

## Total returns

At 30 April 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 Yield Australian Shares	1.64	4.22	0.04	-3.62	8.73	10.38	12.42	6.99
Income return	0.00	1.43	2.24	4.35	4.48	4.82	4.76	4.93
Growth return	1.64	2.79	-2.19	-7.97	4.24	5.56	7.65	2.05
S&P/ASX 300 Accum. Index	3.34	6.41	2.65	-4.67	4.97	6.21	9.42	3.58
<b>Difference</b>	<b>-1.70</b>	<b>-2.19</b>	<b>-2.61</b>	<b>1.05</b>	<b>3.75</b>	<b>4.17</b>	<b>3.00</b>	<b>3.41</b>

## Performance review

- The S&P/ASX 300 Accumulation Index rebounded in April, adding 3.34%, with both Materials and Energy posting healthy gains.
- The Ralton High Yield portfolio finished the month up 1.64%, underperforming the benchmark by 1.70%.
- For the month, being underweight Materials, specifically metals and mining stocks weighed heavily on relative performance, offset to some degree by stock selection within Industrials.

## Performance attribution

### Key contributors

Key contributors	Positioning
Amcor Limited (AMC)	Overweight
Virtus Health (VRT)	Overweight
Woodside Petroleum (WPL)	Overweight

**Amcor Limited (AMC, +7.3%)** – global packaging company Amcor rallied following the acquisition of South America-based Alusa. The acquisition is AMC's third largest acquisition, behind the successful acquisitions of Alcon and Ball. Amcor already has a good presence in South America, however this acquisition provides instant scale benefits and boosts its geographic penetration of key countries Peru, Colombia and Argentina. Alusa will increase AMC's flexible packaging capability within the region, whereas previously its regional presence was biased toward rigid plastic materials. AMC is confident this acquisition will enable the business to grow quickly with its global partners such as Kraft, Nestle, Pepsico and Unilever, who are already major customers across the world. The strong movement in the share price since both the February results and the Alusa acquisition did see us reduce our holding in AMC.

**Virtus Health (VRT, +8.0%)** – shares in the IVF provider performed strongly in April and have now recovered approximately 45% off last year's lows. Much of this rebound has been driven by a stabilisation in demand for IVF services in Australia in the last 12 months, with a

return to reasonable growth in patient demand in most Australian states. Despite rising competition, including new clinics being opened by Primary Healthcare (PRY), VRT appears to have suffered little in the way of market share losses. However, with the rally in the share price and VRT no longer offering a material dividend yield, we elected to exit our holding in VRT.

**Woodside Petroleum (WPL, +9.2%)** – shares in Australia's largest energy stock were boosted by the rising oil price across April. WPL also signed a heads of agreement for a small LNG offtake agreement with PT Petramina in April, and also recommitted to a partnership with Korean based Kogas. The partnership, formalised in a memorandum of understanding, covers technology sharing and staff secondments and holds the potential for the companies to work together on major projects as they arise. Neither of these announcements was highly material.

### Key detractors

Key detractors	Positioning
MG Unit Trust (MGC)	Overweight
BHP Billiton (BHP)	Underweight
Aristocrat Leisure (ALL)	Overweight

**MG Unit Trust (MGC, -45.2%)** – although only a small position, our recent investment in the MG Unit Trust or 'Murray Goulburn' would have to rank as one of our most ill-timed investments. Despite our due diligence, it would appear the CEO and management had either unrealistic expectations at best, or at worst had completely misled the board and investors in an attempt to keep face and achieve the revised profit forecast for the current financial year. The profit downgrade reported by MGC in late April was highly material, triggered a revised milk price to dairy farmers for the current financial year and led to the CEO and CFO exiting the company. Taking a deep breath, while this was a very poor result for investors in the short term, the initial attraction and logic for our investment remains. MGC has access to key raw dairy ingredients and is looking to monetise this by value adding to the milk. This includes the build-out of manufacturing capacity to process milk into branded

products, cheese, UHT, infant formula and whey, rather than powdered or regular milk product. We are sticking to our investment at this stage, and despite expecting some ongoing ructions within the company (such as director resignations) we expect value can be achieved from this name. We will continue to monitor the stock closely, as you would expect.

**BHP Billiton (BHP, +22.7%)** – having only a modest position in BHP Billiton was the key negative detractor for the portfolio as commodities continue to rise off January lows. The key drivers of the surge in commodities, in our view, has been the weakness in the US dollar, the move by China to stimulate GDP growth through fiscal and monetary policy aimed at infrastructure and apartment development and speculative fervor on the Chinese commodity exchanges. In the first quarter of this year, China saw credit growth surge by 10% of GDP (or 40% annualized) which is clearly unsustainable. As an illustration, iron ore rallied US\$12 or 23% for April, and peaked above US\$70, up nearly 80% off recent lows and the oil price also rallied off its lows. We doubt China can continue to push the demand lever for very long, although the existing stimulus will support demand for a period. Although, we are continuing to monitor this closely as the Chinese authorities may yet try and push the fiscal and monetary stimulus further. In the medium term, we expect that the continued re-balancing in Chinese GDP growth couple with further new supply of iron ore hitting seaborne markets, such as Australia’s Roy Hill project, will place a dampener on the iron ore price.

