Ralton Australian Shares
PERFORMANCE REPORT
31 March 2016

Total returns

At 31 March 2016	1 mo. %	3 mo. %	1 yr. %	2 yr. p.a. %	3 yr. p.a. %	5 yr. p.a. %	7 yr. p.a. %	Inception p.a. (Feb 2008) %
Ralton Australian Shares	5.85	-3.58	-6.14	7.31	10.49	8.95	12.41	6.41
Income return	*0.69*	*1.34*	*4.02*	*3.95*	*4.07*	*4.36*	*4.36*	*4.41*
Growth return	*5.17*	*-4.92*	*-10.16*	*3.36*	*6.42*	*4.59*	*8.05*	*2.01*
S&P/ASX 300 Accum. Index	4.78	-2.64	-9.27	1.66	5.29	5.45	9.77	3.20
Difference	**1.08**	**-0.94**	**3.13**	**5.65**	**5.20**	**3.50**	**2.64**	**3.21**

Performance review

- After a volatile period, the S&P/ASX 300 Accumulation Index recorded a 2.64% gain in the first quarter of the year. Information Technology and Consumer Staples were the key detractors, with A-REITs (property) the strongest sector.
- The Ralton Australian Shares portfolio returned -3.58% for the quarter, underperforming the benchmark by 0.94%.
- For the quarter, being overweight Information Technology, combined with poor returns in our Consumer Discretionary and Materials stocks, detracted from portfolio performance. However, being overweight Energy added to returns.

Performance attribution
Key contributors

Key contributors	Positioning
Macquarie Atlas Roads (MQA)	Overweight
Star Entertainment Group (SGR)	Overweight
Origin Energy (ORG)	Overweight

Macquarie Atlas Roads (MQA, +17.8%) - shares in the toll road owner added value in the March quarter, following both solid performance from MQA's core assets, together with the potential for corporate activity at an asset level. MQA's key toll road, APRR in France, was a beneficiary of solid growth in traffic, particularly the higher-fee-paying heavy vehicles or trucks. Growth in truck movements suggests some strength in the French economy, particularly the industrial base. On the corporate front, MQA indicated that it has right of first refusal when its partners, including Macquarie 'sister funds', complete the tender process for their stake in Dulles Greenway. MQA could potentially acquire 100% of this asset, however in the current environment it seems more likely it will sell its stake to the highest bidder. In all likelihood, this capital will be returned to shareholders in some form.

Star Entertainment Group (SGR, +11.8%) - was a strong contributor to the portfolio, adding value in a volatile market. Half-year profit results were solid on most metrics and importantly, the outlook continues to appear supportive. Star will be a beneficiary of the ongoing influx of tourists from Asia, particularly China. Calendar year 2015 saw a material step up in terms of carriers, flights and passengers into Sydney airport from China, not just from Beijing and Shanghai, but also other major Chinese cities. The Sydney casino continues to gain market share domestically, which is expected to continue as SGR relaunches its loyalty program with the existing program already having had good success. As details emerge about its expansion plans in QLD, capital measures such as the recycling of apartment sales will improve SGR's cash flows and hence limit its funding commitments in the coming years.

Origin Energy (ORG, +8.3%) - was boosted by a relatively clean half-year profit result in February. The energy market business delivered good growth with margin expansion in ORG's domestic gas retailing business a noteworthy feature that we had been expecting for some time. ORG's APLNG plant has finally commenced operations with the first train now operational and targeting mid-2016 for formal completion testing with contractor, Bechtel. The second train is expected to come online shortly. Despite volatile conditions in the oil market across the quarter, Brent Oil finished up 6.2%, having touched multi-year lows early in the period. Supportive commentary from key oil-producing countries, Russia and Saudi Arabia, about the potential for oil production output freezes was also positive for ORG.

