RALTON
ASSET MANAGEMENT

Ralton Australian Shares
PERFORMANCE REPORT
31 January 2016

Total returns

At 31 January 2016	1 month %	3 months %	6 months %	1 year %	3 years p.a. %	5 years p.a. %	Inception p.a. (Feb 2008) %
Ralton Australian Shares	-6.71	-4.76	-8.83	-2.09	10.26	8.73	6.11
Income return	*0.00*	*0.72*	*2.00*	*3.84*	*3.80*	*4.23*	*4.33*
Growth return	*-6.71*	*-5.48*	*-10.83*	*-5.93*	*6.45*	*4.51*	*1.78*
S&P/ASX 300 Accum. Index	-5.45	-3.53	-9.68	-5.83	5.28	5.46	2.89
Difference	**-1.26**	**-1.22**	**0.85**	**3.75**	**4.98**	**3.28**	**3.22**

Performance review

- The S&P/ASX 300 Accumulation Index fell heavily in January, starting the calendar year down 5.45%, with Materials and Financials the key negatives.
- The Ralton Australian Shares portfolio returned -6.71% for the month, underperforming the benchmark by 1.26%.
- For the month, being underweight Telecommunication Services and Utilities, together with stock selection within Financials, detracted from portfolio returns.

Performance attribution

The start of calendar year 2016 saw a dramatic rise in volatility across most major asset classes. This impacted equities, currencies, commodities – both hard and soft – with only safe havens such as gold and sovereign bonds seeing any support. With this backdrop, several of the portfolio's underperformers were impacted by swings in external factors, such as pricing of their outputs or investment returns.

Key contributors

Key contributors	Positioning
Star Entertainment Group	Overweight
Aristocrat Leisure	Overweight
Macquarie Atlas Roads	Overweight

Star Entertainment Group (SGR, +5.9%) - was the portfolio's top contributor, adding value to the portfolio in a volatile market. There was no specific news from the company, however a positive trading update from Sky City Entertainment (SKC), highlighting solid growth in its Auckland casino's VIP or high-net-worth gaming segment, likely had some positive read through for SGR's current trading (both companies are tied to the positive thematic of increased tourism from the Asian region). We note two further positive drivers for Star in that the company has, in recent periods, continued to win market share in the local Sydney market and that the NSW economy itself has been the strongest in Australia – both drivers should prove to be reasonable tailwinds for Star's core asset, the Star Casino in Sydney.

Aristocrat Leisure (ALL, +0.4%) - continued its recent strong run and was a positive contributor to portfolio performance for the month. Recent industry data suggests ALL has increased its market share for new product in the key NSW market. This evidence further supports our view that ALL's content investment in recent periods has been a success. This success has been leveraged or replicated across ALL's core gaming products, as well as its 'app-based' or social games.

Macquarie Atlas Roads (MQA, +4.9%) - shares in the toll road owner rallied following solid growth in traffic figures for the key assets, together with announced price (toll) increases. Traffic growth in the US Dulles Greenway road was particularly strong, suggesting the market may not be fully valuing this asset within the portfolio. MQA also announced changes to the APRR Concession – the agreement that governs the key French toll roads, which in part increased the concession life of one segment of the network while reducing the concession life of a smaller section of the road/tunnel network. In our view, this was a net positive to the long-term value of the assets.

Key detractors

Key detractors	Positioning
Incitec Pivot	Overweight
QBE Insurance Group	Overweight
iSelect Limited	Overweight

Incitec Pivot (IPL, -21.7%) - shares fell heavily in January as investors and market analysts alike took a negative view of the mounting price headwinds in several of IPL's key business exposures. With the sustained fall in the oil price sending a deflationary push through the commodity sector, prices for global gas, used in production of both Urea and Ammonia – key IPL products – were both falling. In the US, where coal mines are key customers of IPL's explosives businesses, we note that an unseasonably warm winter has reduced the demand for electricity and with it coal demand. Several of the US coal producers are under financial duress, although we note the bulk of IPL's customers operate low cost, top quality mines. Further, pricing for the DAP fertilizer segment has weakened, though again this is seasonal as global pricing typically becomes set in March/April. Although we recognise the effect of these multiple impacts, we do subscribe to the view that the oil price will rebound and with it, pricing for each of the outputs tied to energy prices. As such, across the cycle, IPL should produce solid cash flows, and this is not reflected in the current share price.

