Total returns

At 31 May 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 Yeild Australian Shares	4.18	12.20	4.09	-0.72	11.34	11.71	12.88	7.44
Income return	*0.69*	*1.42*	*2.24*	*4.52*	*4.66*	*4.95*	*4.87*	*4.97*
Growth return	*3.49*	*10.78*	*1.85*	*-5.24*	*6.67*	*6.76*	*8.01*	*2.47*
S&P/ASX 300 Accum. Index	3.14	11.67	6.60	-2.10	7.71	7.31	9.67	3.93
Difference	**1.04**	**0.53**	**-2.51**	**1.38**	**3.63**	**4.41**	**3.20**	**3.51**

Performance review

- The S&P/ASX 300 Accumulation Index was higher in May, adding 3.14%, with Health Care and Information Technology the top performing sectors.
- The Ralton High Yield portfolio finished the month up 4.18%, outperforming the benchmark by 1.04%.
- For the month, our bias to Consumer Discretionary stocks was favourable to performance, as was being underweight Materials, specifically metals and mining stocks.

Performance attribution

Key contributors

Key contributors	Positioning
Aristocrat Leisure Limited (ALL)	Overweight
QBE Insurance Group Ltd (QBE)	Overweight
Sonic Healthcare Limited (SHL)	Overweight

Aristocrat Leisure Limited (ALL, +28.6%) – added significant value to the portfolio following a 20% upgrade to profit guidance for the 2016 financial year. The profit uplift was driven by a number of factors including market share gains in Australia and North America, continued growth in participation gaming machine installations (annuity-style income) and continued stellar growth for the Digital division (from a low base). This growth reflects the continued investment in product by ALL through its studio strategy. Looking forward, we believe ALL's operating momentum should continue while its main peers remain distracted by their own large-scale acquisitions. With a strong balance sheet and free cash flow, ALL has the option of increasing distributions or making another acquisition. We are comfortable with ALL pursuing acquisitions given its success integrating VGT and Product Madness.

QBE Insurance Group Ltd (QBE, +11.6%) – a well-received investor briefing in May, together with a currency tailwind from the falling Australian dollar, drove QBE shares higher in May. After several years of restructuring, QBE is now better positioned to produce reliable profit growth despite the soft premium environment and low interest rates. The insurance book has been materially de-risked, reinsurance restructured to reduce earnings volatility, productivity improvements have been delivered and the balance sheet is much improved (now positioned as equivalent to an AA S&P rating). Further, after many years of shrinking the business, QBE is now in a position to drive growth in its insurance business. The group should also deliver a strong and growing dividend yield over the coming years.

Sonic Healthcare Limited (SHL, +10.2%) – in a somewhat unusual outcome, SHL was a beneficiary of regulatory change in Australia in May. Your local GP, if they have a pathology lab on site, has likely been receiving rent for its pathology room well above the going market rate for similar space. The Federal Government has proposed to effectively re-regulate pathology collection centre rents. Such a proposal would see rental rates fall and revert to a market rent, saving the industry tens of millions of dollars. SHL and its industry support group have long lobbied for such reform. Proposed Federal Government pathology fee cuts from last December proved decidedly unpopular with the electorate, as this would have meant the imposition of co-payments by pathology companies to offset the lost revenue. By providing the rental cost cut to the pathology sector, pathologists will not need to impose co-payments (i.e. the burden now falls on the GPs!). For SHL, we would expect the net outcome to be either neutral at a profit level, or perhaps an overall benefit – subject to the timing and degree of rental and staffing cuts. This does appear to provide clarity for SHL's Australian pathology operations, at least until the next round of changes.

Key detractors

Key detractors	Positioning
AMP Limited (AMP)	Overweight
IOOF Holdings Limited (IFL)	Overweight
Sky Network Television Ltd (SKT)	Overweight

AMP Limited (AMP, -4.1%) – a disappointing market update from AMP at its AGM saw the shares underperform in a strong month for the market. The key negative from its update was further issues in its Wealth Protection division. Since AMP first identified problems in this division, the company has highlighted that it would take time to work through the current policy issues in its life and income protection books. This has included restructuring products and pricing changes which all take time to work through the system. The update was disappointing as we thought the division's earnings had at least bottomed after the full-year 2015 results. However, the group's focus on reducing churn and allowing limited growth in the book should ultimately drive a material uplift in earnings. Our investment thesis for AMP is focused on the stabilisation of the Wealth Protection business and on its continued multi-year transformation and business simplification program. This simplification and efficiency drive has seen AMP continue to drive costs down so it can maintain margins even with the move to 'MySuper'. Also, AMP is seeing strong growth in AMP Capital as it continues to benefit from FUM flows from its international operations, in particular the Chinese joint venture.

