Total returns

At 30 June 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	4.41	8.60	4.89	11.65	8.95	11.58	10.86	8.29	7.43
Income return	*0.15*	*0.91*	*2.15*	*4.39*	*4.11*	*4.05*	*4.28*	4.49	*4.50*
Growth return	*4.26*	*7.69*	*2.74*	*7.25*	*4.85*	*7.53*	*6.57*	3.80	*2.93*
S&P/ASX 100 Accum. Index	3.46	8.45	4.22	12.05	8.57	9.82	9.30	6.64	5.76
Difference	**0.95**	**0.15**	**0.67**	**-0.41**	**0.38**	**1.77**	**1.55**	1.65	**1.67**

Performance review

- The S&P/ASX 100 Accumulation Index returned 8.45% for June quarter, with Materials and Financials the top performing sectors and Telecommunication Services and Information Technology the weakest performers for the period.
- The Ralton Leaders portfolio returned 8.60% for the quarter, outperforming the benchmark by 0.15%.
- 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
Healthscope Ltd	Overweight
Commonwealth Bank of Australia	Underweight

Aristocrat Leisure (ALL, +28.43%) – reported a strong 1H18 result during the quarter, exceeding market expectations, driving the stock higher. 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 (MQG, +20.17) – performed solidly for the portfolio during the quarter 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 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 mix of its businesses 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.

Healthscope Ltd (HSO, +14.21%) – was added to the portfolio in late 2017 following a significant fall in the share price and a de-rate in its trading multiple. While we have been cautious regarding the potential for a deterioration in the outlook for the private health insurance segment as affordability concerns impacted health insurance participation, the share price fall provided an opportunity for us to build a position below book value with a reasonable margin of safety, factoring a conservative view on top line growth and margin, acknowledging the strategic value of the company's assets. During the quarter, HSO received a number of bids. However, in late May HSO management released the outcome of a long-awaited portfolio review – a downgrade to previously announced earnings guidance and the decision to not progress with either of the proposed bids. Trading above fair value with significant industry uncertainty and poor operational execution, we decided to exit the stock to crystallise strong gains.

Commonwealth Bank of Australia (CBA, +0.77%) – underperformed during the June quarter, which contributed to the portfolios performance given the underweight position. We have been underweight the bank for an extended period given the problems in its Wealth Management business, issues with Austrac and the expectation of a high level of senior management

turnover in the wake of these events. Further, the general backdrop for the banking sector has become more challenging in light of the Royal Commission's focus on "responsible lending", which will reduce the total amount people can borrow, the slowdown in the overall level of mortgage growth with the wind-down of interest only lending and the structural limit on growth imposed by the high level of household indebtedness.

Key detractors

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

Boral Ltd (BLD, -12.23%) – continued to trend lower during the quarter 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 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, -12.11%) – suffered a substantial fall during the quarter 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, -6.81%) – hosted its annual investor day during the quarter. 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 provides capital and expertise but also access to a deep set of future offshore customers that will drive spend across SGR's integrated resorts. Valuation remains attractive with SGR trading at a discount to domestic and international peers.

CSL Limited (CSL, +23.90%) – Continued its strong run in the June quarter primarily driven by an upgrade to previously announced profit guidance for the FY18 year. The key drivers of the upgrade were continued strong immunoglobulin (IG) market growth and strong sales from CSL's specialty brands, buoyed by manufacturing issues at a key competitor. While we are attracted to CSL's strong industry position and the latent value evident in its R&D pipeline, we remain cautious that the market valuation is capitalising current earnings growth and implied low risk too far into the future. Trading well above historical trading ranges, we feel potential competitor behaviour and inherent risk in the manufacture and distribution of blood products is not currently reflected in the share price, raising the potential for capital loss should lofty expectations not be met.

Portfolio changes

Key additions and material adjustments

Bought
Northern Star Resources (NST)
Oil Search (OSH)
Sydney Airports (SYD)

We acquired a holding in **Northern Star Resources (NST)** following a review of the Australian gold sector. We expect recent volatility seen in markets to remain a feature going forward driven by political uncertainty and the unprecedented removal of stimulus from financial markets. In this environment, gold has historically been a strong portfolio diversifier. NST has a strong track record of operational execution as well as exploration success

driving value from its current portfolio assets. Combining these attributes with a strong capital position and mining costs at first and second quartile of global production (i.e. low-cost mines), we expect the company to outperform its sector peers and provide us with an appropriate defensive exposure.

Oil Search (OSH) was added to the portfolio during the quarter as recent plant issues resulting from an earthquake in PNG saw a short-term decline in the share price, offering us an opportunity to build a position below fundamental value. Supporting the rationale for addition, we have become incrementally positive on the outlook for oil as we see supply as being insufficient to meet demand with a potential US shale response limited due to underinvestment in pipeline capacity. OSH continues to operate effectively and medium-term optionality remains with incremental gas discovery likely to underwrite LNG expansion at attractive returns.

We also purchased a holding in **Sydney Airports (SYD)**, which had de-rated as the market has moved to price in an increase in bond yields. The current price represents an attractive opportunity to gain exposure to the positive thematic of middle-class income growth in Asia, the growth of low cost airlines and Asian carriers and the repurposing of airport property to higher value functions. These drivers should lead to medium-term sustainable growth and subsequently a growing distribution outlook.

Key disposals and material adjustments

Sold
Healthscope Ltd (HSO)
Computershare (CPU)
Brambles (BXB)
AGL Energy (AGL)

There were a number of portfolio disposals during the quarter as we took profits on a number of positions. This included **Healthscope (HSO)** following takeover bids from a number of parties, **Computershare (CPU)** as it reached our valuation targets and **Brambles (BXB)** where we continued to be concerned about the impact of cost inflation on the group's US business margins. During the quarter, we also disposed of our holding of **AGL Energy (AGL)** given the heightened political risk around domestic energy providers.

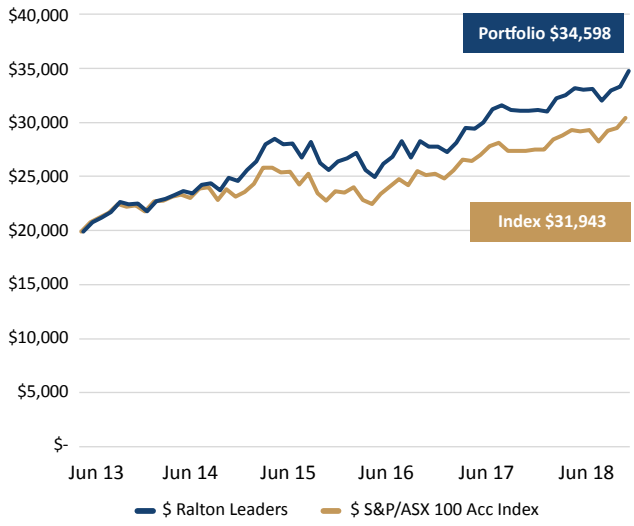
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	7.5%	3.2%	4.3%
Energy	9.1%	5.7%	3.4%
Materials	19.5%	18.4%	1.1%
Consumer Staples	8.9%	8.0%	0.9%
Financials	36.3%	35.7%	0.6%
Information Technology	2.2%	1.7%	0.5%
Telecommunication Services	1.7%	2.2%	-0.5%
Industrials	5.1%	7.0%	-1.9%
Utilities	0.0%	2.2%	-2.2%
Health Care	5.9%	8.6%	-2.7%
Real Estate	3.9%	7.3%	-3.5%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

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

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.

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