

Total returns

At 31 May 2018	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Inception % p.a. (Feb 2008)
Ralton Leaders	1.03	0.60	2.45	6.75	5.75	10.35	9.89	7.12	7.04
Income return	0.76	1.24	2.16	4.36	4.08	4.06	4.31	4.50	4.52
Growth return	0.27	-0.64	0.28	2.39	1.66	6.29	5.58	2.62	2.52
S&P/ASX 100 Accum. Index	0.89	0.74	2.46	8.35	5.49	8.63	8.51	5.50	5.46
Difference	0.14	-0.14	-0.01	-1.60	0.25	1.72	1.38	1.62	1.58

Performance review

- The S&P/ASX 100 Accumulation Index returned 0.89% for May, with Health Care and Materials the top performing sectors and Telecommunication Services and Consumer Staples the weakest performers for the period.
- The Ralton Leaders portfolio returned 1.03% for the month, outperforming the benchmark by 0.14%.
- At a sector level being underweight Financials and overweight Consumer Discretionary added value to the portfolio, somewhat offset by our overweight to Information Technology.

Performance attribution

Key contributors

Key contributors	Positioning
Aristocrat Leisure	Overweight
Macquarie Group Ltd	Overweight
BHP Billiton Ltd	Overweight

Aristocrat Leisure (ALL, +12.01%) – reported a strong 1H18 result during the month, exceeding market expectations, driving the stock higher in May. The result confirmed our view that the core US slots business continues to gain market share from indebted competitors as the rollout of new product including Dragon Link gains traction. More importantly, the result showed a strong performance from ALL's Digital business with both Plarium and the more recently acquired Big Fish growing strongly. The market has been hesitant to ascribe full value to the digital assets to date. However, strong performance and increased comfort around the digital strategy should see further outperformance. We expect ALL to continue to show strong growth in the medium term. Pleasingly, ALL is not reliant on any single growth driver as we see sustainable growth from its core slot operations, expansion into adjacent markets, continued momentum in its digital businesses as well as a supportive US consumer backdrop. Valuation remains attractive as outperformance to date has been driven by strong EPS growth rather than PE expansion.

Macquarie Group Ltd (MQG, +5.19%) – performed solidly for the portfolio during May after delivering a strong increase in operating earnings at its full year result. MQG continues to see solid growth from across its portfolio of global businesses and also benefited from a lower tax rate resulting from the cut to the US corporate tax rate. The group has also benefited in terms of public perception by not being called before the Royal Commission. MQG is leveraged to the ongoing growth in its AUM, a decline in its cost-to-income ratio (CTI) to reflect the change in profile of the business and the expected lift in IPO's and other corporate activity in the later stages of this cycle. This provides a substantial amount of scope to drive/maintain earnings. MQG offers a good yield versus that of the broader market.

BHP Billiton Ltd (BHP, +5.95%) – was a positive contributor to portfolio returns during May as the rally in oil prices not only increased the earnings, but also boosted the sale proceeds expected from the divestiture of the company's US shale oil assets. BHP is steadily improving its asset base and free cash flow though the divestiture of non-core assets, tighter management around its capital expenditure and by lowering costs and improving productivity. This will ultimately allow higher capital returns to shareholders. The divestiture of the US shale oil assets should release around US\$10bn which will likely be returned after completion. We believe BHP is well positioned for the current commodity price environment as it has long-life, low cost, well-invested assets in low-risk jurisdictions, as well as a strong balance sheet and attractive growth options.

Key detractors

Key detractors	Positioning
Boral Ltd	Overweight
Link Administrative Holdings	Overweight
Star Entertainment Group	Overweight

Boral Ltd (BLD, -8.87%) – continued to trend lower during the month after a disappointing trading update in April which provided a headline upgrade but an underlying downgrade to FY18 earnings. While disappointing, we

view the downgrade as largely attributable to one-off factors that won't be present in FY19 and as such maintain our positive view. The headline upgrade was driven by a property sale in New South Wales and a subsequent lower effective tax rate. However, unfavourable weather in key states and an unscheduled outage at the company's main cement manufacturing plant, which is now resolved, were a drag on the rest of BLD's Australian business. Severe winter conditions impacted the US operations. However, operational issues in the newly acquired Flyash business will be monitored closely as it is a key platform for value creation. Following a review of key drivers and further engagement with management, we remain positive on the potential of BLD's merged US operations and its exposure to the recovering US housing market and infrastructure boom in Australia.