IOOF Holdings Limited (IFL, -7.7%) – shares in wealth management company, IFL, also underperformed following a somewhat modest profit downgrade. Specifically, IFL flagged that underlying net profit for the current financial year will be broadly in line with last year's profit figure. This was several per cent below market expectations, with revenues for IFL "adversely affected by equity market devaluations." So, yes, market volatility has affected fund balances and likely tempered in-flows. It also appears likely IFL were 'cleansing' the market with its current profit expectations ahead of a possible acquisition, in turn requiring a potential capital raising. IFL were in the running to purchase NSW-focused State Super Financial Services (SSFS). As it turned out, IFL were not the successful bidder.

Sky Network Television Ltd (SKT, -13.6%) – a fall in pay TV subscriber numbers and subsequent profit downgrade for FY17 led to a material fall in SKT shares. The fall in subscribers was somewhat greater than what the company had flagged last October, when it forecast an expected fall after the Rugby World Cup. Despite, this clear negative, our recent meeting with the company in Auckland provided us with some confidence that SKT's recent headwinds, including cyclical factors, new competitors and rising content costs are abating.

In the pay TV space, our view is that content ownership is key and on this score SKT has 'locked up' all the key content Kiwis want to watch through multi-year agreements. The market remains concerned about the impact of competitors like Netflix, but SKT has had the benefit of watching what happened in other markets and learning from those experiences. SKT has locked up key content for sports (with the benefit of no anti-syphoning laws as we have in Australia), cable channels and movies, albeit at increased cost. This makes it very tough for competitors to obtain scale and get onto a path to profitability. Whilst it will take time to play out, we felt the stock had been oversold and hence increased our position following the profit downgrade.

Portfolio changes

Key additions and material adjustments

Bought
Boral Limited (BLD)
Spark Infrastructure Group (SKI)
Computershare Limited (CPU)

There were three new stock additions to the portfolio during May, each of which is discussed below.

Boral Limited (BLD) – we purchased a new position in the construction material and building products group, BLD. Mike Kane (MD) has done a good job restructuring the group and the business is positioned to benefit from: (a) the coming east coast rail and road infrastructure spending surge (offset in part by the slowdown in apartment developments); (b) the ongoing recovery in the US market; and (c) the growth from a low base in its Asian business for the Gypsum joint venture. Looking at these in more detail, the east coast infrastructure spend should boost demand for cement and asphalt. BLD is a key player in these markets and we believe it should be able to finally demonstrate pricing power given the scale of the planned projects. We sense BLD's US building products division, having turned the corner to profitability for the first time since 2006, can now be a beneficiary of the growth in US housing starts – annual new builds remain well below typical 'mid-cycle' volumes. Given the pain the US housing industry has gone through since the GFC, we expect BLD to deliver perhaps better profits from lower volumes given it is now a far more streamlined and slimmed down business. Finally, Kane was also instrumental in forming a joint venture between his former US employer and BLD's own international plasterboard division, creating the Gypsum joint venture. We believe Gypsum can continue to benefit in terms of growth from its lightweight product and opportunity set in key Asian markets.

Spark Infrastructure Group (SKI) – the portfolio added a small position in SKI, which owns and manages regulated electricity distribution assets (i.e. the poles and wires) in Victoria and South Australia. Also, SKI was part of a consortium that purchased the Transgrid assets (a NSW based poles and wires business) from the NSW state government last year. With recent regulatory decisions delivering a favourable outcome for SKI and the underlying assets, together with the recent sell-down of SKI's strategic equity holding in DUET Group (DUE), we expect that the enhanced free cash flow will allow SKI to increase its forecast distribution to investors in the near term.

