Total returns

At 28 February 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 High Yield Australian Shares	2.39	7.10	8.82	23.98	10.42	14.88	10.67	7.99
Income return	*0.74*	*0.84*	*1.88*	*5.22*	*4.63*	*4.89*	*4.97*	*4.97*
Growth return	*1.65*	*6.25*	*6.94*	*18.77*	*5.79*	*9.99*	*5.70*	*3.01*
S&P/ASX 300 Accum. Index	2.18	5.79	6.94	21.99	6.43	10.39	7.56	4.61
Difference	**0.21**	**1.30**	**1.88**	**2.00**	**3.99**	**4.49**	**3.11**	**3.38**

Performance review

- The S&P/ASX 300 Accumulation Index pushed higher in February, gaining 2.18%. Consumer Staples and REITs were the top performers for the month.
- The Ralton High Yield Australian Shares portfolio finished the month up 2.39%, outperforming the benchmark by 0.21%.
- For the month of February, being underweight Materials added value to the portfolio as did our overweight position in Consumer Staples. Being underweight Financials detracted from relative returns.

Performance attribution

Key contributors

Key contributors	Positioning
Aristocrat Leisure	Overweight
Costa Group Holdings	Overweight
AGL Limited	Overweight

Aristocrat Leisure (ALL, +8.6%) – shares in ALL rallied after management upgraded profit growth for the coming year by 20 - 30% at the AGM in late February. Although the company did not detail the key drivers, we expect sales are being driven by market share gains in the US market across its participation gaming business (annuity-style income) and its outright sales segment. This upgrade has come before the company releases product into new segments of the US market, which we also expect could drive further upside. An upgrade this early in the year is a positive signal as it suggests ALL has good visibility on the outlook. ALL also confirmed the new CEO, Trevor Croker, has received all necessary regulatory approvals to take up the position. This is an important hurdle in such a highly regulated industry.

Costa Group Holdings (CGC, +24.1%) – shares in horticultural company, Costa, rallied after the company announced both an increase in profit guidance for the current year and a $65m expansion of its mushroom farm at Minarto in South Australia. Costa is already the number one player in the Australian mushroom category and this expansion will further consolidate its position and allow Costa to participate in future consumption growth. Costa's basket of produce includes avocados, blueberries, raspberries, mushrooms and tomatoes and aligns with our thematic views in regard to 'premium' food categories and healthy eating. Costa has several growth avenues, including capacity expansions for most of the categories just listed, together with further acquisitions in the fast-growing avocado segment and finally, offshore growth via its berry farms in both Morocco and China.

AGL Energy (AGL, +6.7%) – was a strong contributor to portfolio returns during February. The main driver of the share price has been the rise in electricity prices. Specifically the 'forward curve' for electricity prices has risen by 30% or more in recent months for most Australian states. This has been driven by expectations of a tight market for electricity as Hazelwood power station is closed. The sharp rise in power prices over the past couple of years is a result of communities' decisions to increase the level of renewable energy in the system, but politicians failing to get the policy settings right over the last decade to implement a strategic plan for the industry to undertake the transition. This means AGL is generating a form of super-profits given its large low-cost, base-load power generation capability. This was a predictable outcome, however the solutions for the problems in the system are going to take many years to resolve. As these price increases start to get passed through to the customer, there is a risk of a political backlash. While the fundamentals for the stock look very strong, the potential for an irrational regulatory response means we need to keep the holding size in check (despite our optimism).

Key detractors

Key detractors	Positioning
Macquarie Atlas Roads Group	Overweight
Origin Energy	Overweight
QBE Insurance Group	Overweight

Shares in **Macquarie Atlas Roads Grp (MQA, -2.4%)** were lower in a rising market as MQA raised capital from shareholders to fund the acquisition of the Dulles Greenway (DG) toll road. Specifically, MQA exercised its

pre-emptive rights to acquire the remaining 50% stake in the DG toll road from a fund managed by Macquarie (also the manager of MQA). Despite this, we felt the purchase was done at a reasonable price given it had gone out to a public auction with MQA electing to make the purchase using its pre-emptive right. This view is, of course, after allowing for growth in earnings from the asset, a long-life concession and growth in cash flows that DG is estimated to deliver to MQA. The asset diversifies MQA's asset and geographic mix and the equity raising was completed at only a modest discount to the stock's recent trading price.

Origin Energy (ORG, -7.5%) – detracted value from the portfolio in February and essentially gave back all the gains it had delivered in January. The February half-year result was the first delivered to the market by new CEO, Frank Calabria. The profit results were broadly in line with our expectations and the company was comfortable to somewhat tighten its forecast for profit expectations for the full year. Strategically, the results confirmed the progress ORG has made across 2016. In particular: a) execution – including commissioning and ramp-up of ORG's two LNG trains at the APLNG plant in Gladstone, b) simplification – material cost savings in headcount as APLNG construction winds down, together with productivity initiatives in the energy markets (utilities) division, c) debt reduction via asset sales and cash flows, and finally, d) the oil price – recent initiatives by OPEC to cut supply appear likely to rebalance the market and draw down global inventories, assuming compliance by OPEC and other producers. In time, we expect ORG can benefit from rising electricity prices, but to a lesser degree than AGL.

