

Total returns

At 31 January 2018	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Inception % p.a. (Feb 2008)
Ralton Smaller Companies	-2.03	3.70	10.28	16.06	13.43	13.90	12.37	8.74	8.73
Income return	0.07	0.32	1.34	2.68	2.93	3.23	3.52	3.70	3.73
Growth return	-2.11	3.38	8.94	13.37	10.50	10.67	8.85	5.03	5.00
S&P/ASX Small Ord Accum. Index	-0.54	6.65	17.65	22.35	13.82	6.39	2.83	1.48	1.47
Difference	-1.49	-2.95	-7.37	-6.29	-0.39	7.51	9.54	7.26	7.25

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index returned -0.54% for January, with Energy and Information Technology adding value to the index.
- The Ralton Smaller Companies portfolio returned -2.03% for the month, underperforming the benchmark by 1.49%.
- The portfolio's underweight to Information Technology and overweight to Health Care were the key detractors from portfolio returns.

Performance attribution

January is typically a quiet month for stock-specific news flow in Australia as corporates take holidays and companies prepare for the February reporting period. Many of the portfolio's top and bottom performers for January appeared to move on either external factors, or in the absence of any company-specific news flow.

Key contributors

Key contributors	Positioning
Cooper Energy Ltd	Overweight
Tassal Group Limited	Overweight
Beach Energy Limited	Overweight

Cooper Energy Ltd (COE, +12.3%) – recent portfolio addition Cooper Energy added value to the portfolio in January. COE offers our investors exposure to what we expect will be a sustained lift in gas prices for the eastern seaboard of Australia. Although COE has some small producing assets, the company's key asset is the Sole gas field, currently in development, with first commercial gas due in 2019. CEO David Maxwell and his team have made significant progress at COE, simplifying and focusing the business via asset sales and positioning the business for growth via the acquisition of the Sole project. Advancing Sole has required several capital raisings, which have somewhat dented investor enthusiasm in the short term. We expect delivery of the project on time and budget will see investors focus on the cash flows that come from high-margin gas sales to top-tier customers.

Beach Petroleum (BPT, +4.4%) – continued its recent strong share price performance, boosted by an upgrade to production guidance for the coming year, included as part of the December quarter drilling and operational report. Solid pricing for both oil and favourable local gas price dynamics has proved supportive of BPT. With a reasonable level of debt being used to acquire the 'Lattice' assets from Origin Energy (ORG), the current boost to earnings from higher prices is a solid tailwind to BPT as it will improve the company's ability to rapidly reduce debt levels.

Tassal Group Limited (TGR, +4.5%) – salmon producer Tassal added value for January, although to be fair, the stock has been somewhat range-bound in recent months. In fact, the last 12 months has been somewhat challenging for Tassal. TGR raised \$100m via a capital raise from investors in March 2017, and will use the proceeds to buy more equipment, increase its inventory of fish and stake out future lease opportunities. Tassal has also been dogged by environmental concerns with issues at Macquarie Harbour in Tasmania forcing it and other producers to limit the amount of salmon in this waterway. Macquarie Harbour is only a modest portion of TGR's fish farms, but negative publicity has certainly weighed on investor sentiment and no doubt, management's time. We remain confident in TGR's fish husbandry practices, and indeed its social licence to operate. We look to the upcoming February results to somewhat clear the air on these issues, confirm solid operating trends and highlight, what we believe, is a good medium-term investment proposition around the growth in salmon demand and potential to lift.

Key detractors

Key detractors	Positioning
Melbourne IT Limited	Overweight
iSelect Ltd	Overweight
Healthscope Limited	Overweight

Melbourne IT (MLB, -12.2%) – IT provider MLB gave up some of its recent strong gains, falling 12% for January in the absence of any company-specific news flow. The

stock remains up some 60% since our initial purchase in March 2017 and we remain convinced MLB remains a leading IT provider in Australia, particularly in the areas of web hosting, cloud services, data analytics and a wide range of online solutions. Its services are tiered and cater for SMBs, large enterprise and government clients across Australia. Of key interest to us is its capability in the design and implementation of mobile and digital services, for example apps for mobile devices. With almost every corporate we speak to having to invest money in these business and consumer-facing services, we expect the demand outlook for MLB to remain solid.

iSelect Limited (ISU, -9.1%) – ISU’s shares underperformed in January, continuing the negative pattern since an underwhelming FY17 profit result in August. ISU has been a frustrating investment for us with a good business (with an abundance of excess capital) seemingly being hampered by a series of poor management decisions. That said, we have been impressed by the direction taken by CEO Scott Wilson and expect to see continued progress in the core business at the upcoming results. Further, ISU recently hired Henriette Rothschild as COO, a well credentialed executive who is already taking steps to clean up the operation. The macro drivers for the business are strong with most households facing higher health insurance costs, rising electricity costs and the need to select a new broadband provider with the shift to the NBN.

