Ralton High Yield Australian Shares
PERFORMANCE REPORT
Quarter to 31 December 2015

Total returns

At 31 December 2015	1 month %	3 months %	6 months %	1 year %	3 years p.a. %	5 years p.a. %	Inception p.a. (Feb 2008) %
Ralton High Yield Australian Shares	1.90	5.23	1.53	7.09	14.60	11.54	7.56
Income return	*0.11*	*0.79*	*2.19*	*4.29*	*4.51*	*4.83*	*4.96*
Growth return	*1.80*	*4.43*	*-0.66*	*2.80*	*10.09*	*6.71*	*2.60*
S&P/ASX 300 Accum. Index	2.73	6.54	-0.35	2.80	9.01	6.67	3.65
Difference	**-0.82**	**-1.31**	**1.89**	**4.29**	**5.59**	**4.87**	**3.91**

Performance review

- The S&P/ASX 300 Accumulation Index finished the December quarter strongly, adding 6.54%, with Consumer Discretionary and Healthcare sectors the top performing, and Materials and Energy sectors the only negative contributors at an index level.
- The Ralton High Yield portfolio finished the quarter up 5.23%, underperforming the benchmark by 1.31%.
- For the quarter, being underweight Financials, together with losses on our Energy stocks detracted from portfolio returns. This was offset somewhat by our overweight to the Consumer Discretionary sector, together with being underweight the resource heavy Materials sector

Performance attribution

Key contributors

Key contributors	Positioning
Super Retail Group Ltd	Overweight
Aristocrat Leisure	Overweight
Skycity Entertainment Group	Overweight

Super Retail Group Ltd (SUL, +28.1%) - added value to the portfolio, buoyed by a trading update at the AGM in late October. SUL reported solid sales growth in each of its retail formats: automotive, leisure and sports, together with progress on various internal initiatives such as the restructuring of the 'Ray's' format. SUL's internal or 'self-help' initiatives are a key element in our investment thesis, and hence it's pleasing to note the progress also being made on various supply chain, IT and warehouse initiatives that SUL has been investing in over the last couple of years. These will make the business more efficient, release inventory (and cash in the process) and allow scope for future growth.

Aristocrat Leisure (ALL, +19.6%) - continued its recent strong run and was a positive contributor to portfolio performance for the quarter. As we discussed in a recent report, the company is now well advanced on its five-year turnaround plan under CEO, Jamie Odell. As part of this turnaround, ALL has invested heavily in product content across its various business divisions. As a direct result of this investment, ALL appears to be gaining market share in the key machine category in the US and Australia, growing its social or 'app-based' games at a healthy rate and finally, the acquisition of VGT last year appears to have been integrated seamlessly into the ALL fold. These factors were all evident in the FY15 profit results in November, where ALL delivered a 79% boost in profits versus the prior year, solid cash flow result and a positive outlook statement.

Skycity Entertainment Group (SKC, +21.2%) - final confirmation of the cost and scope of the New Zealand International Convention Centre (NZICC) in October led to a re-rating of SKC across the quarter. We were a little surprised by the large move on this news, however this is a large project for SKC and indeed the city of Auckland and New Zealand. Having recently visited the site, you do appreciate the scale. There were some concerns around the final cost and design, including government involvement, and hence the final binding contract was a clear positive. Construction of the NZICC, adjacent to SKC's operations in Auckland, is of course linked to tax and gaming extensions at the main casino and hence is of material value to SKC.

Key detractors

Key detractors	Positioning
Origin Energy	Overweight
Ardent Leisure Group	Overweight
Woodside Petroleum Ltd	Overweight

Origin Energy (ORG, -11.9%) and **Woodside Petroleum Ltd (WPL, -0.73%)** - continued weakness in the oil price, weighed on the oil sector with ORG and WPL in turn weighing on portfolio performance. It has been a torrid year and a half for the energy sector globally with oversupply, geopolitical concerns and modest demand growth contributing to oil price weakness. The oil price has fallen from a peak of US$115 in 2014 to end 2015 in the mid US$30's. Our somewhat contrarian view at this stage is that oil prices will improve over the next couple of years as annual production declines occur across the whole oil industry, together with the US$250bn or more of future projects and associated capital works that have been cancelled in recent times, lead to a reduction in global supply. Although the outlook in the short term remains unclear, on the basis of our medium-term view we have been cautiously buying stocks such as ORG into the weakness. That said, we remain cognisant of the very strained Middle East geopolitical outlook which could prompt more short-term oil pain.

