Total returns

At 31 May 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 Smaller Companies	0.77	5.46	10.04	15.02	12.52	16.51	13.89	8.51
Income return	*0.05*	*0.93*	*1.23*	*2.83*	*3.03*	*3.53*	*3.69*	*3.83*
Growth return	*0.72*	*4.53*	*8.82*	*12.19*	*9.49*	*12.98*	*10.19*	*4.68*
S&P/ASX Small Ord Accum. Index	-2.05	0.31	2.72	3.55	6.04	4.22	3.07	-0.42
Difference	**2.82**	**5.15**	**7.33**	**11.47**	**6.48**	**12.30**	**10.82**	**8.92**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index lost 2.05% in May, weighed down by most market sectors. Industrials and Information Technology were the major offsets adding value to the benchmark.
- The Ralton Smaller Companies portfolio gained 0.77% for the month, outperforming the benchmark by 2.82% for the period.
- Our overweight positions in Healthcare and underweight exposures to both Consumer Discretionary and Financials were the key drivers of our outperformance.

Performance attribution

Key contributors

Key contributors	Positioning
Ainsworth Game Technology Limited	Overweight
Macquarie Atlas Roads Limited	Overweight
Fisher & Paykel Healthcare Corp Ltd	Overweight

Ainsworth Game Technology (AGI, +18.8%) – shares rallied, reflecting investors' improving views on the company's near-term profit outlook. Although there was no company-specific news update during the month, peer gaming company Aristocrat Leisure's (ALL) half-year profit results were likely a fair guide to AGI's outlook. Although ALL's group results were very strong, the one area where profits appear to have plateaued was Australia. This suggests Aristocrat is reaching a 'natural ceiling' in market share in Australia. Supportive industry feedback further suggests AGI is gaining traction in the US with recent product launches, and it appears investors are beginning to believe in AGI's operational turnaround. This remains subject to execution, which we continue to monitor.

Macquarie Atlas Roads (MQA, +9.6%) – shares in toll road asset manager, MQA, performed strongly during the month. MQA's principal asset is the APRR toll-road located in France. There were three key drivers for MQA during the month: 1) the election of Emmanuel Macron as French President was a positive as it removes the potential political risk around the asset and should stimulate economic growth if he delivers on his reform platform, 2) the strengthening of the Euro against the Australian dollar assisted the translation of the value of the asset for domestic shareholders, and 3) the decline in bond yields during the month have also been supportive of infrastructure assets.

Fisher & Paykel Healthcare (FPH, +10.1%) – a strong profit result for the FY17 financial year, including a near 20% growth in profit to shareholders, was well received by investors. These profit figures were somewhat dampened by unusually high legal costs, as FPH seeks to rigorously defend its intellectual property in the courts. We expect such costs to 'mean revert' to lower levels in the medium term. Both key operating divisions again reported solid revenue growth, suggesting ongoing market share gains for the OSA (obstructive sleep apnoea) division and further penetration of various hospital-based treatments for the RAC (respiratory) division. In the medium term, ongoing growth and penetration of hospital-based oxygen treatments, the recent in-sourcing of FPH's US sales force and expanded manufacturing capacity in lower-cost jurisdictions, should all contribute to future profit growth. Further over the horizon, we have a positive view on FPH's use of various 'oxygen'-based treatments in COPD (Chronic Obstructive Pulmonary Disorder) in the home setting which should reduce complications and costs, subject to further clinical validation. Evidence for the use of FPH's technology in these areas is building, but we do not expect material contribution to sales in the short term.

Key detractors

Key detractors	Positioning
Australian Pharmaceutical Ltd	Overweight
Greencross Limited	Overweight
Pact Group Holdings	Overweight

Australian Pharmaceutical Industries (API, -20.0%) – API was one of many Australian consumer-facing stocks that underperformed across May, reversing recent share price gains. This was despite reporting solid half-year profit results just last month. The key highlights were profit

growth of 15%, a further eight Priceline stores added to the network and a significant reduction in net debt. Future concerns about the impact of Amazon's Australian entry on what has been a muted retail sector have certainly weighed on the broader retail segment. API's Priceline offering is unlikely to be totally immune to this threat. That said, we see API as one of the better quality, less discretionary-focused offerings in the market. Its defence against new structural threats will come down to the quality of its retail offering, the strength of its brand and ability to adapt. We view Priceline's model, targeting women in the low to mid-market product categories with an average basket size of only $28, high in-store service quality, strong loyalty program and high footfall traffic, prepares it well for the arrival of Amazon and others. At a corporate level, API relies on adding ever more pharmacists to its network, with franchise-type fees a key driver of group profit growth. In a tough retail climate, pharmacists are likely encouraged to move toward corporate models such as Priceline and hence we believe this support remains.

