

Total returns

At 31 October 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 Leaders	-0.35	-1.04	4.82	13.15	11.40	8.61	11.25	8.96	7.33
Income return	0.02	1.19	2.02	4.83	4.44	4.24	4.23	4.38	4.56
Growth return	-0.37	-2.23	2.80	8.31	6.96	4.37	7.02	4.58	2.77
S&P/ASX 100 Accum. Index	-0.36	-0.66	8.42	20.13	12.80	8.48	10.70	8.56	6.35
Difference	0.02	-0.38	-3.59	-6.98	-1.40	0.13	0.55	0.39	0.98

Performance review

- The S&P/ASX 100 Accumulation Index returned -0.36% for the month of October, with Health Care and Industrials the top performing sectors and Financials and Materials the weakest performers for the period.
- The Ralton Leaders portfolio returned -0.35% for the month, outperforming the benchmark by 0.02%.
- For the month of October, being overweight Materials and Energy added relative value to the portfolio. The portfolio's underweight to Industrials and Financials were the key detractors from portfolio returns.

Performance attribution

Key contributors

Key contributors	Positioning
OZ Minerals	Overweight
Orora	Overweight
Challenger	Overweight

OZ Minerals (OZL, +5.62%) – outperformed the market in October. Prominent Hill production and costs tracked better than company guidance over the September quarter, and as a result, full year cost guidance has been lowered by the company to the bottom end of its expected range. OZL's 2H19 outlook is also expected to benefit from rebounding copper smelter demand and buyer commitment to all of OZL's forecast 2019 copper and gold production. The successful delivery of the Carrapateena project is a key longer-term investment driver for OZL, with first saleable concentrate production expected within calendar 2019, followed by an 18-month ramp up to full production by 2H21. OZL ranks as our preferred company for exposure to copper, which is expected to benefit from a more positive global growth outlook (progress on US-China trade war, Brexit, etc).

Orora (ORA, +6.92%) – contributed to performance during October after it announced the sale of its Australasian fibre business to Nippon Paper at a very attractive price. ORA indicated \$1.2bn (or ~\$1 per share) will be returned to investors with the details of the process to be announced in due course. This leaves ORA

with its Australasian cans and glass business and its North American business. The North American operations offer a range of growth options and the balance sheet will be left in good shape to pursue this once the sale to Nippon Paper closes.

Challenger (CGF, +8.01%) – recovered during the month after delivering positive annuity flows for the previous quarter and the rates environment improving for the sale of annuity products. As we have previously highlighted, in the short-term, the disruption to the financial planning industry in the major financial institutions following the Hayne Royal Commission has negatively impacted flows into annuities more than expected. Whilst the independent advisors are a key target group, there will be short-term costs associated with the move deeper into this segment of the market. The medium to long-term outlook for this business is very solid given the aging of the Australian population and the government's desire to see people allocate at least part of their retirement savings to an annuity. On the Japanese annuity front, we saw the first quarter of increased annuity purchase under the new arrangements with substantial shareholder, Mitsui Sumitomo Primary Life Insurance Company. Although the near-term pressure on the business has been more than we had expected when we added the holding, the medium-term outlook for the business remains intact.

Key detractors

Key detractors	Positioning
Northern Star Resources	Overweight
Westpac Banking Corporation	Overweight
ANZ Banking Group	Overweight

Northern Star Resources (NST, -11.32%) – underperformed the market in October. While Jundee delivered a solid result over the September quarter, Pogo's output was down 35% from the June quarter and overall costs were also higher than expected, mainly because Pogo continued to mine in the lower grade areas. While it is taking longer than expected to open up the new Pogo 1.5Moz area, the company has maintained FY20 guidance because it remains confident grade will

improve as they access new zones and increase stopping tonnes as a percentage of total processing tonnes. This means Pogo is also on track to meet the increased processing rate of 1.3Mtpa in early CY21. Encouraging exploration results have been delivered at Goodpaster, located adjacent to and immediately along strike from the Pogo mining area, with high grade mineralisation repeatedly hit over a 2.3km strike length and it is open in every direction. Our long-term outlook for NST therefore remains positive, however, it is increasingly looking like it may take at least 18 months to get Pogo to the desired performance level.

Westpac Banking Corporation (WBC, -4.82%) – underperformed after releasing FY19 results which were weaker than the market had expected. This was a disappointing result and highlights the pressure on the banks following the Hayne Royal Commission. With limited balance sheet growth expectations and margin pressures, the outlook for interest income clearly appears challenging. The re-based dividend should be sustainable at current levels until the bad debt cycle re-emerges. WBC also announced a capital raising to build its buffers – this means it is now positioned to deal with the RBNZ’s proposed new capital rules if they come out in the current form.

ANZ Banking Group (ANZ, -6.24%) – underperformed after releasing FY19 results which were weaker than expected. The overall outlook for the banks is challenging given ultra-low rates weighing on the net interest margin and subdued asset growth. An offset to this is that the charge for potential loan losses should remain subdued as the RBA continues to cut rates. This should allow the dividend to be sustained at current levels until the bad debts cycle re-emerges. ANZ has addressed issues in its mortgage origination that should see a lift in credit growth during FY20. Also, ANZ is re-focusing its efforts on productivity improvements in this lower growth environment. On the capital front, ANZ will get confirmation in early December about the level of capital it is required to hold against its NZ business. Once the market has clarity around this, we expect some of the pressure on the share price to ease.

Portfolio changes

There were no key portfolio changes during the month.

Top 10 holdings[#]

Company name	ASX code
BHP Group Limited	BHP
Westpac Banking Corp	WBC
CSL Limited	CSL
ANZ Banking Grp Ltd	ANZ
Woolworths Group Ltd	WOW
Commonwealth Bank.	CBA
Aristocrat Leisure	ALL
James Hardie Indust	JHX
Amcor PLC	AMC
Telstra Corporation.	TLS

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
Iain Mason	Director, Institutional Business	0412 137 424 imason@copiapartners.com.au
Mani Papakonstantinos	Distribution Manager	0439 207 869 epapakonstantinos@copiapartners.com.au
Matthew Roberts	Distribution Manager	0438 297 616 mroberts@copiapartners.com.au
Jude Fernandez	Distribution Manager	0414 604 772 jfernandez@copiapartners.com.au
Sam Harris	Distribution Manager	0429 982 159 sharris@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 in an index. There is no guarantee these objectives will be met.

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