Ardent Leisure Group (AAD, -13.4%) - shares in diversified entertainment company, Ardent Leisure, gave up recent gains following what the market viewed as a mixed trading update for the first quarter of FY16. Investors were perhaps concerned by a reduction in disclosure provided by the company for each business division, however, we view the qualitative commentary around progress at the gyms business following conversion of nearly 50% of gyms to a 24-hour model, as largely positive. Member attrition or churn has been reduced and solid membership growth has been reported from the new models. This has come at a cost as investment was required, however, we believe this was absolutely necessary.

Investors are also concerned by the possibility the Wanda Group, a Chinese conglomerate, is considering plans to build a rival theme park on the Gold Coast. Village Roadshow (VRL) and AAD, currently dominate this market with their theme park offerings, with AAD's Dreamworld and WhiteWater World accounting for some 20% of AAD's earnings. We will continue to monitor this threat, although would highlight that we remain positive in terms of our view of this investment, not just the turnaround in the gyms strategy, but also the US Main Event business, which is set to account for more than 50% of AAD profits in the coming years.

Portfolio additions and disposals

Key additions and material adjustments

Bought
AMP Limited (AMP)
G8 Education Limited (GEM)
IOOF Holdings Limited (IFL)
Wesfarmers Limited (WES)

AMP Limited (AMP) - weakness in AMP gave us an opportunity to add this stock back into the portfolio. Under CEO, Craig Mellor, AMP has continued its multi-year transformation and business simplification. This simplification and efficiency drive has seen AMP continue to rationalise costs, absorb some of the fee pressure from the legislated 'MySuper' offering across some of its legacy business and also conduct a significant restructure of its life insurance offering (this division had been a source of concern with higher lapse rates and rising claims). AMP is currently benefiting from reasonably good fund flows into the industry as a whole, as well as new product initiatives, such as FUM flows into AMP's China platform (part of AMP Capital). At its current share price, AMP offers reasonable value and a solid, likely growing dividend yield.

IOOF Holdings Limited (IFL) - we further increased our position in financial stocks, adding IOOF to the portfolio. IFL generates organic growth through its exposure to the flow of investor funds into the various phases of the investment cycle where it now has extensive representation. Further, IFL has also been very successful as a major consolidator in the wealth management space, where its integration skills tend to mean it retains the core value of its acquired businesses while stamping out unnecessary costs. Like other financial service companies, IFL has faced external criticism over internal processes at the organisation. We do not dismiss such issues lightly and, while disappointing, we take comfort from the statements made by management and the board and highlight their favourable track record over many years (i.e. the matters raised appear isolated and not systematic).

Wesfarmers Limited (WES) - we also added a position in WES to the portfolio. WES share price had pulled back driven by concerns over rising competition, in particular the increasing footprint of Aldi in Australia and the current steps being taken by Woolworths to address its problems. In our view, these concerns are likely overstated. After many years of ownership of the Coles supermarkets business, WES is still extracting efficiency gains. These gains are likely to be reinvested in lower prices and drive growth in the business, meaning that although margins for supermarkets may not rise materially, they are likely to remain around current levels. Further, the other retail businesses of WES, namely Target, Kmart and 'category killer', Bunnings, are all making progress and contributing to group profit growth. The struggles of the coal or resources business is well understood and effectively a very minor part of WES. For all these reasons, we believe WES has a solid growth outlook and will continue to pay a growing and attractive dividend yield.

G8 Education Limited (GEM) - we added back childcare centre operator, GEM, to the portfolio in October, having sold the stock some 12 months ago on share price weakness. This weakness in 2015 has been driven in part by regulatory concerns - more specifically, potential for significant changes in government funding following from a Productivity Commission (PC) review ahead of the Federal Budget. The market was also concerned GEM was paying too high a price to acquire childcare centres and questioned GEM's ability to fund these acquisitions through share issues while simultaneously maintaining its high dividend payout ratio. With the significant decline in the share price, comfort the business operations were on track and finally, having digested the PC draft and final report, we felt the share price weakness was overdone and began to build a position in the stock. We also note GEM has appointed a highly credentialed Chairperson in Mark Johnson, together with the appointment of top-tier audit firm, Ernst & Young

Key disposals and material adjustments

Sold
Asciano Limited (AIO)
Orora Holdings (ORA)

