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 Smaller Companies	-5.55	-3.60	-0.64	7.32	12.12	10.72	6.85
Income return	*0.00*	*0.30*	*1.70*	*3.20*	*3.36*	*3.58*	*3.73*
Growth return	*-5.55*	*-3.90*	*-2.34*	*4.12*	*8.76*	*7.14*	*3.11*
S&P/ASX Small Ords Accum. Index	-5.11	-1.38	-0.04	3.59	-1.43	-3.10	-2.55
Difference	**-0.44**	**-2.23**	**-0.60**	**3.73**	**13.56**	**13.82**	**9.40**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index started the calendar year with a 5.11% fall in January, with weakness across the majority of market sectors.
- The Ralton Smaller Companies portfolio lost 5.55% for the month, underperforming the benchmark by 0.44% for the period.
- Our overweight position in Healthcare added value to the portfolio, although this was offset by our stock selection within both Materials and Consumer Discretionary.

Performance attribution

Key contributors

Key contributors	Positioning
Speedcast International	Overweight
Greencross Limited	Overweight
Tassal Group Limited	Overweight

Speedcast International (SDA, +13.3%) - shares in SDA performed strongly in January, boosted by SDA's acquisition of NewCom International. NewCom is a Miami-based provider of teleport and satellite services and hence this adds to SDA's existing global capability and continues the aggregation which SDA is driving in the sector. The acquisition cost of US$13.9m is modest but comes with potential upside payment of US$19m should NewCom deliver on 'stretch' targets for profits in the coming periods. At the same time, SDA also increased and refreshed its debt facilities which, together with SDA's strong cash generation, will provide scope for further acquisitions.

Greencross (GXL, +6.7%) - shares in the veterinary and pet retail business were supported by corporate activity, with reports a private equity group had attempted unsuccessfully to acquire a 15% stake in GXL in December. We have followed a number of global pet service businesses and note the solid growth and insatiable demand for rich countries to spend on their pets. Despite recent management changes at GXL and an aggressive expansion strategy, which has seen GXL increase its debt levels to fund inventory and store roll-outs, we have continued to back this investment in the medium term. For these reasons it appears that private equity and other investors are also showing interest.

Tassal Group (TGR, +2.3%) - TGR had a strong January in a weak market, adding to the returns from 2015. In mid-2015, TGR expanded beyond its traditional Tasmanian roots, acquiring the mainland-based De Costi seafood distribution business. We expect this will allow TGR to better control the distribution of its salmon into the various wholesale and retail markets, manage imports and exports alike and also gain some benefits from adjacent seafood categories. Wholesale prices in the salmon markets have been rising of late, reflecting the rising cost of imports and reasonably balanced domestic supply. This benefits TGR to some degree although we note TGR's business is more heavily biased toward more reliable retail segments, where pricing is far more stable.

Key detractors

Key detractors	Positioning
Billabong International	Overweight
iSelect Limited	Overweight
Super Retail Group	Overweight

Billabong (BBG, -34.3%) - BBG detracted from the portfolio in January as investors continue to be unnerved by the profit downgrade provided at the AGM in October. In an uncertain environment as we have witnessed for equity markets at the start of the year, these concerns, together with mixed US retail data, exacerbated investor nervousness. We also note BBG announced Ed Leasure, President of the Americas region, announced his intention to retire, closing a career of 40 years in the action sports industry. While the resignation of one of the senior management team just following a profit downgrade always warrants questioning, we do note that succession planning was well advanced with a series of internal appointments set to assume responsibility for Leasure's role when he formally departs in late January.

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.

Super Retail Group Ltd (SUL, -10.7%) - one of the portfolio's largest holdings gave up some of the gains made across 2015 in January as part of what appears to be broad market weakness. Although consumer confidence has likely fallen in line with share markets, investors appeared willing to sell down their investments across the retail sector despite what was widely reported as a solid trading period in the key Christmas window. The high profile collapse of Dick Smith (DSH) certainly did not help with sentiment toward the retail sector, although we would highlight that DSH's issues appear largely of its own making and perhaps more specifically relate to the electronics segment and DSH's poor competitive positioning.