Key detractors

Key detractors	Positioning
Incitec Pivot (IPL)	Overweight
Super Retail Group (SUL)	Overweight
Computershare Limited (CPU)	Overweight

Incitec Pivot (IPL, -19.4%) - shares fell heavily in January as investors and market analysts alike took a negative view of the mounting price headwinds in several of IPL's key business exposures. With the sustained fall in the oil price sending a deflationary push through the commodity sector, prices for global gas used in production of both urea and ammonia – key IPL products – were falling.
In the US, where coal mines are key customers of IPL's explosives businesses, an unseasonably warm winter has reduced the demand for electricity and with it, coal demand. Several of the US coal producers are under

financial duress, although we note the bulk of IPL's customers operate low-cost, top quality mines. Pricing for the DAP fertilizer segment has weakened, though this is seasonal as global pricing is typically set in March/April. Although we recognise the effect of these impacts, we subscribe to the view that the oil price will rebound and with it, pricing for each of the outputs tied to energy prices. As such, IPL should produce solid cash flows across the cycle, which is not reflected in the current share price.

Super Retail Group Ltd (SUL, -25%) - profit results for the first half of FY16 disappointed overall expectations with the group's leisure businesses, BCF and Ray's, disappointing investors. BCF was the key negative as its offering was not competitively priced versus its main competitor, leading to weak sales in the key pre-Christmas months of November and December. Both the auto and sports divisions produced very solid results exceeding most market forecasts, but this was not enough to offset the weakness in leisure. SUL's management has identified strategic shortfalls in the sales program for BCF and has taken steps to improve delivery and ensure sales momentum is not lost in the key sales window again. Early results are positive with strong sales growth highlighted in January and February, yet despite this, we remain cautious on this division and frustrated that management continues to fail to get to grips with its diverse array of businesses. These views culminated in our decision to exit SUL at the end of the quarter.

Computershare Limited (CPU, -15.8%) - expectations for lower interest rates globally appear to have weighed on CPU's share price this year, and hence we decided to reduce our CPU position ahead of the first-half results. Although first-half results were broadly as expected, CPU suggested that full-year profit targets may be difficult to achieve given the impact that market volatility may have on transactional revenue. In other words, full-year profit expectations have been slightly tempered. That said, cost control was strong for the period and CPU is advancing discussions and negotiations around two separate contracts for 'mortgage servicing', one in the UK and one in the US. Successful confirmation of these contract wins under sensible commercial terms, together with the ongoing CPU share buy-back, is likely to support earnings growth and the share price in the medium term, although we are still cautious that current market volatility will dampen future rate rises in the US and further weigh on CPU earnings.

Portfolio additions and disposals

Key additions and material adjustments

Bought
Graincorp Limited (GNC)
Orora Limited (ORA)
Speedcast International (SDA)

There were three new stock additions to the portfolio during the quarter, plus the addition of UK-based bank, CYBG (CYB), following the demerger from NAB.

Graincorp Limited (GNC) - we acquired a position in GNC based on our view of the value of its key assets. GNC has long-held strategic port and upstream grain storage assets on the east coast. We note that these markets have become more competitive since deregulation several years ago. GNC is, however, diversifying its business away from pure grain storage and associated marketing and now earns significant profits from both malt and food oil businesses. Pleasingly, it continues to invest in these divisions, while many other Australian management teams remain reluctant to invest. These investments will see GNC better able to compete on a global stage with grain handlers and large food trading operations. This will also lead to a more reliable profit stream with reduced exposure to the vagaries of grain harvests year to year.

We also note that GNC has partnered with a series of large Australian superannuation funds and west coast grain farmers in a high profile consortium seeking to demutualise CBH, the west coast grain cooperative. Such demutualisations are typically protracted as GNC well knows, however GNC has come up with a structure that allows it to make a material investment, although its partners will contribute to the leg-work required to pursue such an initiative.

Orora Limited (ORA) - we added ORA back to the portfolio following a pull-back in the share price. Since the demerger from Amcor (AMC) in December 2013, ORA's profit growth has been delivered from self-help initiatives largely focused on its Australian operations devoted to Australian-oriented packaging, bottles, cans and paper/fibre packaging. The US side of the business provides ORA with growth opportunities given the marketplace is more fragmented than in Australia. In the near term, we expect US sales to approach 50% of ORA's total sales.

With internal self-help initiatives almost completed, ORA is shifting towards a more active investment phase with two recent announcements involving approximately $150m of committed spending. Firstly, the company decided to expand glass manufacturing capacity at Gawler in South Australia to meet growing demand for bottled wine – linked to the weakening Australian dollar – and secondly, ORA acquired IntegraColor, a specialist US-based packaging business. Given its track record to date, we have a supportive view of ORA's management and its decision to invest these funds to grow the business and meet its own investment hurdles.

