RALTON ASSET MANAGEMENT

Ralton Leaders
PERFORMANCE REPORT
29 February 2016

Total returns

At 29 February 2016	1 month %	3 months %	6 months %	1 year %	3 years p.a. %	5 years p.a. %	Inception p.a. (Feb 2008) %
Ralton Leaders	-2.51	-6.35	-4.99	-10.74	7.08	7.45	5.33
Income return	*0.69*	*0.72*	*2.22*	*3.96*	*4.08*	*4.44*	*4.42*
Growth return	*-3.19*	*-7.07*	*-7.21*	*-14.70*	*3.00*	*3.01*	*0.91*
S&P/ASX 100 Accum. Index	-1.98	-4.94	-4.73	-14.33	3.21	5.31	3.14
Difference	**-0.52**	**-1.41**	**-0.26**	**3.59**	**3.87**	**2.14**	**2.19**

Performance review

- The S&P/ASX 100 Accumulation Index was in negative territory in February, losing 1.98%, with falls in Financials and Consumer Staples offsetting large gains in the Materials sector.
- The Ralton Leaders portfolio lost 2.51% for the month, underperforming the benchmark by 0.53% for the period.
- For the month, being underweight Materials detracted from relative performance, although this was offset to some degree by our stock selection within both the Energy and Consumer Staples sectors.

Performance attribution

Key contributors

Key contributors	Positioning
Brambles Limited	Overweight
Origin Energy	Overweight
Amcor Limited	Overweight

Brambles Limited (BXB, +12.2%) – reporting season for corporates was a key driver of stock movements for February. Brambles' global transport business produced a solid profit result for the first half of its financial year, together with an increase to profit guidance for the full year. Noteworthy features were solid margin results for the core CHEP pallet businesses, together with contract wins in the US for JNJ and Mountain Farms. The company's RPC, or rigid plastic container, business also reported reasonable growth, despite the loss of a key contract for Safeway in the US. At the full-year results in August last year, BXB investors reacted negatively to BXB's decision to boost CAPEX to support future customer growth. To our eyes, these results and the increased future profit guidance vindicated management's decision to boost investment and support customer growth, particularly when you factor in the high incremental margins and return on capital BXB achieves by expanding its pallet pool.

Origin Energy (ORG, +8.1%) – was boosted by a relatively clean half-year profit result in February. Origin's energy market business delivered good growth with margin expansion in ORG's domestic gas retailing business a noteworthy feature which we had been expecting for some time. ORG's APLNG plant has finally commenced operations with the first train now operational and targeting mid-2016 for formal completion testing with contractor, Bechtel. The second train is expected to come online shortly. Further, a modest 4% rise in the oil price across February, together with supportive commentary from key oil-producing countries, Russia and Saudi Arabia, about the potential for oil production output freezes, was also supportive of ORG for the period.

Amcor Limited (AMC, +5.3%) – shares recouped January's losses following a strong profit result for the half year, a result that highlighted the strength of AMC's global packaging offer and the customer and regional diversity it brings. In particular, AMC reported solid volume demand in Europe and strong demand for drinks volume in the US and parts of Latin America. In recent years, emerging markets have been the key driver of volumes at AMC, so it is pleasing to see the larger, developed markets deliver some improved volumes. AMC continues to acquire bolt-on packaging businesses, particularly in emerging markets, noting small acquisitions in both India and China in recent periods.

Key detractors

Key detractors	Positioning
National Australia Bank Limited	Overweight
Bank of Queensland Limited	Overweight
CYBG PLC	Overweight

Market volatility and broad-based weakness in the Financials sector saw our bank holdings dominate the portfolio's underperformers for the month.

National Australia Bank (NAB, -9.9%) – was the key detractor as the shares weakened with the broader market and sector. The exit of well-respected CFO, Craig Drummond, also weighed on market sentiment. Drummond is an ex-investment banker whose contribution to the bank included the sale or exit of NAB's offshore investments in both the US and UK. With the US interests exited already and the demerger of the UK banks (CYBG) completed early in February, Drummond was clearly intent on pursuing his own career as CEO, and hence it appears he has moved on to seek opportunities elsewhere.

