Ralton Smaller Companies
PERFORMANCE REPORT
Quarter to 31 December 2015

Total returns

At 31 December 2015	1 month %	3 months %	6 months %	1 year %	3 years p.a. %	5 years p.a. %	Inception p.a. (Feb 2008) %
Ralton Smaller Companies	3.90	8.58	10.38	15.23	15.84	12.27	7.69
Income return	*0.26*	*0.48*	*1.70*	*3.20*	*3.36*	*3.58*	*3.77*
Growth return	*3.64*	*8.10*	*8.69*	*12.04*	*12.48*	*8.69*	*3.92*
S&P/ASX Small Ords Accum. Index	3.91	11.32	6.98	10.16	1.69	-2.51	-1.93
Difference	**-0.01**	**-2.74**	**3.40**	**5.08**	**14.15**	**14.78**	**9.62**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index finished the December quarter up 11.3%, with Consumer Discretionary and Financials the top contributors to index returns.
- The Ralton Smaller Companies portfolio returned 8.58% for the quarter, underperforming the benchmark by 2.74% for the period.
- Our underweight position in Financials detracted from relative returns against the benchmark as did stock selection within the Consumer Discretionary sector.

Performance attribution

Key contributors

Key contributors	Positioning
Freedom Foods Group Limited	Overweight
Fisher & Paykel Healthcare	Overweight
Super Retail Group Ltd	Overweight

Freedom Foods Group Limited (FNP, +47.8%) - shares rallied, following a busy last quarter that saw FNP raise equity at $2.85 per share and also sell their stake in NZ listed a2 Milk Company. These funds were in turn used to purchase Popina Foods, an oat based cereal company and to expand their production capacity in UHT milk. FNP continues to position itself as a scale producer of premium foods across milk, cereal and seafood, with a focus on various dietary specialties such as gluten free. FNP sells mostly to domestic markets, however exports to Asia are growing. Positive news flow in the premium or 'healthy living' focused food sector in recent times, particularly any company with sales into the growing Chinese markets for such consumer goods no doubt contributed to investor interest in FNP. Early in the New Year, we have in fact taken advantage of the share price movement in FNP and significantly reduced our holding.

Fisher & Paykel Healthcare (FPH, +29.6%) - another solid half-year profit result for FPH, together with a well attended and informative investor day in Sydney were the highlights for FPH during the quarter. Profit results for the half-year were up 27% on the prior year, with strong revenue growth from each of the key divisions and margin expansion from manufacturing efficiencies in turn each driving profits higher. The investor day highlighted both the strong position FPH boasts in masks for OSA, together with the strong growth opportunity that still exists in FPH's RAC division. Although FPH needs to continue to execute on its strategy, we see many years of growth in the RAC division, supported by FPH's dominant market position, clinical data and intellectual property.

Super Retail Group Ltd (SUL, +28.1%) - added value to the portfolio, buoyed by a trading update at the AGM in late October. SUL reported solid sales growth in each of its retail formats: automotive, leisure and sports, together with progress on various internal initiatives such as the restructuring of the 'Ray's' format. SUL's internal or 'self-help' initiatives are a key element in our investment thesis, and hence it's pleasing to note the progress also being made on various supply chain, IT and warehouse initiatives that SUL has been investing in over the last couple of years. These will make the business more efficient, release inventory (and cash in the process) and allow scope for future growth.

Key detractors

Key detractors	Positioning
iSelect Limited	Overweight
Billabong International	Overweight
Ardent Leisure Group	Overweight

iSelect Limited (ISU, -24.9%) - shares in ISU remained under pressure, with investors concerned about recent management turnover. Although an indicative, non-binding bid from Providence Equity Partners (a US private equity firm) remained on the table during the quarter, investors were clearly discounting the probability of a formal bid materialising that would, in turn, be acceptable to investors and the board. This discount was somewhat justified in December when ISU confirmed the bid would not proceed. Providence apparently remains interested, however, were unwilling to commit to a bid price ahead of further due diligence and as such, the board closed the process. Our recent meeting with management highlighted the broad opportunities ISU is pursuing across energy, car insurance, telecommunications, life insurance and mortgages. Should ISU be able to gain a small market share in any of these segments, the upside to ISU profits and share price should be attractive. Although ISU has had a series of management changes since listing, we continue to believe the fundamentals of the business and the medium-term opportunity remain sound. Finally, and on a positive note, ISU has also announced details of up to $50m in capital management initiatives, commencing with a 10% share buyback in December.

Billabong International (BBG, -24.6%) - BBG detracted from the portfolio after a profit downgrade at its AGM, with the company citing a slowdown in US sales as the key driver. With what appears to be a general slowdown in US retail sales rather than an industry segment or even company-specific sales issue at Billabong, we are disappointed in the short term, but somewhat less concerned. BBG, under new management, in the last two years has made significant strides to fix a business and series of retail brands that were in a parlous state post GFC and following a series of poor acquisitions. CEO Fiske has focused on business simplification steps, including the sale of many retail stores, consolidation of the brands around three core names, smaller product range and various supply chain initiatives. With much of this work now done and bearing fruit in the form of rising margins, we were comfortable to start buying during the quarter and post downgrade we have further increased our position. The business is currently paying very high interest costs and is unlikely to pay dividends in the short term. In two to three years' time, we see scope for the debt to be significantly reduced and for interest rates to then fall in both debt-servicing terms and the actual interest rate. This does assume that progress continues, but at this stage we have maintained a favourable view.

