

## Total returns

At 31 July 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	2.23	7.83	7.67	14.28	7.92	11.14	12.04	8.93	7.59
Income return	0.00	0.91	2.15	4.39	4.11	4.05	4.28	4.49	4.46
Growth return	2.23	6.92	5.52	9.88	3.81	7.09	7.76	4.44	3.13
S&P/ASX 100 Accum. Index	1.59	6.03	6.27	13.86	7.54	9.10	10.25	7.31	5.87
Difference	0.64	1.80	1.40	0.42	0.38	2.04	1.79	1.61	1.72

## Performance review

- The S&P/ASX 100 Accumulation Index returned 1.59% for the month of July, with Financials and Industrials the top performing sectors and Information Technology and Utilities the weakest performers for the period.
- The Ralton Leaders portfolio returned 2.23% for the month, outperforming the benchmark by 0.64%.
- At a sector level being overweight Materials and Information Technology added value to the portfolio, somewhat offset by our underweight to Industrials.

## Performance attribution

### Key contributors

Key contributors	Positioning
Aristocrat Leisure	Overweight
Amcor Ltd	Overweight
Rio Tinto	Overweight

**Aristocrat Leisure (ALL, +4.21%)** – continued to move higher during July as the market continued to factor in the positive outlook from the strong 1H18 result and some incrementally positive news hit the market. During the month, ALL again continued to perform very strongly in the key survey for the performance of its social gaming products. Also, ALL announced the appointment of Jeff Karp as Managing Director of Big Fish Games, its recently acquired social gaming business. He is regarded as having been instrumental in building franchise games such as EA Sports, Words with Friends, Farmville, the Sims franchise, Bingo Bash and GSN Casino. 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.

**Amcor Ltd (AMC, +4.58%)** – the global packaging company, rallied as investors begin to factor in that several of the headwinds from FY18 should ease as we enter the new financial year. Rising raw material costs, challenges in the North American beverage

market, a slide in tobacco sales in Emerging Markets and challenging conditions in Latin America have negatively impacted AMC. During FY19, the raw materials costs will ease and particularly for polyethylene as new capacity comes through. Additionally, AMC has robust contractual pass-through mechanisms established which means raw material cost increases will be recovered with a lag. Thus, a more benign cost environment and the contractual cost pass-through should see AMC recoup recent cost headwinds through FY19/20. AMC's major customer in North America, Pepsi, has started to see an improvement in its volumes as it lifted marketing for its key brands. Overall, we expect AMC to continue to deliver organic and acquisition-driven growth.

**Rio Tinto (RIO, -2.68%)** – delivered substantial increases in the production of its core commodities over the June '18 quarter – hard coking coal, copper, and Pilbara iron ore. However, while highlighting the flexibility of its Pilbara iron ore system and mine-to-market productivity program in bauxite and copper, RIO has also warned that cost inflation is being experienced, particularly in the Aluminium group through higher raw material costs. Disruptions during 1H18 have adversely impacted TiO2 and iron ore pellet production, and as a result, unit costs at RBM and IOC are also up. Average iron ore pricing achieved over 1H18 was slightly below that realised in 2017. Planned asset sales have progressed well, with a US\$3.5bn Heads of Agreement for the sale of the Grasberg copper mine subject to final terms and applicable government and regulatory approvals.

### Key detractors

Key detractors	Positioning
Woolworths Group	Overweight
Macquarie Group	Overweight
Northern Star Resources	Overweight

**Woolworths Group (WOW, -1.41%)** – shares declined slightly over the month after delivering a return of approximately 16.18% over the past 12 months. Early in the month, WOW had rallied after it announced it would retain its petrol stations and had entered into a new fuel supply agreement with Caltex which increased its earnings by an estimated \$80m pa. WOW will now

move to list its petrol stations next year which should release around \$2bn in cash. Overall, the outlook for the supermarket industry looks solid with Coles being a rationale competitor ahead of its spin-out from Wesfarmers and food price deflation beginning to ease. We will also be interested to see how the turnaround at Big W is progressing during the upcoming reporting period.

