Total returns

At 30 September 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	-0.25	-0.61	-0.99	11.21	10.07	13.68	11.18	7.82
Income return	*0.61*	*1.60*	*2.13*	*4.45*	*4.46*	*4.58*	*4.83*	*5.01*
Growth return	*-0.87*	*-2.21*	*-3.12*	*6.76*	*5.61*	*9.10*	*6.35*	*2.81*
S&P/ASX 300 Accum. Index	0.04	0.80	-0.78	9.02	7.12	9.94	7.68	4.59
Difference	**-0.29**	**-1.41**	**-0.21**	**2.19**	**2.95**	**3.74**	**3.50**	**3.24**

Performance review

- The S&P/ASX 300 Accumulation Index finished 0.80% higher for the quarter. Energy and Materials were the top performers for the period, offset by weakness in Telecommunications.
- The Ralton High Yield portfolio returned -0.61% for the quarter, underperforming the benchmark by 1.41%.
- For the September quarter, being overweight Information Technology added value to the portfolio, offset by our overweight to Consumer Staples and underweight to the resources heavy Material Sector.

Performance attribution

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

Key contributors

Key contributors	Positioning
IOOF Holdings Ltd	Overweight
Lendlease Group	Overweight
BHP Billiton Limited	Overweight

IOOF Holdings (IFL, +13.8%) – a solid profit result for IOOF, boosted by strong industry FUM flows and the benefit of an increase in the number of financial planners operating under the IFL banner, was well received by investors. This profit number was supported by cost savings called out by the CFO at the half year result and delivered in spades for the second half of the year. It was pleasing to see the growth in planner numbers as we believe this reflects the attractiveness of the IOOF platform. As we have written previously, IOOF has worked extensively on the flexibility of its investment platforms which allows advisers to personalise investment services rather than being restricted to in-house product offers. We like IOOF's focus on the customer which differentiates it from the big banks and other large financial institutions.

Lendlease Group (LLC, +7.6%) – recent portfolio addition LLC's results were well received during the period. Ralton bought back into LLC during May, increasing the portfolio's exposure to the Australian east coast infrastructure theme. As was evident in the recent Federal Budget, governments are intent on boosting infrastructure as a means of simultaneously driving economic growth, productivity and voter services. Lendlease recently restructured its infrastructure team and aims to deliver $4-$5bn in annual revenues from this division. This would nearly double current revenues, with LLC seeking a commensurate improvement in margins. The backlog for work is showing some healthy improvement. We retain a positive outlook toward LLC's other divisions, including US and UK construction and property funds management. LLC outlined its future investment pipeline with a notable pivot of capital toward international opportunities. Investors have remained concerned in respect to settlement risk or defaults in LLC's domestic apartment division, however the full year results confirmed an ongoing minor rate of defaults.

BHP Billiton Limited (BHP, +10.7%) – we saw three reasons for BHP's outperformance during the quarter. Firstly, investors were supportive of BHP's decision to exit its US shale oil and gas division. Secondly, rising commodity prices for copper, iron ore and oil were a tailwind for the company. Thirdly and more noteworthy in the medium term was the election of Ken MacKenzie as Chairman elect of the BHP Board, succeeding Jac Nasser, effective September this year. As CEO of Amcor Limited, MacKenzie delivered strong shareholder returns, driving a cultural change and heightening focus on return on and use of capital. Under his leadership, the company went through a turnaround and period of strong growth from 2006-2015.

MacKenzie joins BHP at an interesting time for Australia's largest miner and the broader resources industry. Activist shareholders are agitating for change, concerned with the poor returns and capital losses incurred from BHP's incursion into the US onshore shale oil and gas sector under prior CEO Marius Kloppers. We look to Ken MacKenzie and the BHP management team, led by CEO Andrew MacKenzie (no relation), to continue to focus on optimized returns and use of capital. Broad cultural change at a giant company like BHP will certainly prove a challenge, however we look to the new Chairman to strike the appropriate balance between investing capital across new projects, maintaining current tier one assets, returning money to shareholders and delivering a strategy that ensures sufficient diversity and growth options.