Link Administrative Holdings (LNK, -17.35%) – suffered a substantial fall during the month after an announcement was made in the Federal Budget about changes to the administration of certain superannuation accounts. As LNK generates a fee per account administered this is expected to hit earnings from FY20. Despite this, LNK still offers relatively low risk earnings growth through the delivery of synergies from its Super Partners acquisition in Australia and Capita Asset Services in the UK. During May we were able to hear more from the UK management team about the scope of the current business and the opportunities for growth. The group also recently raised more capital, giving it a strong balance sheet from which to deliver further accretive bolt-on acquisitions to its European operations.

Star Entertainment Group (SGR, -6.06%) – hosted its annual investor day during May. While the update confirmed the strong medium-term outlook, short term trading was marginally weaker than expected and future capex was revised up. SGR customers in the private gaming rooms have had a strong winning streak which has impacted returns, a trend we expect to normalise back to long term levels and pleasingly VIP visitation is rebounding strongly following a period of weakness. SGR is investing heavily over the next few years and a higher than expected capex forecast is largely attributable to an increase in scope with a lesser amount related to project cost inflation. We remain confident that SGR will extract strong returns from its project pipeline due to the quality and position of assets as well as our constructive view on tourism-driven visitation. The company's strategic relationship with Chow Tai Fook and Far East Consortium not only provide capital and expertise but also access to a deep set of future offshore customers that will drive spend across SGR's integrated resorts. Valuation remain attractive with SGR trading at a discount to domestic and international peers.

Portfolio changes

Key additions and material adjustments

Bought
Nil

Key disposals and material adjustments

Sold
Healthscope Ltd (HSO),

During May we exited the remainder of our position in **Healthscope Ltd (HSO)**, Australia's second largest operator of private hospitals. In late May, HSO management released the outcome of a long-awaited portfolio review as well as an update to previously announced earnings guidance. The portfolio review indicated that the company has a preference for moving ahead with an internal plan to sell its underlying property assets rather than accept a number of recently received bids from external parties. The accompanying earnings downgrade does not provide us with the confidence needed to remain invested given the difficult private health environment and a share price trading at levels above fundamental value.

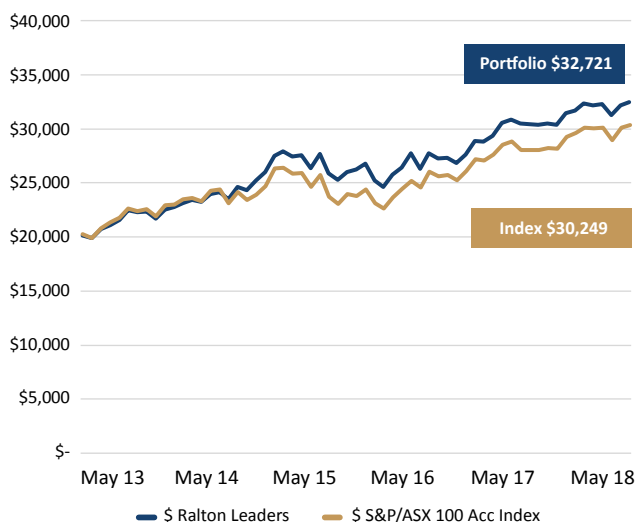
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	7.9%	3.3%	4.6%
Information Technology	5.7%	1.7%	4.0%
Energy	8.9%	5.2%	3.7%
Materials	20.0%	18.6%	1.4%
Consumer Staples	9.0%	7.8%	1.2%
Telecommunication Services	1.9%	2.4%	-0.5%
Industrials	5.5%	7.3%	-1.8%
Utilities	0.0%	2.1%	-2.1%
Health Care	6.1%	8.7%	-2.6%
Real Estate	4.1%	7.5%	-3.4%
Financials	30.9%	35.4%	-4.5%
Total	100.0%	100.0%	0.0%

Top 10 holdings[#]

Company name	ASX code
BHP Billiton Limited	BHP
Woolworths Group Ltd	WOW
ANZ Banking Group Limited	ANZ
National Australia Bank	NAB
Westpac Banking Corp	WBC
Aristocrat Leisure	ALL
Macquarie Group Ltd	MQG
Amcor Limited	AMC
Computershare Ltd	CPU
Woodside Petroleum	WPL

Performance comparison of \$20,000*



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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 in an index. There is no guarantee these objectives will be met.

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