Greencross (GXL, -17.2%) – veterinary and pet-focused retail operator, GXL, fell victim to similar concerns to API as investors de-rated shares across the broader retail and consumer sector. Again, we would highlight the strengths of what is the GXL consumer offering. The model is led by its veterinary offering supported by a dynamic, competitive retail offering that features both a strong loyalty program and well penetrated private label offering. Across the world over the last 20 plus years, we have witnessed the resilience of pet-focused companies against various consumer headwinds and the ever-present willingness for rich countries to spend money on their pets. It was pleasing to see the GXL Chairman recently purchase a meaningful amount of shares on market.

Pact Group (PGH, -12.8%) – after reporting soft volumes in late April, PGH has seen a continued share price pull-back in May. The volume decline was driven by a soft economy, certain PGH industry exposures and some impact from the timing of Easter holidays. We do not believe this period is reflective of PGH's underlying business opportunity and have since upweighted our position. Under CEO, Malcolm Bundey, PGH has been expanding its product offering, winning contracts and continuing to make bolt-on acquisitions. Bundey brings considerable international experience to PGH and is overseeing a considerable productivity drive across its manufacturing footprint. These measures, together with the commencement of a material new 'crate washing' contract in FY18 and other smaller contract wins, particularly in contract manufacturing with parties such as Aldi, are expected to support future profit growth.

Portfolio changes

Key additions and material adjustments

We added several new stocks to the portfolio with each discussed in turn.

Bought
Infigen Energy (IFN)
Hotel Property Investments (HPI)
Ingham's Group (ING)

Infigen Energy (IFN) – renewable energy producer, IFN, owns a series of wind farms in Australia, producing around 1500 MW of power for Australian homes and businesses annually. The wind farms are well established, meaning wind patterns and the like tend to be fairly predictable and hence electricity generation is reliable. High debt levels and restrictive cash flows that relate to an aggressive financing package from GFC times have meant zero corporate flexibility for IFN. Balance sheet quality has recently improved, driven by strong energy prices, increasing cash flows and an equity raising to support future wind farm developments. We now expect IFN will be able to achieve two key milestones in the near term: first, enter development and construction for a new wind farm in Bodangora, utilising the funds recently raised and supported by project finance for the farm, and second, refinance corporate debt as cash flows allow a more sensible debt package and interest rate. We expect growth from new projects and interest savings from the debt refinance will allow solid profit growth for IFN and allow it to strike a more normal balance between capital strategy around operating assets, funding new projects and dividend payments to shareholders.

Hotel Property Investments (HPI) – HPI is essentially the landlord for Coles' Queensland and South Australian pubs and bottle shops, along with a very small exposure to adjacent specialty retailers on the same sites. HPI has attractive lease structures with Coles, who is clearly a well-rated tenant. We believe this should provide for stable rent profile, which in turn supports a healthy and likely growing dividend yield for the stock.

Ingham's Group (ING) – we also purchased a small position in poultry provider, Ingham's. Ingham's is a household name, being Australia's largest poultry supplier with operations spread across the country. Long a family owned and managed business, ING recently listed on the public markets. The company culture and strategy is morphing from these family roots toward a modern, efficient fast-moving consumer goods company. The company has a well-respected CEO and has established clear targets around productivity and profit objectives

across a range of business areas. We sense these targets are attainable which is important as they form part of the prospectus targets. Beyond the initial phase, we expect ING has considerable scope to improve profits, margins and cash flows. Our view is based on understanding the family roots and limitations this placed on operational performance for many years, and further, benchmarking against global peers.