QBE Insurance Group (QBE, -1.5%) – after a strong performance since bond yields started rising in November last year (i.e. after the Trump victory), shares in QBE traded down in February despite delivering a solid full-year profit result. The weak share price performance was likely partly attributable to a decision made by the UK regulator (the Ogden review) which hits earnings once-off this year, but then should be recouped via higher premiums in future years. QBE's result highlighted the ongoing operational improvement, its strong capital position and the underwriting discipline it has been exercising in a soft premium market. QBE is well positioned to continue to deliver solid earnings growth over the next couple of years from some modest revenue growth, continued cost reductions at an operational level and reduced claims costs through better management. The claims cost management can be improved through the use of data analytics to reduce fraud, identify better ways to manage claims etc. Also, QBE will be a beneficiary if there is a rise in interest rates globally.

Portfolio changes

Key additions and material adjustments

We made two new stock purchases during the month.

Bought
Caltex Limited (CTX)
Ansell limited (ANN)

Caltex Limited (CTX) – has undergone considerable structural change in recent years, with the business shifting from being a capital-intensive refiner, toward a more capital-light operation, focused on fuel retail and marketing, together with a significant operation in fuel distribution. The fuel distribution network supplies a range of fuels (diesel, petrol and specialist products), servicing CTX's own retail network, providing wholesale fuel to third parties and is also a material supplier of fuel to large-scale commercial customers, such as miners. CTX shares have been weaker following the proposed sale of Woolworths' fuel retailing business to BP, which will likely see CTX lose most of its sales to those petrol stations. Although this was a negative for earnings, the decline in the share price created an opportunity to invest. We expect CTX to strive to replace the lost profits and note it has made two small acquisitions recently which assist in partly filling the earnings gap. CTX is well capitalised, providing potential for further acquisitions, further investment in CTX retail locations or alternatively capital management (there is large pool of franking credits).

Ansell limited (ANN) – we added a small position in Ansell in February. Under CEO, Nicolin, ANN has had mixed operating performance with strategic acquisitions, significant restructuring and refocusing of the organisation offset by manufacturing hiccups and tepid end-market demand. In this setting, we now feel ANN is in somewhat clear air. The long executed transition of ANN's glove range from commodity to specialised product (with the peak of the transition now passed) should see a return to more sustainable revenue growth for the group. ANN has also announced an intention to exit the sexual wellness business. Proceeds are likely to be reinvested in further specialised product segments or returned to shareholders. Further, we have a positive view on recent supply agreements that ANN has entered into with key distributors in several of its key markets. These mutual relationships have the potential to consolidate ANN's position as the number one player in specialised safety-related gloves and associated protective wear.

Key disposals and material adjustments

Sold
Duet Group (DUE)

Duet Group (DUE) – shares rallied early December on news it had received a proposal from Cheung Kong Infrastructure (CKI) to acquire 100% of the shares in DUE. We took the share price reaction as an opportunity to reduce our holding at the time and have subsequently exited the position entirely. In January, the DUE board recommended the CKI proposal to shareholders. The bid however, remains subject to various approvals, including Foreign Investment Review Board (FIRB). In the current climate, noting FIRB processes, including recent precedents and the likely long-dated nature of any bid process before eventual cash receipts for our investors, we have a cautious view on any foreign-led bid proceeding. This was a key factor in our decision to sell and capture profits, together with the implied valuation multiple DUE was now trading at.

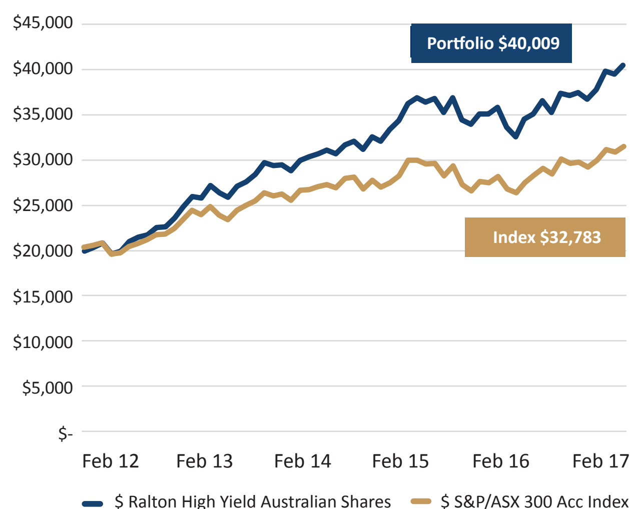
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Staples	12.1%	7.0%	5.0%
Consumer Discretionary	8.3%	5.0%	3.3%
Energy	7.2%	4.2%	3.0%
Utilities	5.2%	2.6%	2.6%
Information Technology	3.1%	1.3%	1.8%
Telecommunication Services	5.4%	4.2%	1.3%
Materials	16.6%	16.2%	0.4%
Industrials	4.0%	6.6%	-2.5%
Financials (ex-Property)	35.1%	37.8%	-2.8%
Health Care	2.9%	6.7%	-3.8%
Real Estate	0.0%	8.4%	-8.4%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

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

Performance comparison of $20,000*



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Performance of the Ralton Wholesale High Yield Australian Shares 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 300 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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