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 Leaders	-0.44	-0.23	-0.69	11.48	9.17	12.19	9.60	6.78
Income return	*0.56*	*1.41*	*1.99*	*4.04*	*3.95*	*4.03*	*4.30*	*4.54*
Growth return	*-1.00*	*-1.64*	*-2.68*	*7.43*	*5.22*	*8.15*	*5.30*	*2.24*
S&P/ASX 100 Accum. Index	-0.10	0.41	-1.29	9.72	7.01	10.35	8.16	5.02
Difference	**-0.33**	**-0.64**	**0.61**	**1.76**	**2.16**	**1.84**	**1.43**	**1.76**

Performance review

- The S&P/ASX 100 Accumulation Index added 0.41% for the quarter, boosted by gains in the Energy and Materials sectors, offset by the underperforming Telecommunications sector
- The Ralton Leaders portfolio lost 0.23% in the quarter, underperforming the benchmark by 0.64%.
- For the September quarter, being overweight Energy added value to the portfolio, offset by stock selection within Financials and our 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 Limited	Overweight
Santos Ltd	Overweight
Lendlease Group	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.

Santos Limited (STO, +32.7%) – progress made on the strategic front, together with the operational turnaround under CEO Gallagher drove gains in the STO share price over the quarter. The key highlights from the first half results were evidence of reduced drilling costs and improved production results, namely gas flows from key fields. Together with interest savings and productivity and efficiency measures across the organisation, this resulted in lower free cash flow breakeven for oil equivalent production of US$33 during the period. At current oil prices, this drove solid free cash flow and debt reduction. If STO can continue to maintain and improve the efficiency of its operational and capital expenditure processes this will drive reserve upgrades for STO's gas fields.

At a more strategic level, STO continues to advance various growth projects and simplify its organisation and capital structures. Enhanced gas production and flexibility has enabled STO to write new gas supply contracts and enhance flexibility within its own Horizon gas contract with GLNG. Such contracts and similar moves by peers, including diversion of gas from export LNG markets toward domestic supply appears to have reduced sovereign and regulatory risk in relation to the government's export gas reservation policy. This redirection of gas was very much as we had envisaged, although rational outcomes and government policy are not always correlated. Curiously, domestic spot prices for gas have fallen in recent months and international export prices have risen. It is a market place after all!! Critically, we believe that STO is now well placed to deal with such pressures, emphasising the importance of better drilling results and the flexibility it ensures.

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.

Key detractors

Key detractors	Positioning
QBE Insurance Group	Overweight
Aristocrat Leisure	Overweight
Healthscope limited	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.

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.

Healthscope Limited (HSO, -24.4%) – hospital operator HSO disappointed investors with soft operating results in the second half of the financial year and an outlook for basically flat EBITDA in the coming year. The key issue was its Victorian hospitals, where high wage growth for its nursing staff and a series of ramp-up issues at new and relocated facilities offset reasonable operating performance across the balance of the portfolio. New CEO Gordon Ballantyne also highlighted a (largely one-off) rise in corporate costs for the coming year, in what is somewhat expected behaviour for an incoming CEO. We don't believe that these developments detract from our core thesis for HSO, and view it as capable of growing admissions around 2-3% per annum and driving margin improvement as its new brownfield developments ramp up. On this basis, we see HSO as reasonable value over the medium term, although as with many turnaround investments, progress in the early stages may be slow and headwinds may persist in the short term. On a positive note, HSO is seeing very solid volume growth in its recently opened brownfield developments outside of Victoria.