Having no exposure to fellow resource stocks, Rio Tinto (RIO, +21.0%) and Fortescue Metals (FMG, +33.7%) was also a headwind for the portfolio.

**Aristocrat Leisure (ALL, -2.9%)** – shares in Aristocrat fell modestly in April and detracted from returns. There was no direct company news flow during the month, although the Australian dollar had been a touch softer which would impact translated earnings. We note that in early May, ALL announced an upgrade of its half-year profit result in May and an increase in profit guidance for the full year. We will update further on this next month.

## Portfolio changes

### Key additions and material adjustments

#### Bought

Aurizon Holdings (AZJ)
MG Unit Trust (MGC)

There were two new stock additions to the portfolio during the month, AZJ and MGC, with the latter already

discussed in detail.

**Aurizon Holdings (AZJ)** – following a pull-back in the share price, we added AZJ to the portfolio. AZJ is the former QR National or QLD railway company. AZJ has two key divisions, consisting of above-rail and below-rail assets. The above-rail assets or ‘train sets’ are focused on coal haulage for key miners with long-dated take or pay contracts to move both thermal and metallurgical coal from mines to port. AZJ has a dominant market share in QLD and also a material amount of contract work in NSW. The below-rail division consists of an extensive rail network, the majority of which is regulated and therein offers a consistent, predictable return profile to shareholders.

Despite the difficulty facing global coal markets and service providers to the industry, we believe AZJ is well placed. The company offers a mix of regulated returns and solid contracts for coal haulage and benefits from the relative positioning of QLD and NSW coal mines on global cost curves and their ability to endure tough industry conditions. Both divisions offer relatively consistent returns and represent strategic assets in terms of infrastructure exposure. AZJ management has done a good job in terms of improving productivity and improving margins post government privatisation and we believe it is capable of achieving its longer dated margin targets.

### Key disposals and material adjustments

#### Sold

Super Retail Group Ltd (SUL)
Virtus Health (VRT)

There were two outright stock sales from the portfolio during April, with Virtus Health already described.

**Super Retail Group Ltd (SUL)** – after reducing the position following a poor profit result for SUL in February, we fully exited the stock in early April. We still harbour concerns as to management’s ability to improve returns from the Leisure segment and also note the potential for larger scale foreign players in the mass sports category to impact on returns and market share gains for both Rebel Sport and Super Amart.

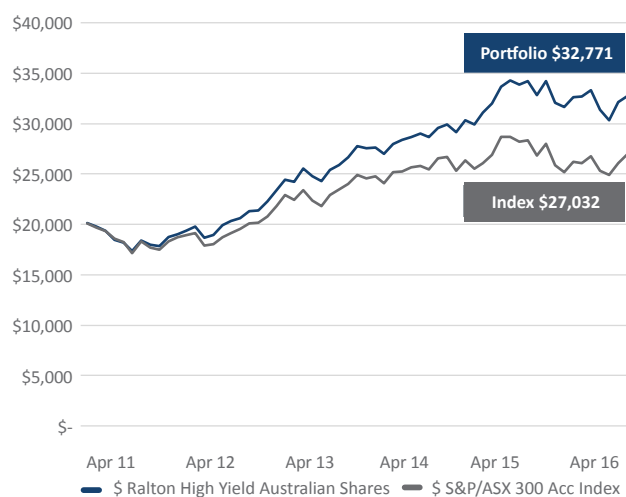
## Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	12.2%	5.0%	7.1%
Consumer Staples	9.8%	7.1%	2.8%
Financials (ex-Property)	39.0%	36.3%	2.7%
Energy	4.6%	4.2%	0.4%
Health Care	7.0%	6.8%	0.2%
Utilities	2.0%	2.4%	-0.3%
Telecommunication Services	4.9%	5.3%	-0.5%
Industrials	7.0%	8.3%	-1.2%
Information Technology	0.0%	1.3%	-1.3%
Materials	12.0%	14.4%	-2.5%
Property	1.6%	8.9%	-7.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	

## Top 10 holdings#

Company name	ASX code
Westpac Banking Corporation	WBC
National Australia Bank Limited	NAB
Commonwealth Bank of Australia	CBA
Telstra Corporation	TLS
QBE Insurance Group Limited	QBE
Aristocrat Leisure Limited	ALL
AMP Limited	AMP
Macquarie Atlas Roads Group	MQA
CSL Limited	CSL
AmcOR Limited	AMC

## 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 300 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 High Yield Australian Shares 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 High Yield Australian Shares 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.