Total returns

At 31 March 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 Australian Shares	3.96	5.50	11.80	21.90	11.97	14.89	9.81	8.00
Income return	*0.63*	*1.31*	*1.86*	*4.36*	*4.09*	*4.23*	*4.33*	*4.40*
Growth return	*3.33*	*4.19*	*9.94*	*17.54*	*7.88*	*10.66*	*5.48*	*3.60*
S&P/ASX 300 Accum. Index	3.28	4.71	9.88	20.24	7.51	10.83	7.20	4.94
Difference	**0.68**	**0.79**	**1.92**	**1.66**	**4.46**	**4.06**	**2.61**	**3.07**

Performance review

- The S&P/ASX 300 Accumulation Index added 4.71% for the March quarter, with Health Care and Utilities the top-performing sectors. Telecommunications was the only sector to record a negative return for the quarter.
- For the quarter, the Ralton Australian Shares portfolio returned 5.50%, outperforming the benchmark by 0.79%.
- Our overweight position in both Consumer Discretionary and Information Technology, together with our underweight position in Real Estate, were the key drivers of our outperformance for the quarter.

Performance attribution

Key contributors

Key contributors	Positioning
Aristocrat Leisure Limited	Overweight
AGL Energy Limited	Overweight
Computershare Limited	Overweight

Aristocrat Leisure (ALL, +15.9%) – shares in ALL rallied after management upgraded profit growth for the coming year to between 20 - 30% at the AGM in late February. Although the company did not detail the key drivers, we expect sales are being driven by market share gains in the US market across its participation gaming business (annuity-style income) and its outright sales segment. This upgrade has come before the company releases product into new segments of the US market, which we also expect could drive further upside. An upgrade this early in the year is a positive signal as it suggests ALL has good visibility on the outlook. ALL also confirmed the new CEO, Trevor Croker, has received all necessary regulatory approvals to take up the position. This is an important hurdle in such a highly regulated industry.

AGL Energy (AGL, +19.4%) – was a strong contributor to portfolio returns during the quarter. The main driver of the share price has been the rise in electricity prices. Specifically the ‘forward curve’ for electricity prices has risen by 30% or more in recent months for most Australian states. This has been driven by expectations of a tight market for electricity as Hazelwood power station is closed. The sharp rise in power prices over the past couple of years is a result of the communities’ decision to increase the level of renewable energy in the system, but politicians failing to get the policy settings right over the last decade to implement a strategic plan for the industry to undertake the transition. This means AGL is generating a form of super-profits given its large low-cost, base-load power generation capability. This was a predictable outcome, however the solutions for the problems in the system are going to take many years to resolve. As these price increases start to get passed through to the customer, there is a risk of a political backlash. While the fundamentals for the stock look very strong, the potential for an irrational regulatory response means we need to keep the holding size in check (despite our optimism).

Computershare Limited (CPU, +12.8%) – information technology company, CPU, added value to the portfolio rising 12.8% for the quarter and is now up 43% rolling year. There have been two key drivers of this strong performance. First, the market coming to appreciate the emerging growth drivers, such as the mortgage processing business, and the size of the cost reduction opportunity in coming periods. Second, CPU is highly leveraged to a rise in interest rates as it earns interest on the cash balances it holds for companies to pay dividends to investors or the proceeds of IPOs/rights issues. Increasing US inflation and the prospect of pro-growth policies from Donald Trump, which would further fan inflation, have been the key drivers of this rise in rates.

Key detractors

Key detractors	Positioning
Brambles Ltd	Overweight
Ainsworth Game Technology Limited	Overweight
Independence Group	Overweight

Brambles (BXB, -24.6%) - underperformed materially during the quarter after downgrading expectations in January and then providing a decidedly negative outlook for its US business at its half-year results. The company provided several reasons for the slowdown in the US business in the last half, some of which we view as cyclical and some structural. It appears the competitive dynamic has changed in the US and management has missed it. We have seen this type of changed environment managed by BXB in prior phases. When pricing comes under pressure, as we have seen at various points across the pallet manager's history, the volume falls unless price policy is sharpened. Incoming CEO, Graham Chipchase, feels he needs to sharpen pricing in the near term to defend volume and therein FY19 ROIC targets the market was looking to have lapsed. Ahead of the CEO transition we had materially reduced our holding in BXB. We are taking time to study and consider the investment implications for BXB and our investors.

