

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 Smaller Companies	2.06	4.35	1.11	22.23	11.22	14.32	12.53	8.12
Income return	0.17	0.28	1.10	2.79	2.98	3.33	3.44	3.60
Growth return	1.90	4.07	0.01	19.45	8.24	11.00	9.09	4.51
S&P/ASX Small Ord Accum. Index	1.31	2.40	-2.12	16.77	5.11	1.76	2.74	-0.46
Difference	0.75	1.94	3.23	5.46	6.12	12.56	9.79	8.58

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index added 1.31% in February, with Consumer Staples and Healthcare the top performers, while defensive sectors, Telecommunications and Utilities, were the key detractors for the month.
- The Ralton Smaller Companies portfolio added 2.06% for the month, outperforming the benchmark by 0.75% for February.
- Stock selection within Information Technology, together with our overweight positions in both Consumer Staples and Consumer Discretionary stocks, all added value to the portfolio.

Performance attribution

Key contributors

Key contributors	Positioning
Costa Group Holdings	Overweight
Nextdc Limited	Overweight
iSelect Limited	Overweight

Reporting season was the key driver for many of our portfolio holdings in February. Listed companies report their financial progress for the completed period (half or full-year results) and provide outlook commentary on the period ahead.

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.

Nextdc Limited (NXT, +20.5%) – data centre operator, NXT, recouped recent share price weakness following a solid profit result and positive outlook statement.

NXT is in both an execution and growth phase, specifically signing up and connecting customers to use its existing data centres and building out new capacity for further data centres in Australia's major cities. The thematic of rising data usage and need for this data to be stored and accessed in a safe and secure manner is incredibly strong with opportunities like cloud computing remaining in its infancy. Behind this 'digital and data' theme, the business model for NXT relies on acquiring and building electronic storage capacity close to major population centres and then renting out these facilities to corporates and governments that have significant data and security requirements.

iSelect Limited (ISU, +11.8%) – ISU's solid first-half profit result and confirmation of full-year profit guidance was well received by the market and saw the stock essentially recoup January's losses. The result was further confirmation the transformation of ISU under CEO, Scott Wilson, remains on track. Traditionally, ISU has largely been about its ability to sell health insurance and the potential to offer other products. This result was positive in the sense it showed the non-health insurance verticals (e.g. electricity offerings, telecommunications offerings etc.) are seeing very rapid volume growth from customers and continued growth in companies offering their products through the ISU platform. We are of the view this demonstrates the ISU model can be applied to a range of different product types where customers have a lot of choice, but no real way to judge the 'value' on offer. Think about how you went last time you had to look for a new mobile phone – were you getting a good deal or not? The ISU platform gives you a mechanism to understand the benefits of each package so you can determine what you need (and what you are actually getting). ISU then gets a clip if you sign up with a provider through its platform. We are of the view this result starts to highlight the growth potential for its platform.

Key detractors

Key detractors	Positioning
Fletcher Building	Overweight
Ansell Limited	Overweight
Village Roadshow Ltd	Overweight

Fletcher Building (FBU, -10.9%) – a \$30m loss on one of FBU’s multi-year construction jobs in NZ marred what was otherwise a very solid half-year profit result. With a strong NZ economy continuing to power most of FBU’s profits, the likely realisation of productivity gains from FBU’s latest efficiency drive and recovering international operations (excluding Australia), we have confidence FBU can offset this \$30m impact and deliver on the lower end of its profit guidance for 2017.

Ansell limited (ANN, -10.5%) – concern over rising input costs weighed on ANN’s share price during the month. Specifically, rising prices for both natural rubber latex and various oil-based inputs has created a short-term earnings headwind for ANN. The latex price has been driven up in recent times as a result of floods in Thailand which have reduced access to the rubber plants. Although ANN has to bear the rising cost in the first instance, it will seek to pass the costs onto its customers in the form of higher prices. History strongly suggests ANN is able to pass the costs on and maintain margins in the near term, so in isolation, such input cost volatility is both known and manageable.

As we highlighted when we acquired ANN, we have confidence that following many years of restructuring and simplification of ANN’s product offering, the ANN of 2017 is a streamlined business with a small portfolio of differentiated niche products. Further, we have a positive view on recent supply agreements ANN has entered into with key distributors in several of its key markets boosting sales and increasing its market share. 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.

