Total returns

At 31 March 2016	1 mo. %	3 mo. %	1 yr. %	2 yr. p.a. %	3 yr. p.a. %	5 yr. p.a. %	7 yr. p.a. %	Inception p.a. (Feb 2008) %
Ralton Australian Shares	4.84	-3.72	-7.92	6.65	9.49	8.37	11.80	5.88
Income return	*0.59*	*1.28*	*4.14*	*3.99*	*4.12*	*4.43*	*4.37*	*4.45*
Growth return	*4.26*	*-5.00*	*-12.06*	*2.66*	*5.37*	*3.94*	*7.44*	*1.44*
S&P/ASX 300 Accum. Index	4.70	-3.00	-10.41	1.49	5.58	6.13	10.01	3.69
Difference	**0.14**	**-0.72**	**2.49**	**5.16**	**3.91**	**2.25**	**1.79**	**2.19**

Performance review

- The S&P/ASX 100 Accumulation Index was in negative territory for the March quarter, losing -3.00%, with Information Technology and Consumer Staples the key detractors, and A-REITs (property) the strongest sector.
- The Ralton Leaders portfolio was down 3.72% for the quarter, underperforming the benchmark by 0.72% for the period.
- For the quarter, being underweight Materials detracted from relative performance, although this was offset to some degree by our stock selection within the Energy and Consumer Staples sectors.

Performance attribution

Key contributors

Key contributors	Positioning
Star Entertainment Group (SGR)	Overweight
Origin Energy (ORG)	Overweight
Amcor Limited (AMC)	Overweight

Star Entertainment Group (SGR, +11.8%) - was a strong contributor to the portfolio, adding value in a volatile market. Half-year profit results were solid on most metrics and importantly, the outlook continues to appear supportive. Star will be a beneficiary of the ongoing influx of tourists from Asia, particularly China. Calendar year 2015 saw a material step up in terms of carriers, flights and passengers into Sydney airport from China, not just from Beijing and Shanghai, but also other major Chinese cities. The Sydney casino continues to gain market share domestically, which is expected to continue as SGR relaunches its loyalty program with the existing program already having had good success. As details emerge about its expansion plans in QLD, capital measures such as the recycling of apartment sales will improve SGR's cash flows and hence limit its funding commitments in the coming years.

Origin Energy (ORG, +8.3%) - was boosted by a relatively clean half-year profit result in February. The energy market business delivered good growth with margin expansion in ORG's domestic gas retailing business a noteworthy feature that we had been expecting for some time. ORG's APLNG plant has finally commenced operations with the first train now operational and targeting mid-2016 for formal completion testing with contractor, Bechtel. The second train is expected to come online shortly. Despite volatile conditions in the oil market across the quarter, Brent Oil finished up 6.2%, having touched multi-year lows early in the period. Supportive commentary from key oil-producing countries, Russia and Saudi Arabia, about the potential for oil production output freezes was also positive for ORG.

Amcor Limited (AMC, +6.8%) - shares finished the quarter higher after a strong profit result for the half year, a result that highlighted the strength of AMC's global packaging offer and the customer and regional diversity it brings. In particular, AMC reported solid volume demand in Europe and strong demand for drinks volume in the US and parts of Latin America. In recent years, emerging markets have been the key driver of volumes at AMC, so it is pleasing to see the larger, developed markets deliver some improved volumes. AMC continues to acquire bolt-on packaging businesses, particularly in emerging markets, noting small acquisitions in both India and China in recent periods.

Key detractors

Key detractors	Positioning
Incitec Pivot (IPL)	Overweight
QBE Insurance (QBE)	Overweight
Computershare Limited (CPU)	Overweight

Incitec Pivot (IPL, -19.4%) - shares fell heavily in January as investors and market analysts alike took a negative view of the mounting price headwinds in several of IPL's key business exposures. With the sustained fall in the oil price sending a deflationary push through the commodity sector, prices for global gas used in production of both urea and ammonia – key IPL products – were falling. In the US, where coal mines are key customers of IPL's explosives businesses, an unseasonably warm winter has reduced the demand for electricity and with it, coal demand. Several of the US coal producers are under financial duress, although we note the bulk of IPL's customers operate low-cost, top quality mines. Pricing for the DAP fertilizer segment has weakened, though this is seasonal as global pricing is typically set in March/April. Although we recognise the effect of these impacts, we subscribe to the view that the oil price will rebound and with it, pricing for each of the outputs tied to energy prices. As such, IPL should produce solid cash flows across the cycle, which is not reflected in the current share price.

