

## Total returns

At 28 February 2019	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	5.18	8.27	-0.92	6.55	12.05	9.04	11.75	12.28	7.11
Income return	0.75	1.31	2.67	4.87	4.37	4.16	4.23	4.40	4.58
Growth return	4.43	6.95	-3.59	1.68	7.68	4.89	7.52	7.87	2.52
S&P/ASX 100 Accum. Index	5.91	10.09	-0.01	7.21	12.81	7.22	10.33	11.18	5.67
Difference	-0.73	-1.82	-0.91	-0.67	-0.76	1.82	1.42	1.09	1.43

## Performance review

- The S&P/ASX 100 Accumulation Index returned 5.91% for the month of February, with Financials and Materials the top performing sectors and Consumer Staples and Information Technology the weakest performers for the period.
- The Ralton Leaders portfolio returned 5.18% for the month, underperforming the benchmark by 0.73%.
- For the month of February, being underweight to Health Care and overweight to Energy added relative value to the portfolio. The portfolio's overweight to Consumer Discretionary and Utilities were the key detractors from portfolio returns.

## Performance attribution

### Key contributors

Key contributors	Positioning
Amcor	Overweight
Woodside Petroleum	Overweight
ANZ Banking Group	Overweight

**Amcor (AMC, +10.26%)** – the global packaging company, outperformed the market during February after delivering a solid result which showed incremental improvement on a range of matters which had been concerning investors. Cost pressures have started to ease, North American carbonated soft drink volumes have improved and emerging markets returned to growth. The transformational Bemis acquisition is now expected to close in the second quarter due to the delay in receiving regulatory approvals in the US following the Federal government shutdown during January. As we previously highlighted, following discussions with senior management at the end of last year our confidence improved about the rationale for the transaction, the expected synergy benefits and potential other upside opportunities from the combination. 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.

**Woodside Petroleum (WPL, +5.62%)** – outperformed the market in February. WPL's 2018 full year result highlighted

exceptional operating performance from its base business combined with improved market conditions to deliver strong free cash flow that supported a solid profit and better than expected dividend. WPL's 2018 full year dividend of US\$1.44/share (fully franked) represented a payout ratio of ~100% and a 5.7% cash yield (company payout ratio guidance was 80% of underlying NPAT). On the operational side, Wheatstone LNG Train-1 and Train-2 exceeded nameplate production capacity in 2018. The Pluto LNG and North West Shelf LNG projects also delivered low LNG unit costs of US\$3.6/boe and a respectable 82% cash margin. WPL's 2018 result further highlighted key growth projects continued to advance over the year, with first oil from Greater Enfield expected around mid-2019. In addition, the potential Scarborough to Pluto LNG, Browse to NWS LNG (FID moved forward), and SNE oil project are all targeting FID decisions in 2020 (SNE possibly late 2019). While we see Browse tolling agreements and farm-downs at Scarborough as representing positive potential announcements over 2019, WPL also faces headwinds from the potential for lower realised LNG pricing due to a combination of the contractual LNG - oil price lag mechanism and weak spot Asian LNG pricing (currently sub US\$6/mmbtu) and lower than expected 2019 production volumes due to North West Shelf field depletion and extended LNG facility maintenance. WPL has stated it is on track to deliver its 100 mmbte production target in 2020, although this remains dependent on what is achieved in 2019.

**ANZ Banking Group (ANZ, +11.87%)** – rallied strongly after the release of the final Royal Commission report which was not as bad as the market had anticipated for the major banks, and so it contributed to portfolio performance in February. Shayne Elliott (CEO) has undertaken a major transformation of the risk profile of the bank since becoming CEO. This involved a wind back on the presence in Asia, particularly around the less profitable institutional business. We have seen a trimming of the domestic institutional business and the divestment of Esanda Finance amongst other businesses. This should produce a more benign credit cost profile for the bank in future. Also, ANZ has been taking a more conservative approach to mortgage lending which has cost it volume in the short term, but should see it positioned better in the event of a more serious credit

crunch in the domestic economy. The one issue for the group recently has been the proposal by the RBNZ to double the capital required to be held in NZ. Whilst we expect this would be priced into the NZ lending, in the short term it means ANZ may not be able to do as large a buy-back as was previously expected by the market.

#### **Key detractors**

Key detractors	Positioning
Vicinity Centres	Overweight
Woolworths Group	Overweight
Aristocrat Leisure	Overweight

**Vicinity Centres (VCX, -5.75%)** – underperformed the market, which was not unexpected, given its more defensive characteristics and the markets strong rally. Further, the group’s results highlighted the weak retail environment and the softening in capitalisation rates on its lower quality sites. VCX has a portfolio of premium CBD retail assets, Chadstone shopping centre and the DFO’s amongst other assets. The group is currently executing on a plan to transform its portfolio into a collection of high quality “destinations”. As part of this transformation, some of the lower quality shopping centres are being divested to further strengthen the balance sheet and to fund growth at the premium centres. The market was disappointed by the news the group’s asset sales program will not complete until next financial year. This includes the remaining asset sales (\$300m of \$1bn remaining) and the establishment of the proposed wholesale fund (\$1bn) with Keppel. VCX would be a beneficiary if the RBA cuts mortgage interest rates and /or fiscal stimulus is provided to households during the upcoming budget. VCX continues to trade at a substantial discount to its NTA and has modest gearing relative to peers.