**Macquarie Group (MQG, -0.67%)** – underperformed the market slightly after well-regarded CEO, Nicholas Moore, announced his retirement from the group, effective 30 November 2018. Mr. Moore has been the CEO of the group for approximately ten years and was instrumental in driving the creation of the infrastructure-related businesses and the groups' global expansion earlier in his career. The appointment of a long-standing Macquarie employee and head of its asset management business (Shemara Wikramanayake) as the new Managing Director should ensure continuity of approach. We view Shemara as an excellent choice for this position. MQG also provided an update at its AGM that the year had started as expected. MQG remains well positioned given its diversified business mix and exposure to the real economy (many of its businesses benefit from the robust global growth environment with moderately rising inflation).

**Northern Star Resources (NST, -0.83%)** – delivered record gold production (183.9koz is +48% vs. Q1) over the June '18 quarter and FY18 finished at 575koz @ A\$1029/oz (US\$761/oz). A relatively flat FY19 production forecast of 600-640koz at an AISC of A\$1,025-1,125/oz (US\$758-832/oz) has disappointed the market, particularly after exiting the June '18 quarter with production rates of ~690kozpa. NST has the potential to materially lift its production guidance if underground mine development delivers higher throughput and potentially higher grades into new milling capacity in Kalgoorlie.

## Portfolio changes

### Key additions and material adjustments

#### Bought

Rio Tinto (RIO)

We added **Rio Tinto Ltd (RIO)** to the portfolio in the month of July after the company delivered substantial increases in the production of its key commodities over the June '18 quarter. Refer above for more detail.

### Key disposals and material adjustments

#### Sold

IOOF Holdings (IFL)

We also disposed of our holding in IOOF Holdings (IFL)

during the month as we are becoming more concerned about the structural implications of the Royal Commission in the financial services industry. While we remain attracted to IFL's competitive position, which we expect to be strengthened by the pending acquisition of ANZ Wealth Management, the lack of clarity around the outcomes for the industry makes it particularly challenging to determine an appropriate valuation at this point.

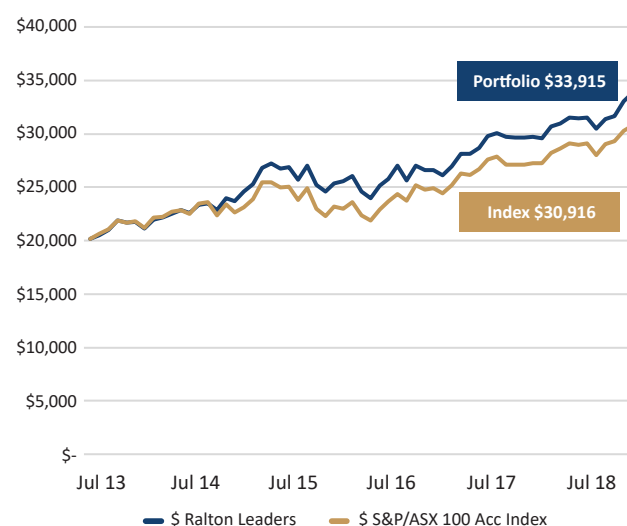
## Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	7.52%	3.29%	4.24%
Energy	9.52%	5.61%	3.91%
Materials	21.65%	18.17%	3.48%
Consumer Staples	8.63%	7.83%	0.80%
Information Technology	2.21%	1.64%	0.56%
Telecommunication Services	1.74%	2.32%	-0.58%
Financials	33.90%	35.90%	-2.00%
Utilities	0.00%	2.11%	-2.11%
Industrials	5.03%	7.14%	-2.11%
Health Care	5.98%	8.70%	-2.72%
Real Estate	3.82%	7.30%	-3.48%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

## Top 10 holdings<sup>#</sup>

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

## Performance comparison of \$20,000\*



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\*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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