Ardent Leisure Group (AAD, -13.4%) - shares in diversified entertainment company, Ardent Leisure, gave up recent gains following what the market viewed as a mixed trading update for the first quarter of FY16. Investors were perhaps concerned by a reduction in disclosure provided by the company for each business division, however, we view the qualitative commentary around progress at the gyms business following conversion of nearly 50% of gyms to a 24-hour model, as largely positive. Member attrition or churn has been reduced and solid membership growth has been reported from the new models. This has come at a cost as investment was required, however, we believe this was absolutely necessary.

Investors are also concerned by the possibility the Wanda Group, a Chinese conglomerate, is considering plans to build a rival theme park on the Gold Coast. Village Roadshow (VRL) and AAD, currently dominate this market with their theme park offerings, with AAD's Dreamworld and WhiteWater World accounting for some 20% of AAD's earnings. We will continue to monitor this threat, although would highlight that we remain positive in terms of our view of this investment, not just the turnaround in the gyms strategy, but also the US Main Event business, which is set to account for more than 50% of AAD profits in the coming years.

Portfolio additions and disposals

Key additions and material adjustments

Bought
Billabong International (BBG)
Graincorp (GNC)
Myer Holdings Ltd (MYR)
Speedcast International (SDA)
Trade Me Group (TME)
Vitaco Holdings (VIT)

We added six new positions to the model portfolio during the quarter, with Billabong (BBG) already highlighted in the prior section.

Myer Holdings Ltd (MYR) - we have bought a small position in Myer Holdings (MYR). Since being listed in 2009 by private equity firm, TPG, MYR's company profit and share price have all been on a downward trend. Richard Umbers was appointed CEO in March 2015 with a mandate for change. Umbers has raised capital to bolster the balance sheet and set about on a bold journey to improve the performance of Australia's largest department store. The key positive we can see is the move by MYR to boost concessionaire space within the store. Very simply, this appears a concrete step to improve the profitability as concessionaires typically bring in more sales per square metre than most alternative uses of space. MYR's use of such concessionaires is very low by global standards and hence by boosting this exposure we expect to see a benefit to MYR's profits and therein the depressed share price. Umbers appears to also be a change agent. At this stage, we are confident MYR profits can be improved. Whether or not Umbers can deliver a sustainable improvement we will of course have to monitor closely.

Speedcast International (SDA) - we also bought a small position in SDA, a global communications service provider that specialises in the provision of network (communications) services to remote customers, such as the maritime sector and various remote energy and resource companies. We believe SDA has a somewhat unique business model and opportunity to capture new clients as the adoption of its technology increases. Equally, we believe SDA has a somewhat unique opportunity to consolidate the industry, which remains in its infancy or at least early stages. The combination of these factors should, in our view, see SDA capture strong revenue and profit growth for several years to come, and hence our investment.

Graincorp (GNC) - we acquired a position in GNC based on our view of the value of its key assets. GNC has long held strategic port and upstream grain storage assets on the East Coast. We would note that these markets since deregulation have become more competitive. GNC is, however, diversifying its business away from pure grain storage and associated marketing and now earns significant profits from both malt and food oil businesses. Pleasingly, it continues to invest in these divisions, whereas many other Australian management teams remain cautious. Conscious of the impending El Nino likely to impact the Australian East Coast, we have a small portfolio position at this stage and will monitor such events closely.

Trade Me Group (TME) - TME is a New Zealand-based online platform offering both general merchandise consumer sales, together with a broader advertising capability. TME was formerly owned by Fairfax (FXJ) until divestment some years ago. TME is often described as New Zealand's version of eBay, SEEK and RealEstate.com rolled into one. It is the dominant online trading platform in NZ. Despite this position, TME struggled in the time after divestment from FXJ. Our sense was TME underinvested in its offering in order to maximise profits for the struggling parent, FXJ, and somewhat lost its way. Looking forward we believe TME has taken steps to correct this imbalance and is therefore set to benefit in the years to come from steady demand for its services.

Vitaco Holdings (VIT) - finally, we purchased a small position in VIT. The NZ-based consumer goods company is a recent IPO and provider of vitamins, sports/ nutritional products and smaller niche offerings such as children's health snacks. VIT has a strong position in the vitamin market, biased to New Zealand and several of the top selling sports brands, including Ozybodies and Masachi, which together make them the number one player in their local Australian and NZ markets. With VIT's product categories expanding, good sales growth from Asian markets and the likelihood VIT will continue to acquire smaller brands and add to their network offering, we believe the outlook for VIT is attractive.