Healthscope Limited (HSO, -8.1%) – was the portfolio’s worst contributor for January, giving back much of the share price gains from the prior quarter. We see HSO as a turnaround opportunity under new CEO Gordon Ballantyne. With Ballantyne having reset near-term earnings last year after becoming CEO, the upcoming half-year results in February are important for investors as we look for the CEO to now stand by the targets he set. This is not just in relation to profit guidance, but also around his plans for non-core assets and some firmer targets around the cost-out opportunities he has identified. We also gained confidence in its largest development project from attending the recent site tour of the Northern Beaches Hospital site in Sydney. The hospital is set to open later this year and it appears to be on track for the intended opening schedule. In the medium term, we believe this hospital represents an excellent investment opportunity for shareholders.

Portfolio changes

Key additions and material adjustments

Bought

Nil

Key disposals and material adjustments

Sold

Evolution Mining (EVN)
Northern Star (NST)

We exited our holding in **Evolution Mining (EVN)** during the month. The rising gold price, strength in the share price and strong operating performance of the group was capturing what we believe to be an appropriate valuation for EVN, factoring the long mine life of key assets and in our eyes, an appropriate discount rate.

Similarly we exited our holding in **Northern Star (NST)** during January. The key Jundee Gold and Kalgoorlie operations continue to operate smoothly, producing gold at high operating margin. NST is advancing its organic growth strategy for Paulsens and continues to look to various exploration projects. Like EVN, we felt that this outlook and more was being captured in the share price and hence our decision to exit the stock.

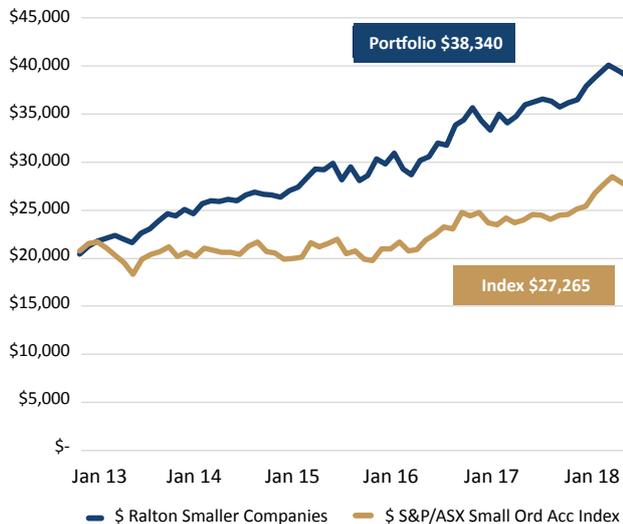
Sector allocation

GICS sector	Ralton	Index	+/-
Health Care	17.2%	6.8%	10.3%
Telecommunication Services	4.9%	1.8%	3.1%
Financials	10.4%	8.3%	2.2%
Utilities	2.6%	0.5%	2.1%
Energy	9.4%	7.7%	1.8%
Consumer Staples	10.1%	8.6%	1.5%
Real Estate	10.1%	11.1%	-1.0%
Information Technology	5.2%	8.7%	-3.5%
Industrials	5.2%	9.9%	-4.8%
Materials	13.7%	18.7%	-5.0%
Consumer Discretionary	11.1%	18.0%	-6.8%
Total	100.0%	100.0%	0.0%

Top 10 holdings#

Company name	ASX code
Worleyparsons Limited	WOR
Tassal Group Limited	TGR
Nufarm Limited	NUF
Skycity Entertainment Group Ltd	SKC
OFX Group Ltd	OFX
Tox Free Solutions	TOX
Healthscope Limited	HSO
Nextdc Limited	NXT
iSelect Ltd	ISU
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 in an index. There is no guarantee these objectives will be met.

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