Ainsworth Gaming (AGI, -12.8%) – the turnaround in gaming manufacturer, AGI, has been slower than the market had expected and so the stock underperformed for the quarter. Following last October's profit downgrade, the half-year earnings result for FY17 was consistent with the guidance provided at that time. AGI has been suffering from the strong performance by Aristocrat (another portfolio investment) for several years. We are of the view AGI is close to seeing a bottom in its sales in the Australian market and it is making positive strides in growing its US business. This has involved lifting R&D spending and making additional investment in US management, facilities and sales staff, which are yet to deliver a return. Novomatics, a major European gaming player, is in the process of obtaining approvals to take a 53% stake in AGI. There are cost and revenue synergies that will also emerge over the next few periods. So the turnaround will be bumpy, but it appears to us to be underway.

Independence Group (IGO, -17.1%) – a delay in mining production during commissioning of IGO's world-class Nova-Bollinger mine was the key reason for IGO's weakness during the period. Specifically, one of IGO's contractors on site had issues providing sufficient staff over the recent December-January period, resulting in delays to underground mining development or quite simply 'earth moved'. The impact has been a two to three-month delay to mine commissioning. This 'personnel' issue appears to have been addressed with the contractor making every effort to restore earth moved to the targeted levels. The delay will however see IGO fall short of its targeted nickel and copper production targets for the current financial year. The company is adamant no further issues are anticipated in the ramp-up to full mine production. We will be looking to IGO's April update to confirm this is the case. Our investment thesis remains that Nova-Bollinger will ultimately deliver value to investors despite this early hiccup in commissioning.

Portfolio changes

Key additions and material adjustments

Bought
Caltex Limited (CTX)
Ansell Limited (ANN)
Japara Healthcare (JHC)

We purchased three new stocks during the quarter.

Caltex Limited (CTX) – has undergone considerable structural change in recent years, with the business shifting from being a capital intensive refiner toward a more capital light operation focused on fuel retailing and fuel distribution. The fuel distribution network supplies a range of fuels (diesel, petrol and specialist products), servicing CTX's own retail network, providing wholesale fuel to third parties and is also a material supplier of fuel to large-scale commercial customers, such as miners. CTX shares have been weaker following the proposed sale of Woolworths' fuel retailing business to BP, which will likely see CTX lose most of its sales to those petrol stations. Although this was a negative for earnings, the decline in the share price created an opportunity to invest. We expect CTX to strive to replace the lost profits and note it has made two small acquisitions recently which assist in partly filling the earnings gap. CTX is well capitalised, providing potential for further acquisitions, further investment in CTX retail locations or alternatively capital management (there is large pool of franking credits).

Ansell limited (ANN) – we added a small position in Ansell in February. Under CEO, Nicolin, ANN has had a mixed operating performance with strategic acquisitions, significant restructuring and refocusing of the organisation offset by manufacturing hiccups and tepid end-market demand. In this setting, we now feel ANN is in somewhat clear air. The long-executed transition of ANN's glove range from commodity to specialised product (with the peak of the transition now passed) should see a return to more sustainable revenue growth for the group. ANN has also announced an intention to exit the Sexual Wellness business. Proceeds are likely to be reinvested in further specialised product segments or returned to shareholders. Further, we have a positive view on recent supply agreements that ANN has entered with key distributors in several of its key markets. These mutual relationships have the potential to consolidate ANN's position as the number one player in specialised safety-related gloves and associated protective wear.

Japara Healthcare (JHC) – we have purchased a position in aged care operator, JHC, providing the portfolio with exposure to the strong thematic of Australia's ageing population and its need for high acuity care that many Australians will require. Aged care, unlike retirement village living, is not a discretionary decision for many. JHC is also seeking to grow its total bed numbers via expansion of its own existing facilities or through the construction of new facilities. The latter requires the award of bed licences from the government and JHC has received approximately 1,000 of these so far. Also, we are seeing a shift in consumer behavior as many residents (and family) are now expecting to pay for a higher level of comfort and care in the final years of life. This provides an additional revenue opportunity for JHC.

We note two sources of recent share price weakness for the aged care sector. First, peer company, **Estia Health Ltd (EHE)** experienced a high-profile change in management and dilutive capital raising owing to its poor balance sheet after a debt-fueled string of acquisitions. We do not believe JHC has any such concerns, given the conservative positioning of its balance sheet. Second, a series of government-driven fee changes and focus on resident service levels in 2017, ensuring nursing home operators are not overcharging for services provided (care level) to patients, weighed heavily on the sector. Regulatory risk will always be a concern with an investment in this sector, particularly given the government is a major funder and people tend to blame politicians for every issue in the sector! However, we are of the view our entry price compensates for the risk. History tells us that fee pressures and regulatory risk are supportive of corporate players over the medium term as corporate players bring operating scale and funding capability to the sector, can benefit from consolidation as smaller players and have an interest in protecting their reputations. At present, aged care is largely a cottage industry, with the market dominated by smaller players and not-for-profits.