Portfolio changes

Key additions and material adjustments

Bought
Wesfarmers (WES)
Link Administration Services (LNK)
AGL Energy Limited (AGL)

We added a small position in **Link Administration Services (LNK)** to the portfolio in July. LNK is a financial data administrator organised into three core divisions, namely Fund Administration, Corporate Markets and Information, Data and Digital Services (IDDS). Link dominates the market for Fund Administration in the superannuation space in Australia with 42% of the total market and 70% of the outsourced market. This division is the core driver of profit growth, fueled by synergies and efficiencies from the Super Partners acquisition and growth in members. With its scale and cost benefits, we would expect that Link will in time benefit from further outsourcing of

administrative services. Link recently entered the United Kingdom and European markets via the acquisition of Capita Asset Services (CAS). The transaction is expected to be accretive to Link's profits and provide long term strategic optionality for LNK to expand its core services and offering. Finally, we expect that LNK will benefit from ongoing efficiency measures, targeting automation and robotics across its suite of services. LNK will no doubt share some of these savings with its customers, however we expect it to benefit from scale and industry consolidation as competitive barriers rise.

We added a position in **Australian conglomerate Wesfarmers (WES)** to the portfolio in August. Although perhaps needing little introduction, we would remind investors that WES owns retail operations across Coles supermarkets, 'category killer' Bunnings, Kmart, Target and Officeworks, in addition to industrial, chemical and coal mining operations. Coles and Bunnings are the biggest contributors, each accounting for nearly 30% of annual WES profits.

The shares have traded sideways in recent times, impacted by the resurgence of Woolworths' supermarkets under Brad Banducci and Aldi's expanding footprint in Australia. This competitive dynamic has seen Coles somewhat on the back foot, with sales and margin momentum pressured. Assuming that a price war does not break out amongst the supermarket majors, we expect Coles to be able to re-focus its own business and produce solid profitable returns. Bunnings and Kmart remain market leaders, which together with a potential turnaround in Target and reasonable outlook for Asian coal pricing informs our positive view on WES. WES retains a very healthy balance sheet, is paying out a high portion of annual profits as fully franked dividends and trades at an attractive valuation in the current market.

AGL Energy Limited (AGL) – having sold our AGL position in the June quarter, 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.

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

Sold
Coca-Cola Amatil (CCL)

Having added Consumer Staples company Wesfarmers to the portfolio, we decided to exit our underperforming position in Coca-Cola Amatil (CCL) in August. As we discussed in a prior 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.

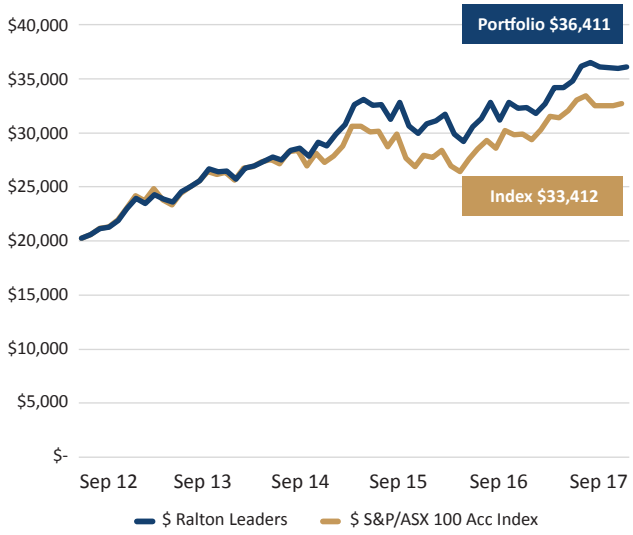
Sector allocation

GICS sector	Ralton	Index	+/-
Energy	8.4%	4.2%	4.3%
Consumer Staples	11.1%	6.9%	4.2%
Information Technology	4.6%	1.0%	3.6%
Consumer Discretionary	5.9%	3.3%	2.6%
Telecommunication Services	3.2%	3.2%	0.0%
Materials	16.9%	16.9%	0.0%
Utilities	1.8%	2.3%	-0.5%
Health Care	6.3%	7.1%	-0.8%
Industrials	5.3%	7.2%	-1.9%
Real Estate	6.0%	8.0%	-2.0%
Financials	30.4%	39.9%	-9.5%
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
Commonwealth Bank of Australia	CBA
Wesfarmers Limited	WES
Boral Limited	BLD
QBE Insurance Group Limited	QBE

Performance comparison of $20,000*



CONTACT COPIA 1800 442 129 | clientservices@copiapartners.com.au | 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 Leaders 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 100 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.