Speedcast International (SDA) - we also bought a small position in SDA, a global communications service provider that specialises in the provision of network (communications) services to remote customers, such as the maritime sector and various remote energy and resource companies. We believe SDA has a unique business model and an opportunity to capture new clients as the adoption of its technology increases. Equally, we believe SDA has a further unique opportunity to consolidate the industry, which remains in its infancy or at least early stages. The combination of these factors should see SDA capture strong revenue and profit growth for several years to come, hence our investment.

Key disposals and material adjustments

Sold
Transpacific Industries (TPI)
Navitas Limited (NVT)
G8 Education (GEM)
Independence Group (IGO)

There were several outright sales from the portfolio during the quarter, reflecting the exit of some successful investments, together with the sale of several underperforming stocks where our expectations for company delivery were either not met, or our ongoing research led to a change in views.

Transpacific Industries (TPI) - TPI's solid share price recovery in recent periods led to our decision to exit the stock. The turnaround under CEO Vik Bansal appears to be gaining some traction and to some degree reflects the strategic changes implemented by Bansal's predecessor. Although we expect steadily improving conditions for the core waste business, we are cognisant of the pressure that further oil price weakness will place on the smaller hydrocarbons segment. Despite the improved operating results, we believe further upside in the short term may be capped by ongoing cash flow drain caused by the landfill provisions and need for ongoing remediation work at some of the older assets. We will look to revisit TPI should valuation become more compelling.

Navitas Limited (NVT) - we elected to sell our holding in education provider, NVT. The shares have performed strongly in recent times in a weak market. Although the company is making headway in terms of improved profitability of the smaller SAE division and continues to grow its college offering offshore, the headwinds from the loss of a key Sydney contract appear to be proving harder to offset at the profit line. By itself, our sense was that this longer time frame was acceptable as an investment proposition, however the prospects for emerging markets and key education source countries have worsened. Although families frequently sacrifice most items for their children, we are concerned that the coming periods may see education demand from the emerging markets temper with a flow-through impact on NVT's outlook. Given the valuation and recent performance, we elected to sell, but like TPI, we will keep NVT on our investment radar.

G8 Education (GEM) - despite some solid progress around governance, including a new Chair, auditor appointment and reasonable operating conditions, we remain concerned about financing risk for GEM. We have provided management ample time to resolve this and in the current climate, we believe the refinance risks are rising. Further, the exit of CFO, Chris Sacre, to take on a consulting role for the development and sale of childcare assets back to GEM raises some questions as to corporate governance.

Independence Group (IGO) - shares in base metals mining company, IGO, have surged recently, buoyed by the rebound in global commodity prices, with prices for nickel and gold bouncing off recent lows. 2016 shapes as a critical year for IGO as it looks to complete development of the 'Nova-Bollinger' nickel mine in WA and seeks to expand production from the Tropicana gold mine. In the short term, we have reduced our holding in the Materials sector via the sale of IGO, however we highlight these milestones for IGO and the quality of its assets and will look to revisit the company if the share price proves attractive.

Sector allocation

GICS sector	Ralton	Index	+/-
Consumer Discretionary	12.7%	5.3%	7.4%
Health Care	12.1%	6.8%	5.3%
Consumer Staples	8.9%	7.2%	1.7%
Energy	4.4%	4.1%	0.3%
Materials	13.2%	13.0%	0.2%
Information Technology	1.4%	1.2%	0.2%
Financials (ex-Property)	36.9%	36.9%	0.0%
Industrials	7.5%	8.4%	-0.9%
Utilities	0.0%	2.5%	-2.5%
Telecommunication Services	1.2%	5.5%	-4.3%
Property	1.8%	9.1%	-7.2%
Total	100.00%	100.00%	

Top 10 holdings[#]

Company name	ASX code
National Australia Bank Limited	NAB
Commonwealth Bank of Australia	CBA
Westpac Banking Corporation	WBC
CSL Limited	CSL
QBE Insurance Group	QBE
Aristocrat Leisure	ALL
Star Entertainment Group Ltd	SGR
Amcor Limited	AMC
AMP Limited	AMP
Coca-Cola Amatil Limited	CCL

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[#] 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.