IOOF Holdings (IFL, -5.0%) – the wealth manager’s half-year profit result highlighted the ongoing pressure on margins in the wealth management industry for operators of advice and platform businesses. The impact of the MySuper changes have completed for IOOF in 1H17. Ongoing revenue growth is tough when you have these pressures, but we should be near the end of it. A platform has been put in place internally to drive organic growth and the benefits from this should show up in coming periods. Also, the balance sheet is in good shape, so the group is well positioned to make further accretive acquisitions at an appropriate time.

Portfolio changes

Key additions and material adjustments

We added one new position in **Tox Free Solutions (TOX)** and increased our existing position in veterinary and pet retailer, **Greencross (GXL)** during the month.

Bought
Tox Free Solutions (TOX)

Tox Free Solutions (TOX) is a stock we have owned previously in this portfolio. TOX has undergone considerable change in the last five years. Once a WA-focused waste service provider to the mining, energy and industrial sectors, TOX now has a far greater exposure to east coast Australia. In part, this reflects the cyclical shift in the Australian economy, as WA-focused construction projects wind down, but also reflects a strategic decision by TOX to reduce its exposure to cyclical earnings streams from the mining and energy sectors. TOX has largely expanded via acquisition, including the acquisition of Worth and Daniels Health Australia, funded by equity raisings in 2016. Daniels in particular appears to our vantage to be a quality acquisition. Daniels is a service provider to the healthcare industry with ownership of key strategic incinerators and associated licenses used in the burning of medical waste. Recent stock weakness appears driven by the ongoing decline of WA-focused construction-related earnings streams – these are about to shrink to zero – and also investor weariness in regard to ongoing equity raisings. With a positive view on Daniels and seeing the end of the WA-focused earnings as an inflection point, we have begun to build a position in TOX.

Key disposals and material adjustments

Bought
Nil

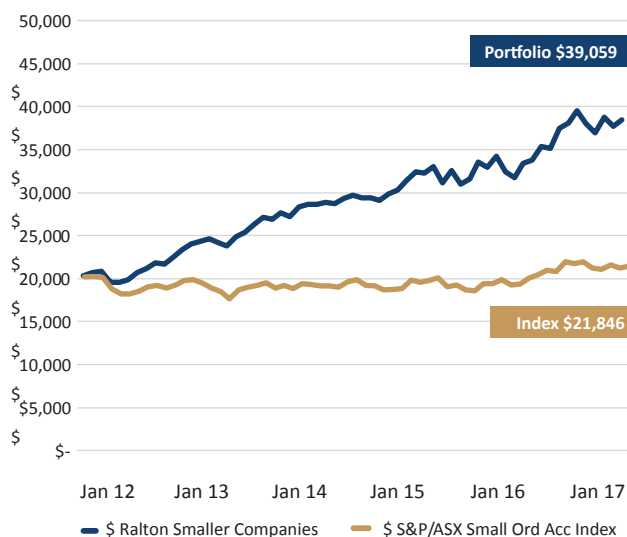
Sector allocation

GICS sector	Ralton	Index	+/-
Telecommunication Services	6.9%	1.5%	5.4%
Health Care	11.0%	6.4%	4.6%
Financials (ex-Property)	11.3%	8.8%	2.5%
Materials	22.7%	20.5%	2.2%
Consumer Staples	8.5%	6.4%	2.0%
Energy	6.7%	5.0%	1.7%
Consumer Discretionary	20.7%	21.2%	-0.5%
Utilities	0.0%	0.8%	-0.8%
Information Technology	3.2%	5.6%	-2.5%
Industrials	6.7%	10.3%	-3.6%
Real Estate	2.5%	13.4%	-11.0%
Total	100.0%	100.0%	0.0%

Top 10 holdings[#]

Company name	ASX code
Speedcast International Ltd	SDA
Worleyparsons Limited	WOR
Aristocrat Leisure Limited	ALL
Costa Group Holdings Ltd	CGC
Evolution Mining Ltd	EVN
Fletcher Building Limited (Australia)	FBU
Fisher & Paykel H.	FPH
Steadfast Group Ltd	SDF
News CDIS	NWS
Macquarie Atlas Roads Limited	MQA

Performance comparison of \$20,000*



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Performance of the Ralton Wholesale Smaller Companies 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 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.

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