Shares of NAB's UK spin-off, the Clydesdale and Yorkshire banks, renamed CYBG PLC (CYB), also underperformed across the month and weighed on portfolio returns. The stock demerger occurred on 3 February with NAB shareholders receiving 75% of the stock in the dual-listed London and Sydney company. Although share trading post the demerger began in positive fashion, by month's end, the stock had underperformed along with other listed peers. The striking feature of CYB's banking metrics is the key cost to income or expense ratio which sits at ~75%, well above most global peers. In most demergers, management brings more focused attention to running the smaller entity and can grow or pursue efficiencies which would not have been achievable as part of a longer business. If CYB's new management can progressively manage the cost to income ratio down (via growing the loan book and/or trimming costs) without any major deterioration in the economic backdrop for the United Kingdom, then upside exists to the current profitability of CYB. We have upweighted our portfolio holding based on what appears to be the value on offer.

Bank of Queensland (BOQ, -19.4%) – BOQ shares, although only a small position in the portfolio, fell heavily on a stock-specific profit downgrade. BOQ updated the market with a view that Net Interest Margin (NIM) was under pressure as competition in its core banking segments had intensified. Further, BOQ noted that funding costs had also moved unfavourably as market turmoil increased across 2H15. To offset these impacts, BOQ has commenced an efficiency program, which will look to recover some of the lost margin or profit.

Portfolio additions and disposals

Key additions and material adjustments

Bought
Graincorp (GNC)

We added Graincorp (GNC) to the portfolio during the month, plus UK-based bank, CYBG (CYB), following the demerger from NAB.

Graincorp (GNC) – we acquired a position in GNC based on our view of the value of its key assets. GNC has long held strategic port and upstream grain storage assets on the east coast. We would note that these markets have become more competitive since deregulation. GNC is, however, diversifying its business away from pure grain storage and associated marketing and now earns significant profits from both malt and food oil businesses. Pleasingly, it continues to invest in these divisions, whereas many other Australian management teams remain reluctant to invest. These investments will see GNC better able to compete on a global stage with grain handlers and large food trading operations, while also producing a more reliable profit stream with reduced exposure to the vagaries of grain harvests year to year.

We also note GNC has partnered with a series of large Australian superannuation funds and west coast grain farmers in a high profile consortium seeking to demutualise CBH, the west coast grain cooperative. Such demutualisations are typically protracted as GNC well knows, however we note GNC has come up with a structure that allows it to make a material investment, although its partners will contribute to the leg-work required to pursue such an initiative.

Key disposals and material adjustments

There were no outright sales from the portfolio during the month.

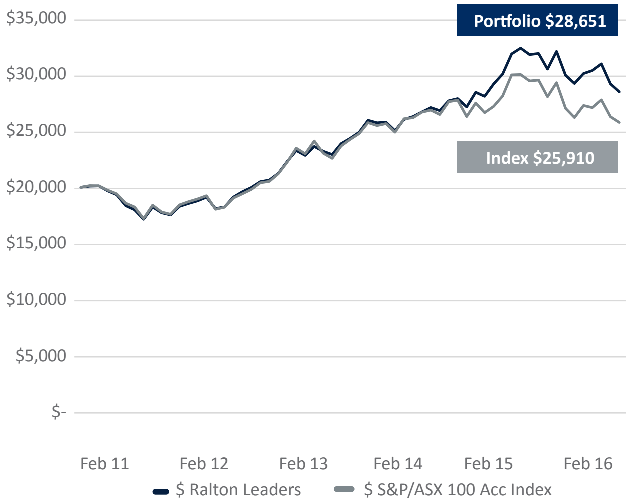
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Staples	11.8%	7.3%	4.5%
Health Care	11.4%	7.3%	4.1%
Consumer Discretionary	7.1%	3.4%	3.7%
Financials (ex-Property)	42.2%	39.1%	3.1%
Energy	6.1%	4.2%	2.0%
Information Technology	1.4%	0.6%	0.8%
Industrials	6.2%	8.4%	-2.2%
Materials	10.2%	12.5%	-2.3%
Utilities	0.0%	2.7%	-2.7%
Telecommunication Services	1.5%	5.7%	-4.2%
Property	2.0%	8.8%	-6.8%
Total	100%	100%	

Top 10 holdings#

Company name	ASX code
Commonwealth Bank of Australia	CBA
National Australia Bank Limited	NAB
CSL Limited	CSL
Westpac Banking Corporation	WBC
Amcor Limited	AMC
QBE Insurance Group Limited	QBE
Brambles Limited	BXB
AMP Limited	AMP
Sonic Healthcare Limited	SHL
ANZ Bank Group Limited	ANZ

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 100 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 Leaders 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 Leaders 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.