

## Total returns

At 31 March 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. (Mar 2008)
Ralton Dividend Builder	0.00	8.31	1.28	12.13	11.48	9.48	12.82	12.52	8.07
Income return	0.68	1.92	2.77	5.52	4.89	4.75	4.85	4.98	5.08
Growth return	-0.68	6.39	-1.49	6.61	6.59	4.73	7.97	7.55	2.99
S&P/ASX 300 Accum. Index	0.73	10.92	1.59	11.74	11.39	7.39	9.79	10.25	5.34
<b>Difference</b>	<b>-0.74</b>	<b>-2.61</b>	<b>-0.32</b>	<b>0.39</b>	<b>0.09</b>	<b>2.09</b>	<b>3.03</b>	<b>2.27</b>	<b>2.73</b>

## Performance review

- The S&P/ASX 300 Accumulation Index returned 10.92% for the March quarter, with Materials and Financials the top performing sectors and Utilities and Consumer Staples the weakest performers for the period.
- The Ralton High Yield portfolio returned 8.31% for the quarter, underperforming the benchmark by 2.61%.
- For the March quarter, being underweight Health Care and overweight Energy added relative value to the portfolio. The portfolio's underweight to Real Estate and overweight to Consumer Discretionary were the key detractors from portfolio returns.

## Performance attribution

### Key contributors

Key contributors	Positioning
Woodside Petroleum	Overweight
Amcor	Overweight
BHP Billiton	Overweight

**Woodside Petroleum (WPL, +10.54%)** - outperformed the market over the March quarter with support from a 25% gain in the Brent USD oil price. WPL's base business has delivered good operating performance, and its growth projects have continued to advance. Wheatstone LNG Train-1 and Train-2 have both exceeded nameplate production capacity and unit costs at Pluto LNG and North West Shelf LNG projects have been low. While we see Browse tolling agreements and farm-downs at Scarborough as representing positive potential announcements, WPL also faces 2019 headwinds from weaker LNG pricing (spot Asian LNG pricing is currently in the low US\$4/mmbtu range), North West Shelf field depletion, and planned LNG facility maintenance. We see increased risk that WPL's 2019 production could end up being towards the low end of its 88-94 mmbtpe guidance, particularly if Greater Enfield oil output is delayed or less than expected, or if planned downtime for asset maintenance (turnarounds) is extended. Furthermore, WPL's 100 mmbtpe 2020 production target remains highly dependent on what volume is achieved in 2019.

**Amcor (AMC, +16.15%)** - the global packaging company, outperformed the market during the quarter 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.

**BHP Billiton (BHP, +17.28%)** - outperformed the market over the March quarter, largely driven by strong oil and iron ore price gains, particularly after the tragic Vale iron ore tailings dam collapse in Brazil. Additional share price support was also provided by BHP's capital management, and specifically the payment of a US\$1.02/share special dividend on 30 January. While BHP confirmed FY19 production guidance was unchanged at its December 2018 quarter result, this is now under review for iron ore after the impact of tropical cyclone Veronica is added to the Western Australia iron ore train derailment. BHP's gains expected from "productivity" initiatives have also steadily eroded over the last 18 months. The initial productivity target of US\$2bn over two years was changed in August 2018 to US\$1bn in FY19 due to announced divestments and challenging operating conditions at two BMA mines in FY18. This was reduced by a further US\$600m in the December 2018 quarter due to planned maintenance and production outages (Olympic Dam, Spence and the Western Australia Iron Ore train derailment). Overall, we expect BHP to deliver strong free cashflows over 2H FY19 and exercise continued discipline with respect to its capital management activities, having demonstrated this by announcing US\$13.2bn in shareholder returns over the last 6 months. ROCE is an essential tenant of all BHP investment decision making and all opportunities are now tested against providing further return to shareholders.

### Key detractors

Key detractors	Positioning
Vicinity Centres	Overweight
Star Entertainment Group	Overweight
Woolworths Group	Overweight

**Vicinity Centres (VCX, 0.00%)** – underperformed the market during the quarter following the 1H19 result, in which management reemphasised the challenging retail backdrop. VCX also announced a delay in the remaining A\$300m (of A\$1b) of asset sales and in the establishment of the A\$1b Keppel VKF fund to FY20. This meant the balance sheet is not in as good shape as we had anticipated. Softening capitalisation rates impacted the value of the tail of VCX’s portfolio, including some of the assets to be disposed of. VCX has a portfolio of premium CBD retail assets, Chadstone shopping centre and the DFO’s, among other assets. The group is currently executing on a plan to transform its portfolio into a collection of high quality “destinations” – a process which involves the gradual sell-down of the company’s lower quality sites. Once the sell-down of the company’s non-core assets completes and the dilutive earnings impact clears, much of the uncertainty surrounding the stock will be removed. Although not a direct beneficiary of an improvement in the retail sales outlook, VCX will benefit from an improvement in the broader retail sales environment. We expect this should come through with the RBA cutting interest rates later in the year and from any stimulus contained in the Federal Budget. VCX continues to trade at a substantial discount to its NTA and has modest gearing relative to peers.

**Star Entertainment Group (SGR, -8.33%)** – share price retraced during the quarter, despite a better than expected result which indicated a strong performance from the core domestic operations amid VIP volatility and a weaker consumer. The major headwind during the quarter was increased uncertainty due the Queensland Government’s request for bids to build a second casino in the Gold Coast. We view the move by the Palaszczuk government as a tactical move to extract payment for exclusivity in the region. A negotiated outcome is likely, which we believe will lead to increased certainty and a re-rate in the share price over time. We view the current weakness and attractive valuation as a strong opportunity to acquire the company’s superior industry position and future growth potential, which is driven by its major project pipeline. The company is benefiting from its recently refurbished Gold Coast resort and has proven it is successfully managing disruption to its key Sydney operations. We are becoming increasingly confident that SGR will extract strong returns from its project pipeline due to the quality and position of its assets. 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.