Computershare Limited (CPU) – following the company's recent investor day, we added CPU to the portfolio. Investor concerns in recent times have focused on low growth from CPU's traditional registries business, together with a mixed track record on acquisitions and finally, the threat of new technology, such as 'Blockchain' to CPU's core business. The investor day highlighted an improved capital discipline, the sale and lease-back of CPU's Abbotsford head office and the future growth avenues for the company. As an illustration of growth opportunities, CPU recently confirmed a seven-year contract with UK Asset Resolution (UKAR) for mortgage processing services to look after the mortgage assets of the failed Northern Rock and Bradford & Bingley banks. CPU has confidence it can grow this business further in the UK. Finally, CPU's presentation around Blockchain actually highlighted the strength of CPU's technology offering and in time, how Blockchain could actually be an opportunity for CPU.

Key disposals and material adjustments

Sold
Lend Lease Group (LLC)
CSL Limited (CSL)

There were two outright stock sales from the portfolio during the month, namely CSL Limited (CSL) and Lend Lease Group (LLC).

Lend Lease Group (LLC) – we exited one of our longer-held positions, LLC, during May. Operating results and execution on strategic objectives have been delivered in recent years and this has been pleasing. However, as we sit today, we felt that better opportunities existed outside the portfolio. As discussed above, BLD offers strong exposure to the pending infrastructure surge along Australia's east coast in particular, and although LLC via its construction business offers some exposure to this thematic, the impact on LLC is much smaller at a company level. Further, LLC is less likely to have the pricing power BLD is aiming to achieve. Secondly, we note the ongoing noise around the apartment-settlement risk that lies ahead of LLC. Specifically, Australian banks are pulling back on funding investors (at the direction of APRA) and foreign purchasers. In addition, mainland Chinese purchasers also face the problem that it is now much harder to move funds out of China than a couple of years ago when many of these purchase contracts were signed. While Chinese banks may step up and fund the settlement by the offshore borrowers, we have no visibility on the likelihood of this.

CSL Limited (CSL) – shares in blood plasma producer, CSL, have been a strong performer for the portfolio, benefiting from good growth in the base plasma (blood) business, strong growth in various emerging markets and a positive track record in research and development of late. The latter has culminated in recent regulatory approvals and pending product launches for key recombinant products in the haemophilia segment, marking a step-change in patient treatment options for the CSL portfolio. With these positives now better reflected in the CSL share price and the dividend yield payable on shares falling, we elected to take profits in this name.

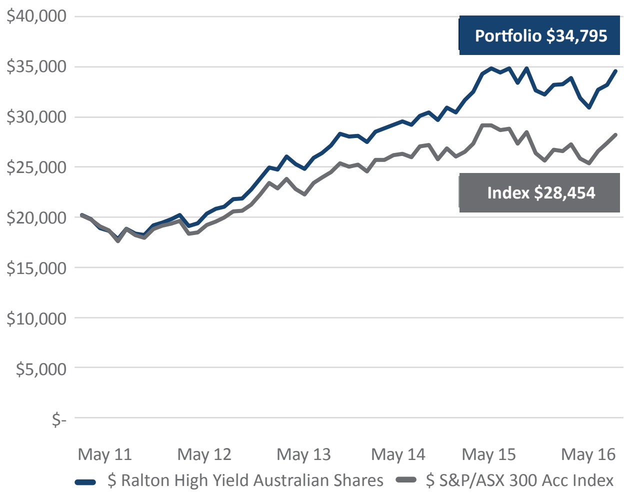
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	12.6%	5.2%	7.3%
Financials (ex-Property)	40.9%	36.6%	4.3%
Consumer Staples	9.8%	6.8%	3.0%
Information Technology	2.9%	1.3%	1.5%
Utilities	3.5%	2.4%	1.1%
Energy	4.3%	4.1%	0.3%
Telecommunication Services	4.8%	5.5%	-0.7%
Industrials	6.9%	8.0%	-1.1%
Materials	11.2%	13.7%	-2.5%
Health Care	3.2%	7.3%	-4.0%
Property	0.0%	9.2%	-9.2%
Total	**100.0%**	**100.0%**	

Top 10 holdings#

Company name	ASX code
Westpac Banking Corporation	WBC
National Australia Bank Limited	NAB
Commonwealth Bank of Australia	CBA
Aristocrat Leisure Limited	ALL
QBE Insurance Group Limited	QBE
Telstra Corporation	TLS
ANZ Banking Group Ltd	ANZ
Macquarie Atlas Roads Group	MQA
AMP Limited	AMP
Coca-cola Amatil Limited	CCL

Performance comparison of $20,000*



CONTACT COPIA

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

in partnership with