Total returns

At 30 April 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 Australian Shares	2.62	-0.74	0.68	3.22	6.75	10.63	10.06	7.54	7.61
Income return	*0.01*	*1.18*	*1.87*	*3.83*	*3.90*	*3.82*	*4.10*	4.27	*4.27*
Growth return	*2.61*	*-1.92*	*-1.19*	*-0.61*	*2.85*	*6.81*	*5.96*	3.28	*3.34*
S&P/ASX 300 Acc Index	3.78	0.25	3.44	5.71	5.79	7.52	7.68	5.17	5.07
Difference	**-1.16**	**-0.99**	**-2.76**	**-2.49**	**0.96**	**3.11**	**2.38**	2.37	**2.54**

Performance review

- The S&P/ASX 300 Accumulation Index returned 3.78% for April, with Materials and Health Care the top performing sectors and Financials and Utilities the weakest performers for the period.
- The Ralton Australian Shares portfolio returned 2.62% for the month, underperforming the benchmark by 1.16%.
- For the month of April, the portfolio's overweight to Materials and Consumer Discretionary were the key detractors from portfolio returns. Being underweight Financials and Industrials added relative value to the portfolio.

Performance attribution

Key contributors

Key contributors	Positioning
Healthscope Ltd	Overweight
Aristocrat Leisure	Overweight
BHP Billiton Ltd	Overweight

Healthscope Ltd (HSO, +23.00%) – outperformed during the month after a conditional takeover offer was received from private equity group BGH Capital with the support of major shareholder Australian Super. HSO was added to the portfolio in late 2017 following a significant fall in the share price and a de-rate in its trading multiple. We have been cautious regarding the potential for a deterioration in the outlook for the private health insurance segment as affordability concerns impacted health insurance participation. The combination of consumers dropping or downgrading coverage and HSO's rapid expansion plans as well as poor operational execution resulted in an earnings disappointment. The fall provided an opportunity for us to build a position below book value with a reasonable margin of safety factoring a conservative view on top line growth and margin, acknowledging the strategic value of the company's assets. The current share price reflects a takeover premium above our fundamental valuation. However, we see potential for a higher bid should bidders look to separate the property assets from the operating group.

Aristocrat Leisure (ALL, +11.80%) – will report their 1H18 result in May. As such, the driver of strong performance during April was the release of more industry data which supported the favourable earnings momentum in its US business. The data affirms our view that the core US slots business continues to gain market share from indebted competitors and that the more recent entry into digital platforms is a positive move that is currently being discounted by the share market. Post the acquisition of Big Fish and Plarium and ongoing organic growth in its own Digital business, this segment will represent 40% of Group revenue. In the current half year, ALL should see the benefit from the release of the much-anticipated Dragon Link (the early data looks positive) and the signs of how its new stepper product has been received. ALL will also be a beneficiary of the recent US tax cut.

BHP Billiton Ltd (BHP, +10.28%) – continues to benefit from strong prices for copper, iron ore and oil, which saw it add value to the portfolio during April after consolidating through March. We have been progressively adding to our BHP holding since the middle of last year, highlighting since that time the noteworthy election of Ken MacKenzie as Chairman of the BHP Board, succeeding Jac Nasser, effective as of September 2017. As CEO of Amcor Limited (AMC), MacKenzie delivered strong shareholder returns, driving a cultural change and heightening focus on return and the use of capital. While global economic strength continues to support commodity prices, we see the change in focus as an opportunity to provide shareholders with enhanced returns through the sale of the US shale business and an improved capital allocation framework.

Key detractors

Key detractors	Positioning
iSelect Ltd	Overweight
Boral Ltd	Overweight
IOOF Ltd	Overweight

iSelect Ltd (ISU, -50.00%) – issued a disappointing trading update during the month which not only indicated a sharp deterioration in underlying performance, but also led to the removal of the incumbent CEO Scott Wilson. The company reported a deterioration in operating conditions in late March and into April, which impacted their confidence of a recovery into the end of the financial year as well as impacting the bulk of FY18 earnings. We had placed ISU under review given recent management turnover and were expecting to finalise our fundamental review following the Investor Day set for later in the month. The update clearly indicated that the current operational strategy is not appropriate to deal with the dynamic changes underway in the health, telco and energy markets. ISU currently has no installed management, an alarming deterioration in the cash balance and limited liquidity, which confirms that the company no longer fits our investment criteria. Consequently, we resolved to exit the position.

