Total returns

At 31 August 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 High Yeild Australian Shares	-0.61	1.54	13.93	7.65	10.26	13.99	10.42	7.41
Income return	*0.85*	*1.82*	*3.27*	*5.55*	*4.84*	*5.10*	*4.99*	*5.04*
Growth return	*-1.46*	*-0.28*	*10.66*	*2.10*	*5.41*	*8.89*	*5.43*	*2.37*
S&P/ASX 300 Accum. Index	-1.56	2.15	14.07	9.69	6.61	9.48	7.31	4.07
Difference	**0.95**	**-0.60**	**-0.13**	**-2.04**	**3.65**	**4.51**	**3.11**	**3.34**

Performance review

- The S&P/ASX 300 Accumulation Index decreased 1.56% in August, retracing part of July's gain. Information Technology was the strongest sector, followed by Energy, with most sectors in negative territory. Defensive sectors, such as Telecommunications and Utilities, were the key negatives.
- The Ralton High Yield portfolio finished the month down 0.61%, outperforming the benchmark by 0.95%.
- For the month, being overweight Information Technology and stock selection within Healthcare contributed to outperformance, offset to some degree by stock selection within Financials.

Performance attribution

Key contributors

Key contributors	Positioning
Computershare Ltd (CPU)	Overweight
MG Unit Trust (MGC)	Overweight
Coca-Cola Amatil (CCL)	Overweight

Reporting season was the key driver for many of our portfolio holdings in August. Listed companies report their financial progress for the completed period (half or full-year results) and provide outlook commentary on the year ahead.

Computershare Limited (CPU, +11.3%) – weak expectations, together with a sound profit result, saw CPU rally in August and recoup recent share price weakness. For the first time in many years, CPU delivered top line revenue growth despite the continued easing in interest rates which impacts earnings from its large cash balance. We expect this to continue given productivity measures, improved capital allocation and growth areas such as mortgage processing services. The stock is also highly leveraged to an increase in interest rates.

MG Unit Trust (MGC, +20.1%) – having disappointed the market with a material profit downgrade for the prospectus period earlier this year, "Murray Goulburn's" full-year results represented another modest step toward regaining market credibility. The profit result was in line with expectations and the balance sheet (a key area of focus for us with this company) appears to be relatively clean. Interim management is targeting material cost savings along with further reductions in working capital and inventory to continue the balance sheet improvement. Looking at the three major growth projects MGC has planned, the Cobram cheese plant is set to commence operations shortly and management is confident of final sign-off on the "ingredients" plant at Koroit in western Victoria in the near term. However, given the fall in global UHT prices, the Laverton beverages plant is at this stage on hold, with MGC considering a smaller capacity addition at its existing facilities.

MGC's growth projects were a key focus of our initial investment thesis for these key reasons. First, they drive a higher return for milk solids, which has the secondary benefit of reducing MGC's exposure to the more volatile, commoditised dairy products that are priced off global milk prices. Also, the higher returns increase the value of the MGC 'milk pool' which then lifts the price MGC pays its unitholder farmers for milk at the farm gate (keeping farmers and Barnaby Joyce happy!), but also lifts profits for the unit trust and all investors.

A further key driver of MGC's profit outlook is global dairy prices. With recent excess supply from key producing regions of Europe and NZ stable or falling and the market likely balancing, we have seen early evidence of global prices beginning to rise.

Finally, we are also looking forward to MGC appointing a full-time CEO and taking the necessary steps to improve corporate governance to ensure events like the profit downgrade from April this year are not repeated. We also note MGC needs to repair its relationship with its supplier (and unitholder) farmers. This may involve some further flexibility around debt repayment under the "MSSP" or assistance package that was provided to farmers. Any 'adjustment' to the MSSP will have to ensure farmers are not treated preferentially with respect to the unitholders.

So, as we stated, MGC is slowly rebuilding credibility and on the basis global dairy prices should have seen the worst, we have retained our holding.

Coca-Cola Amatil (CCL, + 6.1%) – a reasonable half-year earnings result combined with low market expectations saw CCL's shares rally. From our perspective, the half-year result confirmed that CEO Alison Watkin's turnaround of the Australian and Indonesian businesses was gaining traction. In particular, we would highlight the positive results from CCL's growth engines - both Indonesia and domestic non-carbonated soft drink (CSD) products. These non-CSD products or "stills", include sparkling mineral water, dairy, juice and alcohol. By volume, stills account for around one third of CCL's sales, and rising. Each product leverages CCL's impressive infrastructure, such as supply chain, distribution reach and marketing capability. The reason this shift to stills is important is that consumer preferences are shifting. This mix shift coupled with sensible pricing and marketing investment in the core CSD business, should mean CCL can return its business to reliable growth and good cash flows, supporting healthy dividend growth for investors.

