Total returns

At 31 August 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 High Yield Australian Shares	0.34	6.07	7.57	13.60	11.21	11.36	13.72	*9.54*	8.45
Income return	*0.93*	*1.13*	*2.46*	*4.79*	*4.66*	*4.60*	*4.80*	*4.93*	*4.97*
Growth return	*-0.59*	*4.94*	*5.11*	*8.81*	*6.55*	*6.76*	*8.92*	*4.60*	*3.48*
S&P/ASX 300 Accum. Index	1.40	6.00	7.17	15.45	11.53	8.91	10.32	*6.66*	5.60
Difference	**-1.07**	**0.06**	**0.39**	**-1.85**	**-0.32**	**2.45**	**3.40**	*2.88*	**2.84**

Performance review

- The S&P/ASX 300 Accumulation Index returned 1.40% for the month of August, with Healthcare and Telecommunication Services the top performing sectors and Materials and Energy the weakest performers for the period.
- The Ralton Australian Shares portfolio returned 0.34% for the month, underperforming the benchmark by 1.07%.
- The portfolio's underweight to Healthcare was the main detractor for the period, with our overweight to Financials adding relative value.

Performance attribution

Key contributors

Key contributors	Positioning
Suncorp Group Ltd	Overweight
Star Entertainment Group	Overweight
Macquarie Group Ltd	Overweight

Suncorp Group Ltd (SUN, +3.47%) – added to portfolio returns during August after the company delivered a stronger than expected FY18 result. SUN has the benefit of a favourable insurance market with premiums for most classes of business continuing to rise. In the eyes of the market, the management team set itself stretched targets for FY19 some time ago. If they continue on their current trajectory, they may well achieve their goals, and this would be a major upside surprise for the market. We continue to monitor progress toward targets. The company also announced the disposal of its Life Insurance business which will see a capital return (most likely as a special dividend).

Star Entertainment Group (SGR, +8.67%) – reported a better than expected FY18 result which led to a strong bounce in August. The result highlighted a strong return of VIP players to Stars resorts in line with the result from domestic Casino peers. Pleasingly, the result allayed market concerns that the refurbishment of the Sovereign room at Star Sydney would result in a decline in player activity. Early indications are that player activity remains strong. As such, strong growth in activity at Star and its recently refurbished Gold Coast resort coupled with good cost control was welcomed by investors. We are becoming increasingly confident that SGR will extract strong returns from its project pipeline due to the quality and position of assets. We also have a 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.

Macquarie Group Ltd (MQG, +5.36%) – was another positive contributor to the portfolio during August. While there was no major news during the month, MQG did benefit from the decline in the Australian dollar, and it crystallised a gain of approximately $250m on the disposal of its stake in Quadrant Energy. This phase of the economic cycle continues to provide a tailwind to MQG's earnings. However, the group will see the departure of well-regarded CEO, Nicholas Moore, from November 2018. He is to be replaced by the head of the asset management division, Shemara Wikramanayake.

Key detractors

Key detractors	Positioning
Woolworths Group Ltd	Overweight
BHP Billiton Ltd	Overweight
Amcor Ltd	Overweight
CSL Ltd	Underweight

Woolworths Group Ltd (WOW, -5.95%) – underperformed in August as the market digested a weaker than expected 1Q update for it supermarket division. In addition, the company indicated that margins were unlikely to expand following a significant recovery. Instead, the company will look to invest to maintain their leadership position. We see the weaker than expected 1Q19 sales number as transitory as sales have moved to Coles due to the highly successful "Little Shop" campaign as well as Coles providing free reusable bags as shoppers struggled to change shopping habits with retailers looking to cease the use of disposable bags. Key drivers of performance within Woolworths remain strong including transaction numbers and customer satisfaction. Overall, the outlook for the supermarket industry looks solid with

Coles likely to become a rational competitor after its spin-out from Wesfarmers and food price deflation beginning to ease. Management execution remains strong. Balance sheet strength offers flexibility and valuation remains undemanding compared to domestic defensive names.

BHP Billiton Ltd (BHP, -4.73%) – FY18 result was broadly in line with market expectations, backed by a positive dividend and net debt news. However, investors were possibly looking for more material capital management initiatives from the company following the earlier positive announcement on the US$10.8bn (pre-tax) sale of the company's US onshore unconventional shale operations. Further, net debt is now very close to BHP's target level. While BHP has confirmed the US sale proceeds are to be returned to shareholders, the form of return will be determined only after consultations with investors and once the transaction has been completed by around the end of October. We are expecting a mixture of a buyback and special dividend. Despite increasing industry cost pressures, BHP remains on track to deliver medium-term unit cost guidance (5 year) and productivity gain targets, although unit costs are expected to rise in FY19, and the targeted US$2bn in productivity gains are now spread out over FY19 and FY20. Return on Capital Employed (ROCE) remains a key focus for management with company guidance of 20% ROCE by FY22 possibly achieved earlier than forecast. While trade and geopolitical events are adversely impacting the outlook for global growth and key commodity prices, a positive view towards BHP is maintained based on the flow-through returns from the US asset sale and expectation that a higher proportion of BHP's future free cash flow will also be returned to shareholders over the next twelve months.

