

## 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 Leaders	1.93	6.58	7.96	19.88	9.52	13.15	9.04	6.84
Income return	0.71	0.78	1.70	4.51	4.07	4.29	4.42	4.43
Growth return	1.22	5.80	6.26	15.37	5.45	8.86	4.62	2.41
S&P/ASX 100 Accum. Index	2.28	6.16	8.00	22.61	6.56	11.19	8.00	5.12
<b>Difference</b>	<b>-0.35</b>	<b>0.42</b>	<b>-0.05</b>	<b>-2.73</b>	<b>2.96</b>	<b>1.96</b>	<b>1.04</b>	<b>1.72</b>

## Performance review

- The S&P/ASX 100 Accumulation Index rose 2.28% in February, with Consumer Staples, Financials and REITs all up solidly for the month.
- The Ralton Leaders portfolio returned 1.93% for the month, underperforming the benchmark by 0.35%.
- For the month of February, being underweight Materials added value to the portfolio, however being underweight both Financials and Industrials each detracted from relative returns.

## Performance attribution

### Key contributors

Key contributors	Positioning
Aristocrat Leisure Limited	Overweight
Coca-Cola Amatil	Overweight
AGL Energy	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.

**Coca-Cola Amatil (CCL, +5.1%)** – had a solid FY16 profit result which demonstrated a number of CEO, Alison Watkins, and her team's efforts to re-build growth momentum into the business are emerging. This was well received by the market. The change underway in CCL (and the Coca Cola model globally) is to focus on all the variants of 'Coca Cola' and not just the traditional high sugar content version (watch for the new TV ads)

and a move to promote more 'still products' (e.g. Mount Franklin, Monster and Barista Brothers). This is a radical shift for a business named after the iconic red soft drink! But, this is what the market requires as people become more health conscious. The highlight for the period was the result from the Indonesian/PNG division, where solid volume growth and various productivity improvements drove a material lift in profits for 2016. In Australia, the transition of the business from carbonated soft drinks (CSDs) to 'stills' (or non-CSDs) partly offset the decline in volumes for the larger CSD category. As we highlighted last month, CEO Watkins' turnaround strategy is highly dependent on achieving growth in both 'stills' in the core Australian division and CSD and non-CSD growth in Indonesia, and hence the CY16 result gave us more confidence the transformation is heading in the right direction.

**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
Origin Energy Ltd	Overweight
Brambles Limited	Overweight
ANZ Banking Grp Ltd	Underweight

**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.

**Brambles (BXB, -10.6%)** – delivered a result which met the downgraded January expectations. However, the revised outlook for US business in particular was substantially below market expectations which led to the sell-off this month. The company provided several reasons for the slowdown in the US business in the last half, some of which we view as cyclical and some structural. It appears the competitive dynamic has changed in the US and management has missed it. We have seen this type of changed environment managed by BXB in prior phases. When pricing comes under pressure – as we have seen at various points across the pallet manager’s history – the volume falls unless price policy is sharpened. Incoming CEO, Graham Chipchase, feels he needs to sharpen pricing in the near term to defend volume and subsequently, FY19 ROIC targets the market was looking to have lapsed. Ahead of the CEO transition we had materially reduced our holding in BXB. We are taking time to study and consider the investment implications for BXB and our investors.

**ANZ Banking Group (ANZ, +5.5%)** – being underweight the banking sector overall and ANZ in particular was a headwind for relative portfolio performance. ANZ’s quarterly profit result was a touch ahead of market

expectations with trading income for the period and expense management a feature. We are wary of current valuation levels of the bank given the very low bad and doubtful debt charges and the lack of clear profit growth drivers (i.e. low loan growth and rising costs).

### Portfolio changes

#### Key additions and material adjustments

Bought
Caltex Limited (CTX)

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).

#### Key disposals and material adjustments

Sold
NIL

We made no outright sales from the portfolio in February, although we materially reduced our holding in **Brambles Ltd (BXB)** ahead of the first-half profit results and also reduced our holding in **CSL Ltd (CSL)**, capturing profits on the recent share price move.

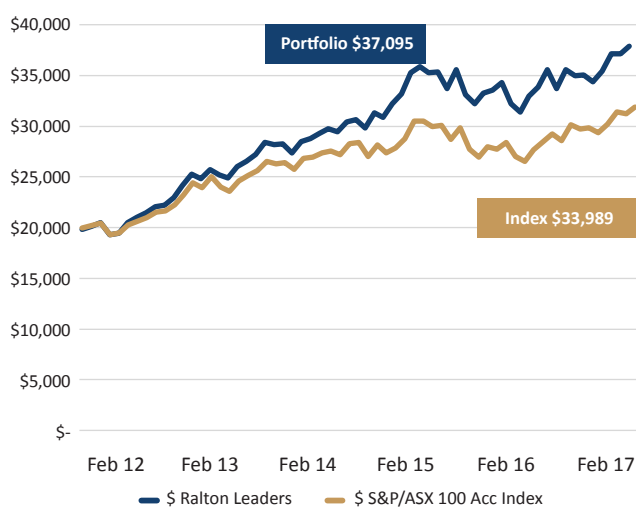
## Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Staples	12.1%	7.1%	5.0%
Consumer Discretionary	7.0%	3.2%	3.8%
Energy	7.8%	4.1%	3.7%
Information Technology	3.8%	0.9%	2.9%
Utilities	5.1%	2.8%	2.3%
Telecommunication Services	4.5%	4.5%	0.0%
Health Care	6.4%	6.7%	-0.3%
Materials	14.2%	15.8%	-1.6%
Industrials	3.9%	6.2%	-2.3%
Financials (ex-Property)	35.3%	40.9%	-5.6%
Real Estate	0.0%	7.9%	-7.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

## Top 10 holdings<sup>#</sup>

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

## Performance comparison of \$20,000\*



**CONTACT COPIA**

1800 442 129 | [clientservices@copiapartners.com.au](mailto:clientservices@copiapartners.com.au) | [copiapartners.com.au](http://copiapartners.com.au)



<b>John Clothier</b>	General Manager, Distribution	0408 488 549   <a href="mailto:jclothier@copiapartners.com.au">jclothier@copiapartners.com.au</a>
<b>Adam Tweedale</b>	State Manager, Southern Region	0425 804 727   <a href="mailto:atweedale@copiapartners.com.au">atweedale@copiapartners.com.au</a>
<b>Angela Vincent</b>	State Manager, Northern Region	0477 347 260   <a href="mailto:avincent@copiapartners.com.au">avincent@copiapartners.com.au</a>
<b>Sean Paul McGoldrick</b>	Account Manager, Northern Region	0421 050 370   <a href="mailto:spmgoldrick@copiapartners.com.au">spmgoldrick@copiapartners.com.au</a>
<b>Iain Mason</b>	Director, Institutional Business	0412 137 424   <a href="mailto:imason@copiapartners.com.au">imason@copiapartners.com.au</a>

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 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.

This document is for general information 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 whether the information is suitable for their needs. This may involve seeking advice from a qualified financial adviser. Ralton Asset Management (AFSL 298210, ABN 45 114 924 382) (Ralton) is the provider of the Ralton Wholesale Leaders Model Portfolio. To subscribe, contact Copia Investment Partners Ltd (AFSL 229316, ABN 22 092 872 056) (Copia) by calling 1800 442 129 or email [clientservices@copiapartners.com.au](mailto:clientservices@copiapartners.com.au). Any opinions or recommendations contained in this document are subject to change without notice. Ralton and Copia are under no obligation to update or keep information contained in this document current.