Key detractors

Key detractors	Positioning
QBE Insurance Group	Overweight
Japara Healthcare	Overweight
Aristocrat Leisure	Overweight

QBE Insurance Group (QBE, -15.2%) –QBE's half year profit and guidance were a further disappointment to investors after downgrades in full year profit guidance in June, with losses in emerging markets continuing to be an issue for the company. Unfortunately, this comes on the back of a raft of profitability concerns in various segments over recent years. Each time, QBE has promised to address or divest the offending business and appointed new management, but new problem areas have consistently sprung up from unexpected corners. Although some blame can certainly be laid at the feet of management and the type of insurance business being written, the global industry has been under pressure for some time, impacted by excess liquidity globally and the lack of fixed income returns. We see it as inevitable that these pressures ease – typically a major insurance event, such as a US cyclone, creates extensive industry losses and sees a return to more rational pricing, often involving an increase in insurance policy coverage.

In this context, the misses we keep seeing by QBE are a function of the fact it has no buffers left after such a long period of revenue decline. Investor confidence in QBE is low despite a five-year program of cost-out success, a turn up in premium rates, reinsurance efficiencies and faster than expected portfolio remediation in Australia. This series of events has resulted in CEO change, with John Neal being replaced by current CFO Pat Regan. We will continue to monitor improvements in the global premium cycle and interest rates to determine the positioning going forward.

Japara Healthcare (JHC,- 14.8%) – a low quality FY17 profit result and guidance for the coming year disappointed investors in nursing home operator Japara. The key pressure points for JHC were the fall in government reimbursement and rise in labour costs across its portfolio – JHC has a strong bias to Victoria where public nurse EBA-driven pay rises have been above the nation's average. These government fee freezes were already known to the market having driven a material fall in JHC shares from their 2015 peak, ahead of our initial purchase. However, the degree and duration of these freezes, together with recent labour cost pressures, are set to crimp margins in the coming year. In response, JHC is seeking to improve efficiencies via a series of well focused cost out initiatives while maintaining a high quality of patient care. These measures are expected to support margins in the coming financial year ahead of the ACFI freeze lifting in FY19. In the medium term, the return of CPI-type government fee increases, a shift toward discretionary payments and scale benefits as bed numbers increase paint a more positive outlook for our investment. Our view that JHC's land assets and operating businesses are being undervalued by investors remains unchanged.

Aristocrat Leisure (ISU, -6.9%) – ALL shares underperformed in the quarter, giving back some recent gains, although the price remains some 32% higher rolling year to the end of September. We attribute the recent share price movement to a mixture of investors taking profits following strong capital returns, and the circa 2.5% appreciation in the Australian dollar against the US dollar during the September quarter (ALL's key operating currency). We continue to see positive momentum for ALL's US participation and outright sales businesses. Additionally, ALL has several new products, including the Class III stepper, targeting new segments of the market. At this early stage, the new products are receiving positive reviews in the market. Further, ALL's Digital offering continues to go from strength to strength with ongoing growth for the Heart of Vegas platform and positive early signs for its new Cashman app.

Portfolio changes

Key additions and material adjustments

Bought
AGL Energy (AGL)

We added a position in **AGL Energy Limited (AGL)** to the portfolio in September as share price weakness gave us an opportunity to revisit this name. We see several supportive features of an investment in AGL. Firstly, AGL has made considerable progress in driving productivity improvements to boost profits. Secondly, the increased use of renewable energy in the electricity markets is driving up the wholesale electricity price to the benefit of low cost electricity producers such as AGL. Finally, AGL's balance sheet is in good shape after recent asset sales. AGL is well positioned to either return capital to shareholders or alternatively pursue acquisitions. sold our AGL position

Nonetheless, we highlight regulatory concerns in respect to AGL and the broader utility sector, and note the considerable press interest that AGL's long-flagged closure of the NSW Liddell coal power station recently attracted. These factors, together with the potential for the Victorian Government to in part regulate retail power prices, are at this stage capping our holding size in AGL. Despite this, the structure of the industry continues to look positive for AGL. In particular, all roads continue to point toward a period in which electricity generation prices continue to remain elevated versus recent periods. Prices for baseload electricity around $80 per megawatt hour appear sustainable into the future. In this climate, AGL will continue to exercise its balance sheet flexibility to pursue investment in various gas peaking plants, wind farms, WA expansion and potentially capital management.

