the growth in its NAS business, international operations, investment in healthcare-related service business, a range of start-ups and the media business. This re-investment risk is one of the key reasons we believe TLS's share price has been held back relative to its other high yield peers. It will take some time for the capability of the group to reinvest the free cash flow to become clear. However, in the interim, TLS offers an attractive yield at a reasonable price.

Aurizon Holdings (AZJ) – following a pull-back in the share price, we added AZJ to the portfolio. AZJ is the former QR National or QLD railway company. AZJ has two key divisions, consisting of above-rail and below-rail assets. The above-rail assets or 'train sets' are focused on coal haulage for key miners with long-dated take or pay contracts to move both thermal and metallurgical coal from mines to port. AZJ has a dominant market share in QLD and also a material amount of contract work in NSW. The below-rail division consists of an extensive rail network, the majority of which is regulated and therein offers a consistent, predicable return profile to shareholders.

Despite the difficulty facing global coal markets and service providers to the industry, we believe AZJ is well placed. The company offers a mix of regulated returns and solid contracts for coal haulage and benefits from the relative positioning of QLD and NSW coal mines on global cost curves and their ability to endure tough industry conditions. Both divisions offer relatively consistent returns and represent strategic assets in terms of infrastructure exposure. AZJ management has done a good job in terms of improving productivity and improving margins post government privatisation and we believe it is capable of achieving its longer-dated margin targets.

Henderson Group (HGG) – finally, we added a small position in HGG post the Brexit vote. Henderson is a UK-based fund manager with operations and investment products across several regions, although the focus is predominantly on the UK, EU and US. HGG's products cover equities, property and fixed incomes, with this latter exposure particularly important as it balances out its investment portfolio risk. Part of our logic had been that if bond yields continue to be low for much longer, investors would be forced further into risk assets. HGG obviously offers plenty of exposure across the asset classes. We felt that in the event of Brexit, the lower rate, particularly for the UK and Europe, could be in place for even longer. While we had expected some downside after Brexit and market volatility, we had not expected greater concerns would emerge in the markets about Deutsche Bank/Credit Suisse and the obstinance of the EU authorities to Italy dealing with the US$200bn+ of bad debts in its banking system. This has all exacerbated the negative outlook for European growth and the financial services sector after Brexit. As such, we are keeping a close watch on events to either increase the position further if markets stabilise or exit if the conditions in the banking system look likely to cause more systemic issues in Europe.

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.

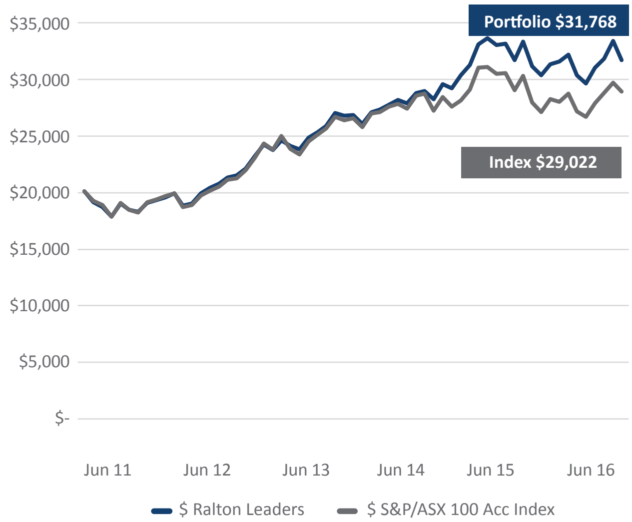
Sector allocation

GICS sector	Ralton	Index	+/-
Financials (ex-Property)	44.3%	39.6%	4.7%
Consumer Discretionary	7.5%	3.4%	4.1%
Consumer Staples	10.2%	6.7%	3.5%
Health Care	10.7%	7.4%	3.3%
Information Technology	3.4%	0.6%	2.8%
Energy	4.9%	4.0%	0.9%
Industrials	7.0%	7.8%	-0.8%
Utilities	1.4%	2.6%	-1.2%
Materials	9.2%	13.1%	-3.9%
Telecommunication Services	1.5%	5.9%	-4.5%
Property	0.0%	8.9%	-8.9%
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
Computershare Ltd	CPU

Performance comparison of $20,000*



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Performance of the Ralton Wholesale Leaders 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 100 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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