QBE Insurance Group (QBE, -13.6%) - was weaker during the month as investors perhaps remained concerned about margin pressure across the global insurance sector and declining bond yields. QBE relies on bond yields for its investment returns and with global volatility rising and bond yields falling, the market was factoring less uplift in bond returns than what they were anticipating as recently as the end of 2015. Despite this, we have been impressed by cost efficiencies delivered by QBE in recent years and believe the business is in solid shape. Further, QBE has also made major strides in improving the quality of its capital position and reducing the risk associated with its insurance book. Finally, after many years of shrinking the business and focusing internally, QBE management is able to target growth across its businesses by acquiring specialist underwriting teams – something that would be well received by investors.

iSelect Limited (ISU, -20.4%) - shares in ISU fell nearly 40% in mid-January following a profit downgrade under new CEO, Scott Wilson, before somewhat recovering across the month. Since taking over as CEO in October, Wilson has led a thorough review of all aspects of the business. In the interim, a series of poor strategy and hiring decisions impacting the health insurance workforce (largely sales consultants) has driven a material decrease in call centre conversion and profits, triggering the earnings downgrade. Wilson and his team had identified the issues and moved swiftly to implement a series of changes, which they believe are having an immediate beneficial impact – although not reflected in the poor performance for the December half-year – and hence the profit downgrade.

Although ISU has been a frustrating investment, we believe the own goals from ISU have finally ended and that the future holds far better prospects than what is reflected in the current share price, which by itself reflects basically the cash in the bank and the stated value of the trail book for prior commissions. Our recent meetings with ISU management highlight that turnaround on many leading metrics for the sales consultants for health insurance have improved. Further, progress for other verticals, notably energy and broadband sales, has continued from last financial year and is expected to be evident at the coming half-year profit results.

Portfolio additions and disposals

Key additions and material adjustments

There were no stock additions to the portfolio during the month.

Key disposals and material adjustments

Sold
Transpacific Industries (TPI)
Navitas Limited (NVT)

There were two outright sales from the portfolio during the month, with proceeds increasing our cash levels.

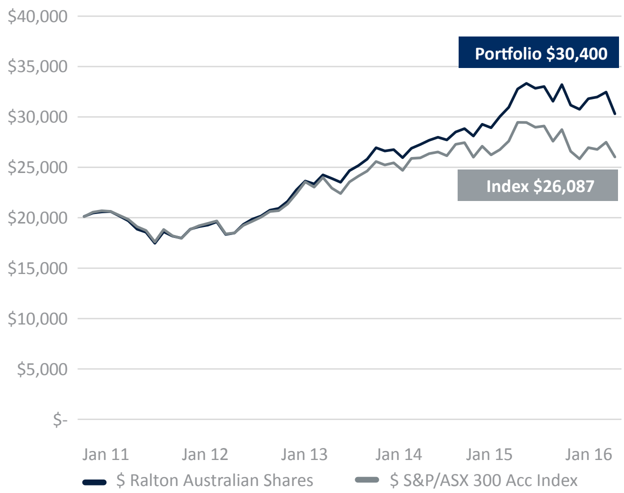
Transpacific Industries (TPI) - in the case of TPI, the solid share price recovery in recent periods led to our decision to exit the stock. The turnaround under CEO, Vik Bansal, we believe is gaining some traction, reflective to some degree of the strategic changes implemented by Bansal's predecessor. Despite what we expect to be steadily improving conditions for the core waste business, we are cognisant of the pressure that further oil price weakness will be placing on the smaller hydrocarbons segment. Furthermore, despite the improved operating results, we believe that further upside in the short term may be capped by the ongoing cash flow drain that the landfill provisions and need for ongoing remediation work at some of the older assets requires, capping the free cash flow. We will look to revisit TPI should valuation become more compelling.

Navitas Limited (NVT) - we elected to sell our holding in education provider, NVT. The shares have performed strongly in recent times in a weak market. Although the company is making headway in terms of improved profitability of the smaller SAE division and continues to grow its college offering offshore, the headwinds from the loss of a key Sydney contract appear to be proving harder to offset at the profit line. By itself, our sense was that this longer time frame was acceptable as an investment proposition, however the prospects for emerging markets and key education source countries have worsened. Although families frequently sacrifice most items for their children, we are concerned the coming periods may see education demand from the emerging markets temper and a flow-through impact on NVT's outlook. Given the valuation and recent performance, we elected to sell, but like TPI we will keep NVT on our investment radar.

Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	15.8%	5.1%	10.7%
Energy	7.8%	3.9%	3.9%
Health Care	10.0%	7.0%	3.0%
Information Technology	3.2%	1.2%	2.1%
Consumer Staples	7.4%	7.6%	-0.2%
Materials	10.8%	11.6%	-0.8%
Financials (ex-Property)	37.3%	38.5%	-1.2%
Industrials	5.9%	8.1%	-2.2%
Utilities	0.0%	2.5%	-2.5%
Telecommunication Services	0.0%	5.7%	-5.7%
Property	1.7%	8.8%	-7.1%
Total	**100%**	**100%**	

Performance comparison of $20,000*



Top 10 holdings#

Company name	ASX code
National Australia Bank Limited	NAB
Commonwealth Bank of Australia	CBA
CSL Limited	CSL
Westpac Banking Corporation	WBC
Aristocrat Leisure Limited	ALL
QBE Insurance Group Limited	QBE
AMP Limited	AMP
ANZ Bank Group Limited	ANZ
Coca-Cola Amatil Limited	CCL
Woolworths Limited	WOW

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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 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 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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