Key detractors

Key detractors	Positioning
Aristocratic Leisure (ALL)	Overweight
QBE Insurance Group (QBE)	Overweight
AMP Limited (AMP)	Overweight

Aristocrat Leisure (ALL, -5.3%) – shares in ALL drifted lower in August in the absence of any material news flow. The shares are however, up approximately 80% for the rolling 12-month period and our positive outlook for ALL is unchanged.

QBE Insurance Group (QBE, -9.6%) – a poor result from QBE's Australian division was a key drag on the half-year results and overshadowed reasonable progress being made in other jurisdictions. QBE's CEO, conscious of recent missteps, has taken decisive action changing leadership in Australia. QBE expects remedial action, including pricing discipline, and government reform in workers' compensation insurance will see the Australian issues fixed reasonably quickly. Progress on cost reductions, moderate total premium growth and an improved balance sheet provide us with confidence on QBE's multi-year progress. The share price fall together with these factors saw us increase the position.

AMP Limited (AMP, -9.5%) – a poor result from AMP's life insurance division again overshadowed the performance of AMP's other divisions and marred the tone of the half-year profit result. Claims experience and the need to restructure and re-price life insurance has been an industry-wide problem for some time and AMP itself, as one of Australia's largest providers of life insurance, has not been able to escape the cycle. AMP's management is however taking steps to address the issue. On top of pricing and policy amendments, we expect AMP to pursue a reinsurance program for the life insurance book. This strategy is complex, but if successful, should see earnings volatility reduce and allow for potential capital release for the parent company. We see this as a relatively near-term event which would be viewed favourably by investors and likely see the share price narrow the gap to AMP's 'embedded value.' The balance of AMP's divisions reported half-year profit results that were largely in line with market forecasts.

Portfolio changes

Key additions and material adjustments

Bought
Ainsworth Game Technology (AGI)

There was a new stock additions to the portfolio during the month, which is discussed below.

Ainsworth Game Technology (AGI) - was the only new addition to the portfolio during the month. The gaming machine manufacturer has recently welcomed European domiciled, Novomatics, to its share register after acquiring founding shareholder Len Ainsworth's 53% equity holding. AGI is aiming to deliver material synergies including cost savings, access to an extensive software library and sales into Europe. Together with a likely bottoming of market share in Australia in coming periods and a strong outlook for market share gains in the US, we have a positive outlook for AGI on a multi-year view. Similar to Aristocrat Leisure (ALL) several years ago, we see AGI as investing appropriately in research and development (new products) at the bottom of its market share cycle as a lead indicator for future revenue growth. This remains subject to execution, which we continue to monitor.

Key disposals and material adjustments

There were no outright stock sales from the portfolio during the month, although we reduced our holding in **Macquarie Atlas Roads (MQA).**

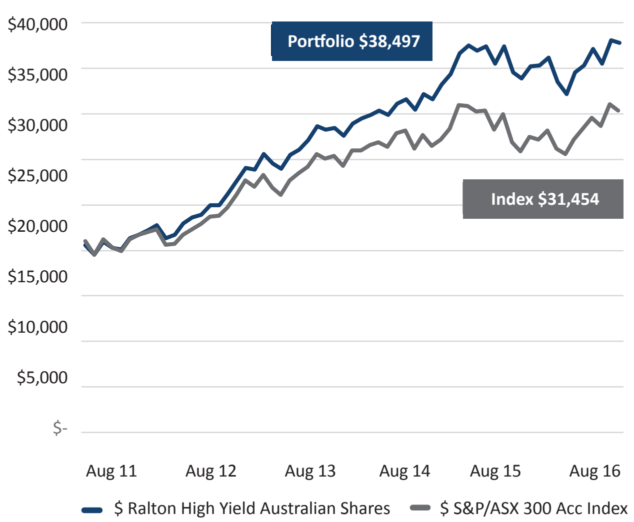
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	12.3%	5.5%	6.8%
Consumer Staples	13.1%	7.2%	6.0%
Utilities	6.2%	2.6%	3.6%
Information Technology	2.5%	1.3%	1.3%
Financials (ex-Property)	36.1%	35.4%	0.7%
Telecommunication Services	5.3%	5.1%	0.2%
Energy	4.2%	4.1%	0.1%
Materials	12.6%	14.7%	-2.1%
Industrials	4.2%	7.4%	-3.3%
Health Care	3.3%	7.3%	-3.9%
Property	0.0%	9.4%	-9.4%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
Westpac Banking Corporation	WBC
Aristocrat Leisure Limited	ALL
Commonwealth Bank of Australia	CBA
Telstra Corporation	TLS
National Australia Bank Limited	NAB
ANZ Banking Group Limited	ANZ
QBE Insurance Group Limited	QBE
Woolworths Limited	WOW
Coca-cola Amatil Limited	CCL
AMP Limited	AMP

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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