Total returns

At 31 January 2017	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 Leaders	-0.12	7.75	4.10	14.66	10.28	13.03	9.05	6.67
Income return	*0.03*	*0.60*	*1.80*	*4.48*	*4.14*	*4.20*	*4.33*	*4.39*
Growth return	*-0.15*	*7.15*	*2.30*	*10.18*	*6.14*	*8.82*	*4.72*	*2.29*
S&P/ASX 100 Accum. Index	-0.59	7.19	3.96	17.50	7.47	11.04	8.00	4.91
Difference	**0.47**	**0.56**	**0.14**	**-2.85**	**2.81**	**1.99**	**1.05**	**1.77**

Performance review

- The S&P/ASX 100 Accumulation Index recorded a modest fall in January, -0.59%. Materials and Healthcare were both up solidly, Real Estate and Industrials were both down for the month.
- The Ralton Leaders portfolio returned -0.12% for the month, outperforming the benchmark by 0.47%.
- For the month of January, being overweight the Energy sector and underweight Real Estate added value for the portfolio.

Performance attribution

Key contributors

Key contributors	Positioning
Origin Energy Ltd	Overweight
Boral Limited	Overweight
Computershare Ltd	Overweight

Origin Energy (ORG, +7.6%) – added value in January and the stock is now up 73% from its level a year ago. We see several drivers for the recent outperformance: a) delivery of two LNG trains at the APLNG plant in Gladstone, b) an overall simplification of the business with material cost savings from a reduction in headcount as APLNG construction winds down and productivity improves across the Energy Markets (utility) division, c) debt reduction from asset sales and improving operational cash flow, and d) the recovery in the oil price (which benefits its LNG production) following initiatives by OPEC to manage supply down to lift prices.

The new CEO, Frank Calabria, has signaled his intention to reduce debt further and simplify the business via the proposed IPO of various assets. We support the concept of the IPO, assuming ORG does not damage its long-term value by limiting its access to the gas assets to be housed in the new vehicle. ORG's access to both equity and contracted gas supply in a tightening East Coast market was central to our ORG investment thesis. No doubt Calabria understands the critical nature of these arrangements and the need to preserve and generate value for both parties.

Boral Limited (BLD, +7.6%) – shares rebounded in January as investors began to focus on the fundamentals of the Headwaters acquisition. As we highlighted last month, the acquisition is consistent with CEO Mike Kane's long-flagged strategy of expanding BLD's presence in the US to gain more exposure to the US housing cycle. Assuming the transaction passes all regulatory hurdles, Headwaters' and BLD's existing US operations will then account for nearly 45% of BLD's profits.

The key deliverables from the Headwaters acquisition for shareholders will be BLD's delivery of the synergy target, otherwise the acquisition will look very expensive. Further, we expect the US housing cycle has a few more years before it peaks, with volumes currently running well below a typical mid-cycle run-rate for US housing starts. Finally, what appears to have been overlooked at present are the tax losses BLD holds in the US and the tax shelter that will be created from the amortisation of acquired goodwill in the US. Both of these items will provide a substantial benefit to BLD from a cash-flow perspective and will facilitate a material reduction in BLD's debt levels post transaction.

Computershare Limited (CPU, +3.5%) – the rally from the fourth quarter of last year continued into 2017, adding value to the portfolio. The key driver of the rise has been the steepening of yield curves globally since the election of Donald Trump caused investors to refocus on the outlook for inflation. CPU earns interest on the cash balances it holds for companies to pay dividends to investors, the proceeds of rights issues and IPOs etc. CPU also benefits as rising long rates will reduce the incentive for mortgagees to refinance their home loans for which CPU holds the mortgage servicing rights (i.e. it earns a fee for processing payments etc., on these loans). Finally, we continue to like CPU given its positive drivers in the current environment including its productivity agenda, improved capital allocation, growth businesses such as mortgage processing services and the benefits accruing from rising interest rates.

Key detractors

Key detractors	Positioning
Brambles Limited	Overweight
Star Entertainment Group Limited	Overweight
Coca-Cola Amatil Ltd	Overweight

Brambles (BXB, -16.1%) – global pallet company, Brambles, shocked investors with a profit downgrade, reducing first-half profit expectations to 3% growth for the period from an expected double-digit level. Our thesis around BXB has focused on strong growth opportunities across its pallet operations, as supply chains become ever more sophisticated and customers seek efficiencies – savings and scale benefits via access to BXB's pallet pool. Recent results, both revenue and profit growth, together with BXB's ability to deploy growth capital expenditure, have supported this view. In this context, a profit downgrade certainly highlighted an unexpected change in momentum for the business. Outgoing CEO, Tom Gorman, cited a destocking of inventory across its customers, together with customers deferring on new business commitments as the principal reasons behind the BXB revenue shortfall. All the issues were focused on the US pallet business, with the balance of BXB's global operations performing in line with company and market expectations. Consistent with a tight election race, where US businesses were likely a winner or loser under a Trump or Clinton presidency and their respective policies, the pause in business decision-making makes some sense. To summarise, our current sense is that BXB's customer proposition and the strength of the investment thesis is undiminished. We are however, keen to hear the company's update during the February reporting season as we will gauge the comments from incoming CEO, Graham Chipchase, for any change in direction.

