Total returns

At 31 March 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	4.10	5.98	12.25	19.03	10.63	13.77	8.77	7.24
Income return	*0.68*	*1.43*	*2.00*	*4.60*	*4.19*	*4.28*	*4.39*	*4.46*
Growth return	*3.42*	*4.55*	*10.25*	*14.43*	*6.44*	*9.49*	*4.38*	*2.78*
S&P/ASX 100 Accum. Index	3.34	5.06	11.16	21.01	7.62	11.63	7.66	5.45
Difference	**0.76**	**0.92**	**1.09**	**-1.99**	**3.01**	**2.14**	**1.11**	**1.79**

Performance review

- The S&P/ASX 100 Accumulation Index was up 5.06% in the March quarter, with Health Care and Utilities the top-performing sectors. Telecommunications was the only sector to record a negative return for the quarter.
- The Ralton Leaders portfolio returned 5.98% for the period, outperforming the benchmark by 0.92%.
- For the March quarter, our overweight in both Consumer Discretionary and Consumer Staples added value to the portfolio, while stock-specific losses in Industrials detracted from returns.

Performance attribution

Key contributors

Key contributors	Positioning
Aristocrat Leisure Ltd	Overweight
Computershare Ltd	Overweight
AGL Energy Limited	Overweight

Aristocrat Leisure (ALL, +15.9%) – shares in ALL rallied after management upgraded profit growth for the coming year to between 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.

Computershare Limited (CPU, +12.8%) – information technology company, CPU, added value to the portfolio rising 12.8% for the quarter and is now up 43% rolling year. There have been two key drivers of this strong performance. First, the market coming to appreciate the emerging growth drivers, such as the mortgage processing business, and the size of the cost reduction opportunity in coming periods. Second, CPU is highly leveraged to a rise in interest rates as it earns interest on the cash balances it holds for companies to pay dividends to investors or the proceeds of IPOs/rights issues. Increasing US inflation and the prospect of pro-growth policies from Donald Trump, which would further fan inflation, have been the key drivers of this rise in rates. means we need to keep the holding size in check (despite our optimism).

AGL Energy (AGL, +19.4%) – was a strong contributor to portfolio returns during the quarter. 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 the communities' decision 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
Brambles Limited	Overweight
Santos Limited	Overweight
Suncorp Group Ltd	Overweight

Brambles (BXB, -24.6%) - underperformed materially during the quarter after downgrading expectation in

January and then providing a decidedly negative outlook for its US business at its half-year results. 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 therein 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.

Santos Limited (STO, -5.5%) – our investment in turnaround play, Santos, underperformed during the quarter. CEO, Gallagher, has been in the role for a little over 12 months and continues to make impressive progress in terms of reducing operating costs, repairing the balance sheet and providing the market with a simplified strategic focus. The equity raising in December was poorly received by the market, including us at the time, but it has provided flexibility for STO to invest in growth opportunities and add longer-term value for investors. While much has been achieved, Gallagher has still much to do to deliver on STO's potential. We expect further cost savings, higher drill rates and improving gas flows (including from the problematic section of the Roma field) as capex ramps up across CY17, should be supportive of the STO turnaround.

Suncorp Group Ltd (SUN, -2.3%) – shares in the QLD-domiciled bank and insurance giant underperformed in a rising market. The profit result in February was largely in line with market forecasts and not a cause of any market weakness. Recent issues with insurance-repair pricing and less-profitable business in the NSW CTP segment were absent in what was a largely clean result. We remain positive on the story as our discussions with market participants across the insurance sector suggest the premium cycle for commercial insurance is beginning to turn up. This should continue to provide positive news flow for SUN.

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 retailing and 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
Incitec Pivot (IPL)

We sold our long-held position in **Incitec Pivot (IPL)** during January. With the long-awaited US ammonia plant, known as '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 arising from these changes. 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.

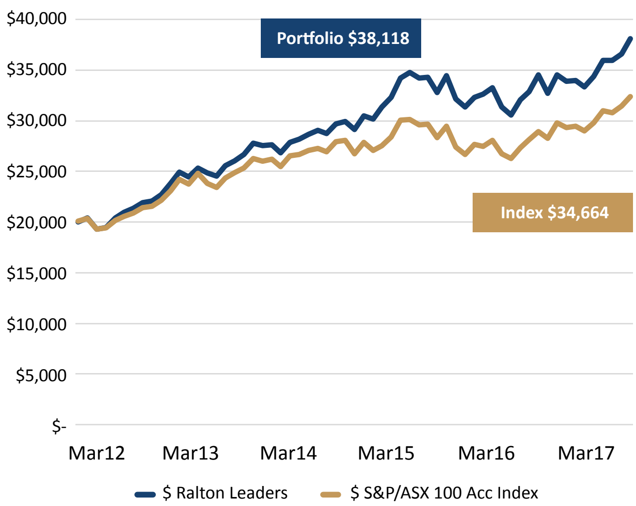
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Staples	12.5%	7.1%	5.4%
Consumer Discretionary	7.6%	3.3%	4.4%
Energy	8.1%	4.1%	4.0%
Information Technology	3.9%	0.9%	3.0%
Utilities	3.1%	2.9%	0.2%
Telecommunication Services	4.3%	4.2%	0.1%
Materials	14.6%	15.4%	-0.8%
Health Care	5.4%	6.8%	-1.4%
Industrials	4.1%	6.5%	-2.4%
Financials	36.4%	41.2%	-4.8%
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 Corp	WBC
BHP Billiton Limited	BHP
National Australia Bank Limited	NAB
Woolworths Limited	WOW
Aristocrat Leisure Limited	ALL
Telstra Corporation	TLS
QBE Insurance Group Limited	QBE
AMP Limited	AMP
Computershare Ltd	CPU

Performance comparison of $20,000*



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