As one of the dominant suppliers of poultry in Australia, including the key supermarkets, we believe ING has reasonable power against its customers and draw some parallels to **Tassal Group (TGR)** where supply constraints, breeding cycles and quarantine all provide protection against competition. BBQ chickens are one of the key suppliers of foot traffic into supermarkets and hence the Coles and Woolworths of this world need ING's chickens!

Key disposals and material adjustments

We exited two long-standing portfolio holdings in May.

Sold
NewsCorp (NWS)
Virtus Group (VRT)

NewsCorp (NWS) - has continued to deliver a mixed series of results over recent years. The digital or new media assets in both Australia and the US continue to advance, growing their markets and profits in turn. The book publishing assets have successfully transitioned part of its operations to an online offering and this continues to perform well. However, the newspaper businesses continue to struggle and these trends have accelerated in recent times. Perhaps most critical to the valuation has been the ongoing deterioration of Foxtel. This more rapid structural pressure has limited the upside to the overall NWS valuation and hence we have elected to sell.

Finally, we sold our position in **Virtus Group (VRT)** taking advantage of recent share price strength. Competition and the nuances of the economic cycle and local geographical factors across VRT's IVF clinics have created greater earnings volatility than what we had expected. With recent IVF data for most Australian states ticking up and the VRT share price moving higher on the back of this, we elected to exit this position for now, with a view to revisiting at a later date.

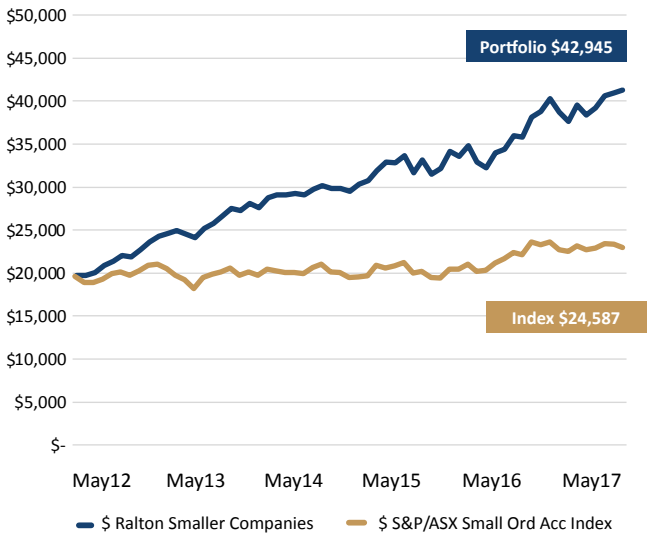
Sector allocation

GICS sector	Ralton	Index	+/-
Health Care	17.8%	7.4%	10.5%
Materials	22.3%	17.1%	5.2%
Telecommunication Services	5.9%	1.9%	4.0%
Information Technology	4.7%	4.9%	-0.1%
Energy	5.7%	5.9%	-0.2%
Consumer Staples	8.2%	8.5%	-0.3%
Industrials	8.5%	8.9%	-0.4%
Utilities	0.0%	0.7%	-0.7%
Financials (ex-Property)	9.0%	10.0%	-1.0%
Consumer Discretionary	15.2%	20.2%	-5.0%
Real Estate	2.6%	14.5%	-11.9%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
Fisher & Paykel Healthcare Corp Ltd	FPH
Evolution Mining Ltd	EVN
Macquarie Atlas Roads Limited	MQA
Worleyparsons Limited	WOR
Nextdc Ltd	NXT
Japara Healthcare Ltd	JHC
Ainsworth Game Technology Ltd	AGI
iSelect Ltd	ISU
Superloop Limited	SLC
Fletcher Building Limited (Australia)	FBU

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 Smaller Companies 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 300 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.

This document is for general information 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 whether the information is suitable for their needs. This may involve seeking advice from a qualified financial adviser. Ralton Asset Management (AFSL 298210, ABN 45 114 924 382) (Ralton) is the provider of the Ralton Wholesale Smaller Companies Model Portfolio. To subscribe, contact Copia Investment Partners Ltd (AFSL 229316, ABN 22 092 872 056) (Copia) by calling 1800 442 129 or email clientservices@copiapartners.com.au. Any opinions or recommendations contained in this document are subject to change without notice. Ralton and Copia are under no obligation to update or keep information contained in this document current.