The Star Entertainment Group (SGR, -7.7%) – was under pressure in the final quarter of 2016 and this selling pressure appears to have filtered through into January. Specifically, sentiment around VIP gamblers in the wake of the arrest of Crown's Asian-based sales team, together with a mixed trading update at the AGM in October highlighting a slowdown in growth at key Australian venues, has weighed on SGR shares. The weaker performance from the Sydney and Gold Coast casinos was due to the significant capital works being undertaken at the sites. As this work is completed, we would expect to see the second-half performance improve. In relation to VIP gaming, it accounts for less than 15% of group profit, so weakness is unhelpful at the margin, that is, it is not the main game. We continue to focus on the medium term and believe our thesis for SGR remains intact.

Coca-Cola Amatil (CCL, -3.7%) – shares in CCL drifted lower across January on no specific news flow. Our investment in CCL is based upon a turnaround strategy, driven by CEO, Alison Watkins, who will shortly mark three years in the role. From our vantage, Watkins' turnaround has three key drivers. First, a broad series of cost efficiencies and savings that has supported material reinvestment in sales, marketing and product pricing. Second, new product growth, across both legacy carbonated soft drinks (CSD) – such as pack size, CokeLife – and also non-CSDs. The latter includes water, juices, beer and iced coffee and CCL has indicated a target of 10% volume growth in these categories combined. Each product leverages CCL's impressive infrastructure, such as supply chain, distribution reach and marketing capability. Third, portfolio optimisation, namely driving growth from a more focused Indonesian effort and improving or alternatively downsizing business divisions, such as SPC Ardmona.

The half-year profit result in August last year confirmed Watkins' turnaround of the Australian and Indonesian businesses is gaining traction. We look for the upcoming full-year result to confirm the positive operating momentum.

Portfolio changes

Key additions and material adjustments

We did not add any new stocks to the portfolio in January.

Key disposals and material adjustments

Sold
Incitec Pivot (IPL)

We sold our long-held position in **Incitec Pivot (IPL)** in January. With the long-awaited US ammonia plant, 'Waggaman', having recently commenced operations and the price for ammonia, urea and DAP all bouncing off recent lows, we took the opportunity to exit the position, capturing the solid move in the share price in recent months. Our pragmatic view, taking into account several of the volatile inputs and moving parts that typically influence IPL's customers, end markets and share price, is that the risk/reward was now less favourable.

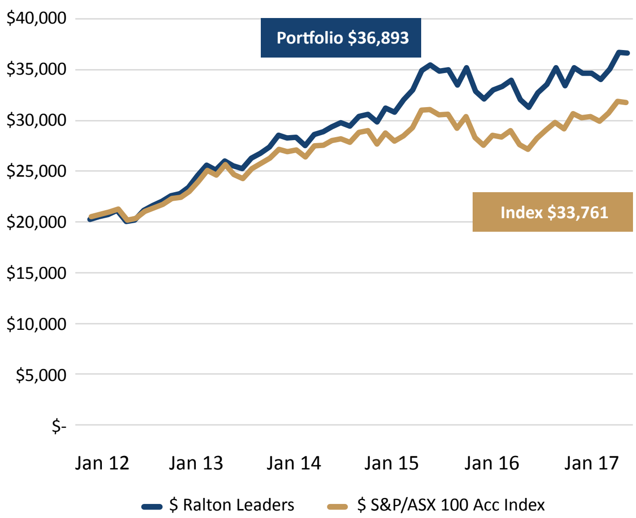
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Staples	12.1%	6.7%	5.4%
Information Technology	3.8%	0.9%	2.9%
Energy	6.8%	4.5%	2.3%
Consumer Discretionary	6.3%	4.1%	2.2%
Utilities	3.5%	2.8%	0.6%
Health Care	7.4%	7.1%	0.3%
Telecommunication Services	4.9%	4.7%	0.2%
Industrials	5.5%	6.4%	-0.9%
Financials	36.1%	38.4%	-2.3%
Materials	13.7%	16.7%	-3.0%
Real Estate	0.0%	7.7%	-7.7%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
Commonwealth Bank of Australia	CBA
Westpac Banking Corporation	WBC
BHP Billiton Limited	BHP
National Australia Bank Limited	NAB
Woolworths Limited	WOW
Telstra Corporation	TLS
CSL Limited	CSL
Aristocrat Leisure Limited	ALL
QBE Insurance Group Limited	QBE
AMP Limited	AMP

Performance comparison of $20,000*



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Performance of the Ralton Wholesale Leaders 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 100 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 an in 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.

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