Asciano Limited (AIO) - as we have discussed in recent reports, Asciano has become subject of a competitive bidding process, with two parties now in the race to acquire the ports and rail operator. The first bidder, Brookfield, is facing regulatory headwinds after Australia's competition regulator, the ACCC, raised 'red light' concerns as to Brookfield's acquisition of AIO. The second bidder, specifically a consortium of investors led by Qube Holdings (QUB) and two large global sovereign funds, have made an indicative, non-binding approach to AIO. From our vantage, it appears Asciano is now highly likely to be acquired – it is just a matter of which of the parties succeed. Various options, including asset splits and even the introduction of new investor partners potentially to circumvent ACCC concerns, is also a possibility. As such, with AIO trading at modest discount to the implied offers and some water to flow under the bridge, we elected to take profits and sell our position.

Orora Holdings (ORA) - lastly, we sold our position in 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, particularly if ORA is able to demonstrate potential to grow its US operations in a profitable manner, either through organic means or acquisitions.

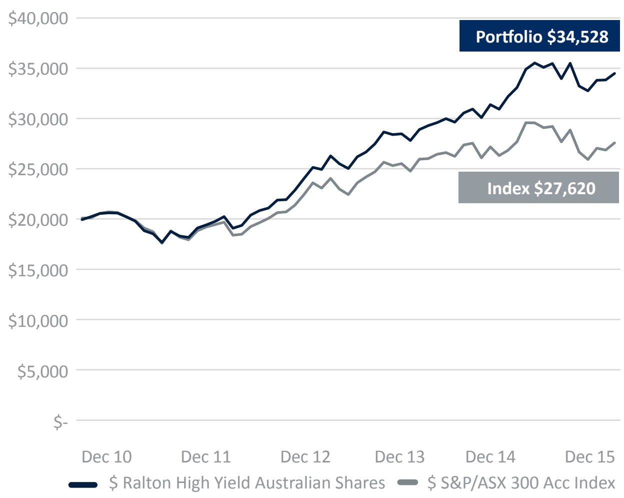
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	18.2%	5.0%	13.3%
Energy	7.1%	4.0%	3.1%
Consumer Staples	9.1%	7.2%	1.9%
Health Care	7.2%	6.8%	0.3%
Materials	11.8%	12.1%	-0.3%
Financials (ex-Property)	39.2%	39.9%	-0.8%
Information Technology	0.0%	1.1%	-1.1%
Industrials	5.9%	7.9%	-2.0%
Utilities	0.0%	2.3%	-2.3%
Telecommunication Services	0.0%	5.4%	-5.4%
Property	1.6%	8.3%	-6.7%
Total	**100%**	**100%**	

Top 10 holdings#

Company name	ASX code
National Australia Bank Limited	NAB
Commonwealth Bank of Australia	CBA
Westpac Banking Corporation	WBC
Woodside Petroleum Limited	WPL
QBE Insurance Group Limited	QBE
Aristocrat Leisure Limited	ALL
ANZ Banking Group Limited	ANZ
Incitec Pivot Limited	IPL
AMP Limited	AMP
Coca-Cola Amatil Ltd	CCL

Performance comparison of $20,000*



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* The performance comparison of $20,000 over 5 years is for illustrative purposes only. All returns shown are based on Australian dollar figures. Past performance is not a reliable indicator of future performance. The total returns shown are prepared on an exit-to-exit basis (i.e. they include all ongoing fees and expenses and assume reinvestment of all distributions). They do not take personal taxation into account. The comparison with the S&P/ASX 300 Accumulation Index is for comparative purposes only. Index returns do not allow for transactional, 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.

Past performance is not a reliable indicator of future performance.

Performance of the Ralton High Yield Australian Shares Managed Account is based on theoretical portfolio tracking of the model portfolio and is gross of investment management and administration fees, but net of transaction costs. The total return performance figures quoted are historical, calculated using end-of-month mid prices and do not allow the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. This document is for general information purposes 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 the appropriateness of the information to their needs. This may involve seeking advice from a qualified financial adviser. Copia Investment Partners Ltd (AFSL 229316, ABN 22 092 872 056) (Copia) is the provider of the Ralton High Yield Australian Shares Managed Account model portfolio advisory service. To subscribe to this service please contact Copia by calling 1800 442 129. Any opinions or recommendation contained in this document are subject to change without notice and Copia is under no obligation to update or keep any information contained in this document current.

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