QBE Insurance Group (QBE, -13.3%) - was weaker during the quarter as investors remained concerned about margin pressure across the global insurance sector and declining bond yields. QBE relies on bond yields for its investment returns. With global volatility rising and bond yields falling, the market was factoring less uplift in bond returns than what they were anticipating at the end of 2015. Despite this, we have been impressed by cost efficiencies delivered by QBE in recent years and believe the business is in solid shape. QBE has also made major strides in improving the quality of its capital position and reducing the risk associated with its insurance book. Finally, after many years of shrinking the business and focusing internally, QBE management is able to target growth across its businesses by acquiring specialist underwriting teams – something that would be well received by investors.

Computershare Limited (CPU, -15.8%) - expectations for lower interest rates globally appear to have weighed on CPU's share price this year, and hence we decided to reduce our CPU position ahead of the first-half results. Although first-half results were broadly as expected, CPU suggested that full-year profit targets may be difficult to achieve given the impact that market volatility may have on transactional revenue. In other words, full-year profit expectations have been slightly tempered. That said, cost control was strong for the period and CPU is advancing discussions and negotiations around two separate contracts for 'mortgage servicing', one in the UK and one in the US. Successful confirmation of these contract wins under sensible commercial terms, together with the ongoing CPU share buy-back, is likely to support earnings growth and the share price in the medium term, although we are still cautious that current market volatility will dampen future rate rises in the US and further weigh on CPU earnings.

Portfolio additions and disposals

Key additions and material adjustments

Bought
Graincorp Limited (GNC)

We added Graincorp (GNC) to the portfolio during the month, plus UK-based bank, CYBG (CYB), following the demerger from NAB.

Graincorp Limited (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 note that these markets have become more competitive since deregulation several years ago. 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, while many other Australian management teams remain reluctant to invest. These investments will see GNC better able to compete on a global stage with grain handlers and large food trading operations. This will also lead to a more reliable profit stream with reduced exposure to the vagaries of grain harvests year to year.

We also note that GNC has partnered with a series of large Australian superannuation funds and west coast grain farmers in a high profile consortium seeking to demutualise CBH, the west coast grain cooperative. Such demutualisations are typically protracted as GNC well knows, however GNC has come up with a structure that allows it to make a material investment, although its partners will contribute to the leg-work required to pursue such an initiative.

Key disposals and material adjustments

Sold
Transpacific Industries (TPI)
Navitas Limited (NVT)

There were two outright sales for the quarter, namely Transpacific Industries (TPI) and Navitas (NVT).

Transpacific Industries (TPI) - TPI's solid share price recovery in recent periods led to our decision to exit the stock. The turnaround under CEO Vik Bansal appears to be gaining some traction and to some degree reflects the strategic changes implemented by Bansal's predecessor. Although we expect steadily improving conditions for the core waste business, we are cognisant of the pressure that further oil price weakness will place on the smaller hydrocarbons segment. Despite the improved operating results, we believe further upside in the short term may be capped by ongoing cash flow drain caused by the landfill provisions and need for ongoing remediation work at some of the older assets. We will look to revisit TPI should valuation become more compelling.

Navitas Limited (NVT) - we elected to sell our holding in education provider, NVT. The shares have performed strongly in recent times in a weak market. Although the company is making headway in terms of improved profitability of the smaller SAE division and continues to grow its college offering offshore, the headwinds from the loss of a key Sydney contract appear to be proving harder to offset at the profit line. By itself, our sense was that this longer time frame was acceptable as an investment proposition, however the prospects for emerging markets and key education source countries have worsened. Although families frequently sacrifice most items for their children, we are concerned that the coming periods may see education demand from the emerging markets temper with a flow-through impact on NVT's outlook. Given the valuation and recent performance, we elected to sell, but like TPI, we will keep NVT on our investment radar.

Sector allocation

GICS sector	Ralton	Index	+/-
Health Care	11.8%	6.8%	5.0%
Consumer Staples	11.2%	7.1%	4.1%
Consumer Discretionary	7.1%	3.4%	3.7%
Financials (ex-Property)	42.9%	39.9%	3.0%
Energy	6.3%	4.1%	2.2%
Information Technology	1.4%	0.6%	0.8%
Materials	10.2%	12.7%	-2.5%
Industrials	5.7%	8.2%	-2.5%
Utilities	0.0%	2.6%	-2.6%
Telecommunication Services	1.5%	5.9%	-4.5%
Property	2.0%	8.7%	-6.7%
Total	**100.00%**	**100.00%**	

Top 10 holdings[#]

Company name	ASX code
Westpac Banking Corporation	WBC
CSL Limited	CSL
Commonwealth Bank of Australia	CBA
National Australia Bank	NAB
AMP Limited	AMP
Amcor Limited	AMC
QBE Insurance Group	QBE
Brambles Limited	BXB
Sonic Healthcare	SHL
Star Entertainment Group	SGR

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[#] 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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