Key disposals and material adjustments

Sold
BlueScope Steel Limited (BSL)
Nufarm Limited (NUF)
Orora Holdings (ORA)

BlueScope Steel Limited (BSL) - we sold our recently acquired positon in BSL. BSL added value to the portfolio during the quarter, driven by three key factors. Firstly, BSL and its key stakeholders: employees, their unions and the state government, agreed to a cost-savings program that will see the company target $200m of cost savings and in turn, the Port Kembla steelworks remain open. Secondly, some of these measures have already driven results with BSL able to upgrade its profit expectations for the first-half of the current year. Finally, BSL has opportunistically been able to buy out its joint venture partner in the US-based North Star steel mill. The mill is one of the more efficient plants in the US with very consistent performance including uptime, profitability and customer service. Over time, the business has seen far less cyclicality in end demand, partly due to the metrics just described, but also due to its proximity to key customers – North Star customers are very sticky. Our view is that with 100% ownership, BSL will have more flexibility over the future direction for North Star which, at a group level, improves the overall quality of BSL's assets. The share price re-rate saw us exit our position in BSL.

Nufarm Limited (NUF) - we sold the last of our position in NUF during the quarter on the basis of valuation. This investment has been highly successful with the company beginning to deliver on a turnaround agenda in the last two years. As highlighted previously, NUF has made considerable progress in restructuring and refocusing the business along both geographic and product lines as evident in recent profit results. New CEO, Greg Hunt, has a strong pedigree in the agricultural sector and will clearly be the driving force behind the delivery of the targeted $100m plus net savings NUF has targeted. At near $8, our view was that much of the restructuring benefits and subsequent profit growth were being fairly reflected in the share price.

Orora Holdings (ORA) - lastly, we sold our position in ORA. This is a very well-run company that, since the demerger from Amcor, has executed on its business model in a near faultless manner. With the share price having performed well in recent times, we felt the stock reflected fair value and sold down our position. Given the quality of management, we would look to revisit ORA at a future date should the share price appear attractive, particularly if ORA is able to demonstrate potential to grow its US operations in a profitable manner, either through organic means or acquisitions.

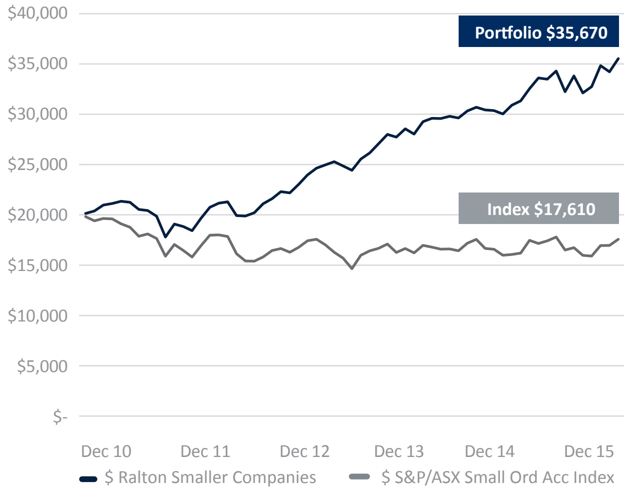
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	34.7%	22.0%	12.7%
Consumer Staples	14.2%	7.6%	6.5%
Energy	5.1%	2.9%	2.2%
Health Care	10.4%	9.1%	1.2%
Utilities	0.0%	0.7%	-0.7%
Industrials	11.6%	12.7%	-1.1%
Telecommunication Services	1.5%	3.6%	-2.1%
Materials	11.6%	13.8%	-2.1%
Financials (ex-Property)	5.8%	9.4%	-3.5%
Information Technology	2.5%	6.0%	-3.5%
Property	2.6%	12.1%	-9.5%
Total	**100%**	**100%**	

Top 10 holdings#

Company name	ASX code
Super Retail Group Limited	SUL
Fisher & Paykel Healthcare Corporation Limited	FPH
Pact Group Holdings Limited	PGH
Ardent Leisure Group	AAD
Aristocrat Leisure Limited	ALL
Virtus Health Limited	VRT
Freedom Foods Group Ltd	FNP
Sky Network Television Ltd	SKT
Fletcher Building Limited (Australia)	FBU
Macquarie Atlas Roads Group	MQA

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 Small Ordinaries 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.

Past performance is not a reliable indicator of future performance.

Performance of the Ralton Smaller Companies Managed Account is based on theoretical portfolio tracking of the model portfolio and is gross of investment management and administration fees, but net of transaction costs. The total return performance figures quoted are historical, calculated using end-of-month mid prices and do not allow the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. This document is for general information purposes only and does not take into account the specific investment objectives, financial situation or particular needs of any specific reader. As such, before acting on any information contained in this document, readers should consider the appropriateness of the information to their needs. This may involve seeking advice from a qualified financial adviser. Copia Investment Partners Ltd (AFSL 229316, ABN 22 092 872 056) (Copia) is the provider of the Ralton Smaller Companies Managed Account model portfolio advisory service. To subscribe to this service please contact Copia by calling 1800 442 129. Any opinions or recommendation contained in this document are subject to change without notice and Copia is under no obligation to update or keep any information contained in this document current.