**Woolworths Group (WOW, -2.38%)** – underperformed the market in February due to the combined impact of a weaker than expected result and market rotation from defensive winners to higher beta resources and tech sectors. Woolworths operating metrics illustrate that they remain the best performing supermarket, however, sales were lower than expectations as it became clear that the ABS had been overstating industry growth. Unfortunately, WOW’s strong cost performance was not enough to offset weaker than expected gross margins. WOW remains our preferred domestic defensive exposure as we see Coles suffering from the same impact to sales, but with a significant capital spend ahead that will lower return on capital and cashflow available to shareholders. We remain attracted to the company’s strong market position in an industry that should deliver sustainable growth. We also see a strong cashflow outlook as the company is moving into a period of reduced capital expenditure. WOW recently announced the sale of the petrol business and the \$1.6bn funds received will be distributed to

shareholders in a tax-effective manner through an off-market buyback. Management execution remains strong and the balance sheet’s strength offers flexibility.

**Aristocrat Leisure (ALL, -0.04%)** – underperformed the market in February as it gave back some gains seen since the start of the calendar year. News flow in February was positive as industry surveys continued to show that ALL is maintaining its leading position in product quality and share gains within casino operators. However, the market remains cautious in the lead up to the 1H19 result following a weaker than expected FY18 result and increased investor uncertainty relating to a period of elevated investment as well as the level and timeline of returns. We see the 1H19 result as a catalyst for the market to gain confidence in the strong growth outlook ahead as the company drives growth from its digital platform and operational leverage as sales are driven off the step up in product and sales support. We remain confident that ALL’s current suite of land-based products will continue to take share in a market that is supported by solid US consumer confidence. At the current valuation we feel the Australian market is discounting the strong earnings outlook supported by multiple growth options within ALL’s core slot operations, expansion into adjacent markets, and continued momentum in its digital businesses, broadly supported by a strong US economic backdrop.

#### **Portfolio changes**

##### **Key additions and material adjustments**

Bought
James Hardie Industries (JHX)

We added a position in **James Hardie Industries (JHX)** during the period as we are seeing evidence of an improving outlook for the US housing market after a period of weakness. JHX has delivered consistent growth and profitability through the cycle and has delivered on its strategy to grow at above-industry growth rates. Following an extended period of underperformance, we foresee strong returns from the current depressed share price.

##### **Key disposals and material adjustments**

Sold
Boral Limited (BLD)

While we remain attracted to **Boral’s (BLD)** US housing and Fly Ash business, we are becoming increasingly concerned that the Australian business will remain volatile as it manages the transition to the delivery of infrastructure earnings in the face of a slowing domestic housing market. Management under Mike Kane is yet to prove its ability to manage an increasingly complex business. Consequently, we decided to exit the position.

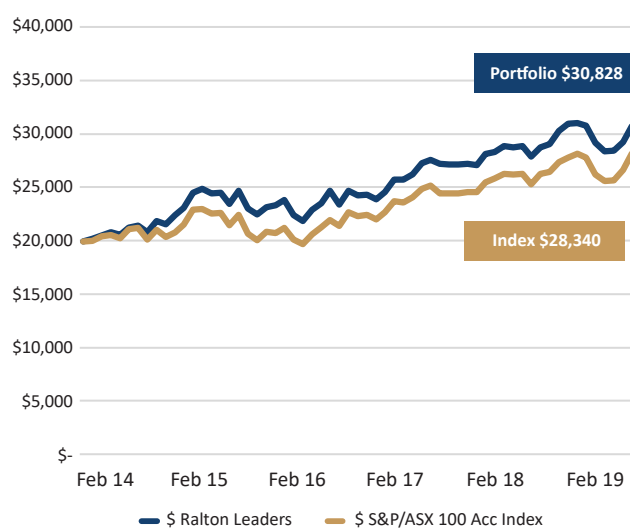
## Sector allocation

GICS sector	Ralton	Index	+/-
Energy	9.7%	5.7%	4.0%
Materials	21.8%	18.3%	3.5%
Consumer Staples	7.9%	5.4%	2.5%
Consumer Discretionary	7.3%	5.4%	1.9%
Information Technology	2.3%	1.2%	1.1%
Utilities	2.5%	2.2%	0.3%
Health Care	8.7%	9.1%	-0.5%
Telecommunication Services	2.2%	3.4%	-1.2%
Financials	31.3%	33.8%	-2.5%
Real Estate	3.8%	7.3%	-3.6%
Industrials	2.5%	8.1%	-5.6%
<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 Group Limited	BHP
ANZ Banking Group Ltd	ANZ
Commonwealth Bank.	CBA
Westpac Banking Corp	WBC
Woolworths Group Ltd	WOW
Amcor Limited	AMC
Oil Search Ltd	OSH
Aristocrat Leisure	ALL
Suncorp Group Ltd	SUN
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.

#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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