Amcor Ltd (AMC, -5.11%) – global packaging company, declined during August as the market digested the implications of its all-scrip bid for US-based Bemis and its FY18 result came in below investors' expectations. The acquisition of Bemis is a strategically significant move by AMC as it gives the group a diversified global footprint across Flexible and Rigid plastics. While AMC has paid a full price, it has a history of successfully integrating acquisitions and can move to make more accretive bolt-on acquisitions in the US market following the integration of Bemis. By making an all-scrip bid, the group leaves itself with a strong balance sheet after the deal is completed and both businesses are cash generative. At the results, AMC indicated rising raw material costs could continue to be a drag in 1H19 before the cost recovery from customers starts to provide a larger offset in 2H19. This was a disappointment as we had expected there to be a benefit on this front across the full year. Also, the issues the group was facing in North America in its Rigid's business should ease as Pepsi continues to see a lift in volumes after raising its marketing for its key brands. We believe AMC provides an attractively valued exposure in a market which is looking expensive in several segments.

CSL Ltd (CSL, +15.61%%) – continued its strong run in August as the FY18 result delivered on elevated expectations of a strong earnings print. The key drivers of the result 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 the 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 in the future.

Portfolio changes

Key additions and material adjustments

Bought
Downer (DOW)
Mineral Resources Ltd (MIN)

The portfolio added a position in **Downer EDI Limited** during the month. We are attracted to the positive outlook for Downer as we expect its key market of infrastructure and mining-related spending to strengthen over the forecast period. We think the market underappreciates management's strong track record of operational execution and capital management which has driven growth and cash flow as the stock trades at a discount to the broader index.

The portfolio added **Mineral Resources Ltd (MIN)** during the month, whose long term core business is mining services operations involving building, owning, operating and contracting out crushing and screening circuits for the Australian mining industry. MIN has crushing contracts with some of the world's largest mining companies in iron ore, gold and lithium operations, as well as its own operating assets. MIN's business operations range from being a pure contractor to partial and full ownership of ore bodies/mines. MIN's lithium assets include the Mt Marion spodumene mine (43%) and the Wodgina spodumene development project (100%). Wodgina is the world's largest hard-rock lithium asset. A key near-term MIN share price driver is an expected upgrade of the Wodgina resource and the proposed sell-down of 49% of the asset, as well as progress with the associated downstream spodumene and hydroxide plant development. MIN's profit share business model and integrated operations from full pit-to-end customer services are a key growth area for the company.

Key disposals and material adjustments

Sold
AGL Energy (AGL)
Coca-Cola Amatil (CCL)

We have exited our position in **AGL Energy (AGL)** during the month. We see AGL attracting heightened regulatory uncertainty over FY19, specifically around the threat of potential Australian Government imposed price intervention. Company guidance is also for a relatively flat FY19 earnings outlook based on expectations of "moderating future wholesale electricity prices" combined with higher electricity input costs (spot coal and gas prices). This scenario implies AGL will be likely be facing wholesale electricity margin compression in FY19.

The Portfolio exited its position in **Coca-Cola Amatil (CCL)** as we believe the current valuation appropriately reflects the stabilisation of key drivers under CEO Alison Watkins. We also acknowledge continued headwinds with consumers drinking less carbonated beverages and heightened emerging market risk in the Indonesian segment.

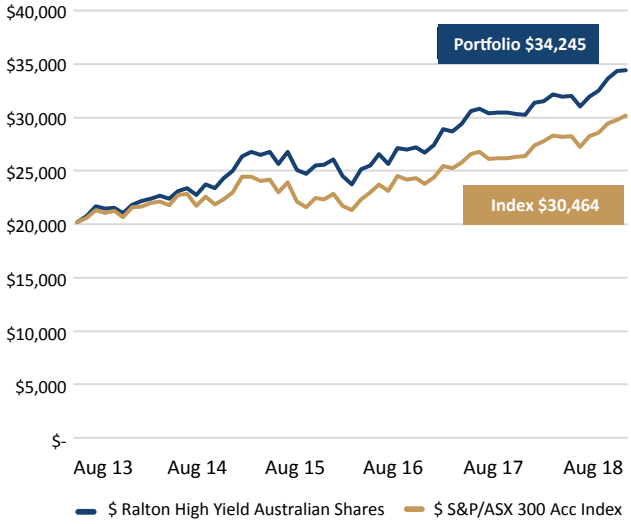
Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	11.1%	5.1%	6.1%
Materials	20.5%	17.1%	3.3%
Consumer Staples	10.1%	8.0%	2.1%
Financials	34.3%	32.3%	2.0%
Energy	7.4%	5.6%	1.8%
Utilities	3.1%	1.9%	1.2%
Telecommunication Services	2.9%	2.6%	0.3%
Real Estate	5.8%	7.8%	-2.0%
Industrials	4.8%	7.5%	-2.7%
Information Technology	0.0%	2.7%	-2.7%
Health Care	0.0%	9.3%	-9.3%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

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

Performance comparison of $20,000*



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

Performance of the Ralton Wholesale High Yield Australian Shares 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.