Portfolio additions and disposals

Key additions and material adjustments

There were no stock additions to the portfolio in January.

Key disposals and material adjustments

Sold
Skycity Entertainment (SKC)
Navitas Limited (NVT)
AWE Ltd (AWE)

We sold three stock holdings outright in January and also took profits in Freedom Foods (FNP) following the strong share price movement in the last quarter.

Skycity Entertainment (SKC) - a profit upgrade from the company in January was well received by the market and allowed us the opportunity to take profits and sell our position. SKC continues to operate well with favourable tailwinds in the form of the Auckland economy and rising tourism into NZ, supported by strong management team leading the key casino asset in Auckland to report strong profit growth. However, with SKC about to embark on significant capital expenditure and projects in both Auckland and to the smaller Adelaide asset – the latter which continues to struggle from an operational perspective – our view was to take profits and watch for a potential cheaper entry point in the future.

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 (snapshot) 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.

AWE Ltd (AWE) - we sold our holding in energy company, AWE. AWE is asset rich with a range of mid-quality producing oil and gas assets and future investment opportunities. However, the decline in oil prices has impacted both the profitability of AWE's assets, the viability of developing key projects, in terms of funding capability and the economic returns, and finally the share price. With AWE able to sell its 10% holding in the Sugarloaf project for US$190m – its hand was somewhat forced by the oil price declines – we took the share price rally as an opportunity to exit our position in AWE.

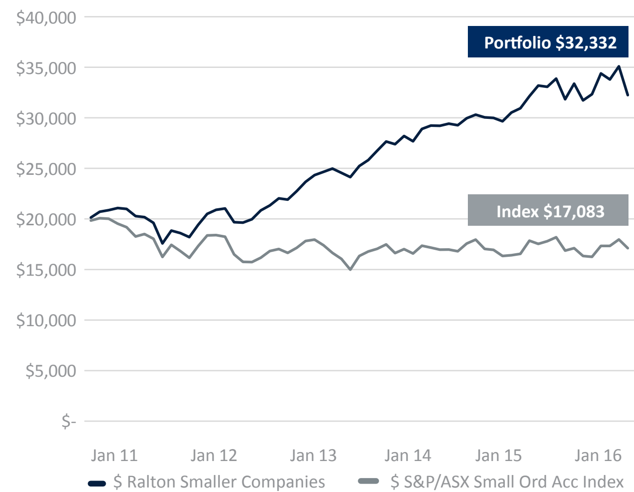
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	33.7%	22.2%	11.5%
Consumer Staples	13.4%	8.9%	4.5%
Health Care	11.6%	7.3%	4.2%
Energy	3.0%	2.1%	0.9%
Industrials	12.4%	12.6%	-0.2%
Utilities	0.0%	0.7%	-0.7%
Financials (ex-Property)	7.4%	8.9%	-1.4%
Telecommunication Services	2.5%	4.1%	-1.6%
Information Technology	2.6%	6.4%	-3.8%
Materials	10.6%	14.5%	-3.9%
Property	2.8%	12.3%	-9.5%
Total	**100%**	**100%**	

Top 10 holdings#

Company name	ASX code
Super Retail Group Limited	SUL
Fisher & Paykel Healthcare Corporation Limited	FPH
Pact Group Holdings Limited	PGH
Aristocrat Leisure Limited	ALL
Sky Network Television Ltd	SKT
Macquarie Atlas Roads Group	MQA
Virtus Health Limited	VRT
Ardent Leisure Group	AAD
Tassal Group Limited	TGR
Fletcher Building Limited (Australia)	FBU

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 Small Ordinaries 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 Smaller Companies 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 Smaller Companies 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.