Key disposals and material adjustments

Sold
Incitec Pivot (IPL)
CSL Ltd (CSL)

We sold our long-held position in **Incitec Pivot (IPL)** during January. With the long-awaited US ammonia plant, known as 'Waggaman', having recently commenced operations and the price for ammonia, urea and DAP all bouncing off recent lows, we took the opportunity to exit the position, capturing the solid move in the share price arising from these changes. Our pragmatic view, taking into account several of the volatile inputs and moving parts that typically influence IPL's customers, end markets and share price, is that the risk reward was now less favourable.

CSL's (CSL Ltd) latest profit upgrade ahead of its half-year result and strong sales outlook for its recently launched recombinant haemophilia drugs was a strong affirmation of our investment thesis. Further, CSL has made good progress on the turnaround of its recently acquired flu business (renamed 'Sequiris'), including notable progress on new product launches, cost savings and a planned reduction in R&D all confirming CSL was on track to deliver a profit from this division. With a significant re-rate in the share price, together with market analysts upgrading their views on profit to match our own, we felt CSL was trading around fair value and accordingly sold our long-held position.

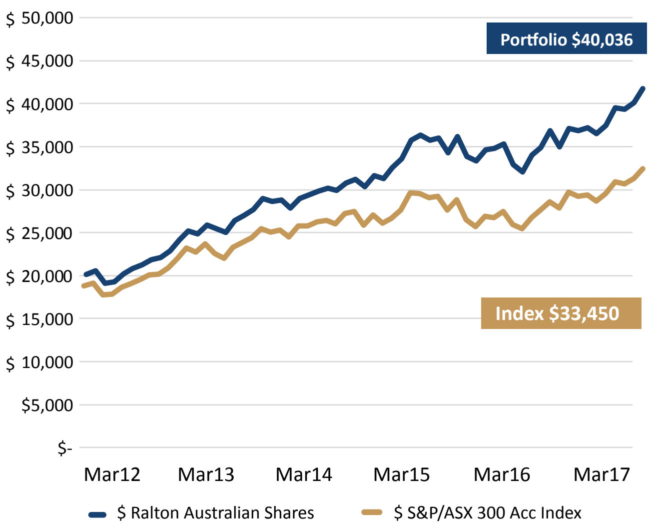
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	12.1%	5.0%	7.1%
Energy	9.2%	4.3%	5.0%
Information Technology	3.8%	1.2%	2.6%
Telecommunication Services	5.0%	4.0%	1.0%
Consumer Staples	8.0%	7.2%	0.8%
Materials	16.3%	15.6%	0.7%
Utilities	1.6%	2.7%	-1.0%
Health Care	5.1%	6.8%	-1.7%
Industrials	4.1%	6.7%	-2.6%
Financials	34.8%	38.2%	-3.4%
Real Estate	0.0%	8.4%	-8.4%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings[#]

Company name	ASX code
BHP Billiton Limited	BHP
Commonwealth Bank.	CBA
Westpac Banking Corp	WBC
National Aust. Bank	NAB
Aristocrat Leisure	ALL
Woolworths Limited	WOW
QBE Insurance Group	QBE
ANZ Banking Grp Ltd	ANZ
Computershare Ltd	CPU
Telstra Corporation	TLS

Performance comparison of $20,000[*]



CONTACT COPIA

1800 442 129 | clientservices@copiapartners.com.au | copiapartners.com.au

John Clothier	General Manager, Distribution	0408 488 549 | jclothier@copiapartners.com.au
Adam Tweedale	State Manager, Southern Region	0425 804 727 | atweedale@copiapartners.com.au
Angela Vincent	State Manager, Northern Region	0477 347 260 | avincent@copiapartners.com.au
Sean Paul McGoldrick	Account Manager, Northern Region	0421 050 370 | spmcgoldrick@copiapartners.com.au
Iain Mason	Director, Institutional Business	0412 137 424 | imason@copiapartners.com.au
Jacinta King	Business Development Associate	0413 962 922 | jking@copiapartners.com.au

Performance of the Ralton Wholesale 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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