Key disposals and material adjustments

We made two outright exits for the portfolio in August.

Sold
Coca-Cola Amatil (CCL)
Orora Holdings (ORA)

We made two outright exits for the portfolio in the quarter.

Following a positive and well received profit result, we took share price strength as an opportunity to sell our position in **Orora Holdings (ORA)**. This is a very well-run company that, since the demerger from Amcor, has executed on its business model in a near-faultless manner. With the share price having performed well in recent times, we felt the stock reflected fair value and sold down our position. Given the quality of management, we would look to revisit ORA at a future date should the share price appear attractive.

We took the decision to exit our underperforming position in **Coca-Cola Amatil (CCL)** in August. As we discussed in an earlier report, a public contract loss and speculation of supermarket ranging issues recently weighed on CCL shares. Firstly, CCL has lost its small but noteworthy contract to supply Domino's Pizzas to competitor Asahi (Pepsi and Schweppes brands). Secondly, it appears that Woolworths has at this stage elected not to stock CCL's new 'Coca-Cola No Sugar' product. Further, speculation persists that Woolworths is limiting shelf space of branded water products, including CCL's Mount Franklin mineral water products. In the short term, such outcomes will reduce CCL's ability to drive volumes via its 'stills' (non CSD products) and delay the re-balancing of its business. Reflecting these concerns, we elected to sell our CCL position, preferring to increase our investment in WES.

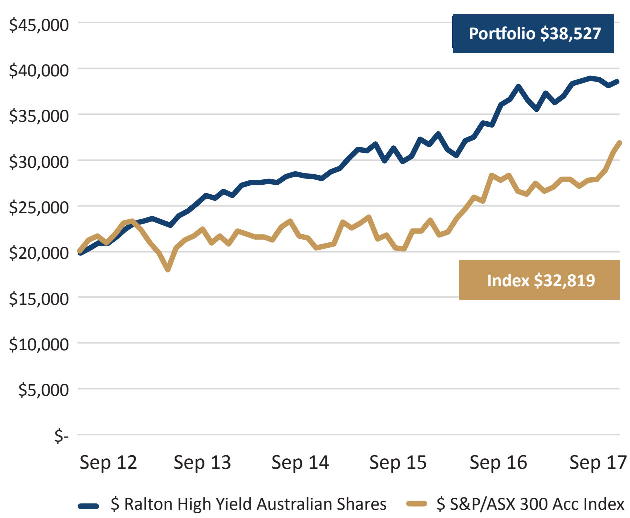
Sector allocation

GICS sector	Ralton	Index	+/-
Materials	20.8%	16.9%	3.9%
Consumer Staples	10.2%	7.2%	2.9%
Energy	6.9%	4.4%	2.6%
Information Technology	3.4%	1.6%	1.8%
Consumer Discretionary	6.3%	5.0%	1.2%
Telecommunication Services	4.0%	3.1%	0.9%
Utilities	1.8%	2.1%	-0.4%
Real Estate	7.9%	8.4%	-0.5%
Health Care	5.0%	7.0%	-2.0%
Financials	31.5%	36.7%	-5.2%
Industrials	2.3%	7.5%	-5.2%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings[#]

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

Performance comparison of $20,000[*]



CONTACT COPIA

1800 442 129 | clientservices@copiapartners.com.au | ralton.copiapartners.com.au

John Clothier	General Manager, Distribution	0408 488 549 | jclothier@copiapartners.com.au
Adam Tweedale	State Manager, Southern Region	0425 804 727 | atweedale@copiapartners.com.au
Angela Vincent	State Manager, Northern Region	0477 347 260 | avincent@copiapartners.com.au
Sean Paul McGoldrick	Account Manager, Northern Region	0421 050 370 | spmcgoldrick@copiapartners.com.au
Iain Mason	Director, Institutional Business	0412 137 424 | imason@copiapartners.com.au
Jacinta King	Business Development Associate	0413 962 922 | jking@copiapartners.com.au

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.

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 High Yield Australian Shares 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. 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.