**Woolworths Group (WOW, +3.33%)** - underperformed a strong market during the quarter due to the combined impact of a weaker than expected result and market rotation from defensive winners to higher beta resources and technology sectors. However, the share price had a strong finish to the quarter as the dual positives of strong operational execution and an expected capital return garnered investor support. The February result indicated Woolworths remains the best performing supermarket, however, WOW’s strong cost performance was not enough to offset weaker than expected gross margins. WOW remains our preferred domestic defensive exposure as we believe Coles is facing 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. During the quarter WOW 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.

### Portfolio changes

#### Key additions and material adjustments

Bought
James Hardie Industries (JHX)
Clydesdale (CYB)
Orora (ORA)

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.

We added a position in **Clydesdale (CYB)**, the spin-off from NAB in the UK, during the quarter. We are of the view CYB is offering attractive value given the synergy benefits and medium-term growth opportunities presented to it via the merger with Virgin Money. CYB management have proven themselves adept at stripping out costs and growing the business since the demerger from NAB. The opportunity for the merged group given the constraints on some of the larger competitors is attractive. There are ongoing risks associated with Brexit, however, we are of the view a hard Brexit will not occur and there will be some form of negotiated settlement between the UK and Europe as it is in neither parties’ interest for the UK to crash out. We are obviously monitoring these risks closely for this and other investments in the portfolio.

We added a position in **Orora (ORA)** in the quarter. ORA is a company we have previously owned in the portfolio, and after the de-rating of the shares we believe we again had an attractive entry price during the quarter. The Australian operations of the business centre around packaging solutions in a range of forms including bottles, cans, paper and fibre packaging. The group operates a highly efficient manufacturing plant in Australia which supplies its domestic and international operations. The US operations include a paper products distribution business and a pop-up packaging products business – the type seen at the bookend for supermarket aisles displaying products on promotion. After some issues in the US operations, management appear to have taken corrective action to set these businesses up to deliver on their potential. The US operations also offer considerable scope to continue to make acquisitions, which the ORA balance sheet is in good shape to fund.

#### Key disposals and material adjustments

Sold
Boral Limited (BLD)
Inghams Group (ING)
Rio Tinto (RIO)
Inghams Group (ING)

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.

We decided to exit the position in **Inghams Group (ING)** during the quarter as the stock reached our valuation and we believe that the risks in the highly competitive chicken market are rising.

**Rio Tinto (RIO)** has delivered a very strong share price performance over the March quarter that has exceeded our target price (now at a premium to NPV) and therefore we have elected to exit the position. Post cyclone Veronica, RIO has stated it expects to lose approximately 14 M tonnes of production and it has now guided to the lower end of prior 2019 Western Australia iron ore production guidance of 338-350 M tonnes (100%).

**Downer Limited (DOW)** has delivered strong outperformance as they have capitalised on the opportunity presented by increased government spending on infrastructure as well as a normalisation of mining capital spend. We have resolved to exit the position as the risk-return trade-off is now more evenly balanced. We now look to recycle the capital into more attractive prospects.

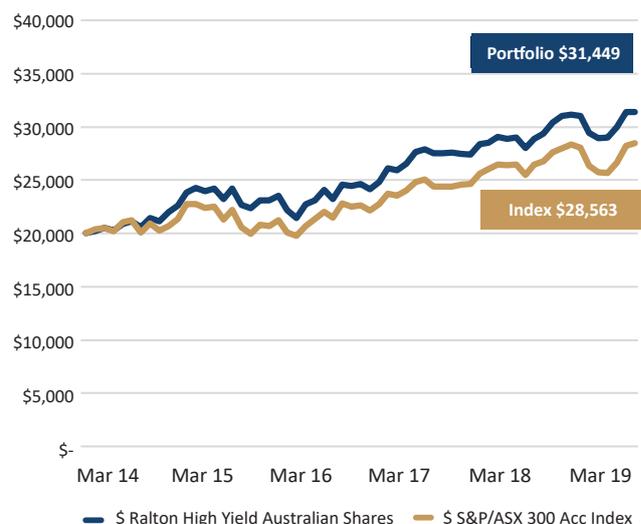
#### Sector allocation

GICS sector	Ralton	Index	+/-
Materials	25.3%	18.8%	6.5%
Financials	36.4%	30.8%	5.5%
Consumer Discretionary	11.4%	6.4%	5.0%
Consumer Staples	9.0%	5.4%	3.6%
Utilities	4.0%	2.0%	1.9%
Energy	6.0%	5.6%	0.3%
Telecommunication Services	3.2%	3.7%	-0.5%
Information Technology	0.0%	2.5%	-2.5%
Real Estate	4.7%	8.0%	-3.3%
Industrials	0.0%	8.2%	-8.2%
Health Care	0.0%	8.4%	-8.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

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

Company name	ASX code
ANZ Banking Grp Ltd	ANZ
Commonwealth Bank	CBA
BHP Group Limited	BHP
Westpac Banking Corp	WBC
Woolworths Group Ltd	WOW
Amcor Limited	AMC
Suncorp Group Ltd	SUN
Vicinity Centres	VCX
Aristocrat Leisure	ALL
Woodside Petroleum	WPL

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



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Performance of the Ralton Dividend Builder Portfolio (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 in an index. There is no guarantee these objectives will be met.

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