Boral Ltd (BLD, -11.42%) – was a drag on portfolio performance during the month after a disappointing trading update, which provided a headline upgrade but an underlying downgrade for FY18 earnings. While disappointing, we view the downgrade as largely attributable to one-off factors that won't be present in FY19 and as such, we maintain our positive view. The headline upgrade was driven by a property sale in New South Wales and a subsequent lower effective tax rate. However, unfavourable weather in key states and an unscheduled outage of the company's main cement manufacturing plant, which is now resolved, were a drag on the rest of BLD's Australian business. Severe winter conditions impacted the US operations. However, operational issues in the newly acquired Flyash business will be monitored closely as it is a key platform for value creation. Following a review of key drivers and further engagement with management, we remain positive on the potential of BLD's merged US operations and its exposure to the recovering US housing market and infrastructure boom in Australia.

IOOF Ltd (IFL, -10.61%) – traded lower in the month of April as the focus of the Royal Commission turned from the major Banks and their lending practices to the Financial Planning space and vertical integration. We see IFL as differentiated from its competitors, and as such, see it facing lower risk from any potential fallout from the Royal Commission due to the company's "open architecture" commitment and lower risk-multiple platform model. IFL has also been very successful as a major consolidator in the wealth management space, where its integration skills allow it to retain the core value of its acquired businesses while stamping out unnecessary costs. The recent acquisition of the ANZ wealth management platform provides a strong growth platform for the next few years and we were pleased to see IFL confirm during the month that ANZ has provided indemnities in relation to any future liabilities stemming from the Royal Commission. We like IFL's focus on the customer which differentiates it from the big banks and other large financial institutions, particularly at a time when community trust in the banks is increasingly questioned.

Portfolio changes

Key additions and material adjustments

Bought
Oil Search (OSH)
Sydney Airports (SYD)
Northern Star Resources (NST)

We added a position in **Oil Search (OSH)** during the month as recent plant issues resulting from an earthquake in PNG saw a short-term decline in the share price, offering us an opportunity to build a position below fundamental value. Supporting the rationale for addition, we have become incrementally positive on the outlook for oil as we see supply as being insufficient to meet demand with a potential US shale response limited due to underinvestment in pipeline capacity. OSH continues to operate effectively and medium-term optionality remains with incremental gas discovery likely to underwrite LNG expansion at attractive returns.

We also purchased a holding in **Sydney Airports (SYD)**, which had de-rated as the market has moved to price in an increase in bond yields. The current price represents an attractive opportunity to gain exposure to the positive thematic of middle-class income growth in Asia, the growth of low cost airlines and Asian carriers and the repurposing of airport property to higher value functions. These drivers should lead to medium-term sustainable growth and subsequently a growing distribution outlook.

We also acquired a holding in **Northern Star Resources (NST)** following a review of the Australian gold sector. We expect recent volatility seen in markets to remain a feature going forward driven by political uncertainty and the unprecedented removal of stimulus from financial markets. In this environment, gold has historically been a strong portfolio diversifier. NST has a strong track record of operational execution as well as exploration success driving value from its current portfolio assets. Combining these attributes with a strong capital position and mining costs at first and second quartile of global production (i.e. low-cost mines), we expect the company to outperform its sector peers and provide us with an appropriate defensive exposure.

Key disposals and material adjustments

Sold
Santos (STO)
AGL Energy (AGL)
Viva Energy (VVR)

We exited our holding in **Santos (STO)** during the month following another takeover bid from a group of investors at a level above our intrinsic value for the company. During the month, we also disposed of our holding of **AGL Energy (AGL)** given the heightened political risk around domestic energy providers. We also disposed of our holding in **Viva Energy (VVR)** given our increased exposure to Caltex, which also offers an exposure to a portfolio of service stations.

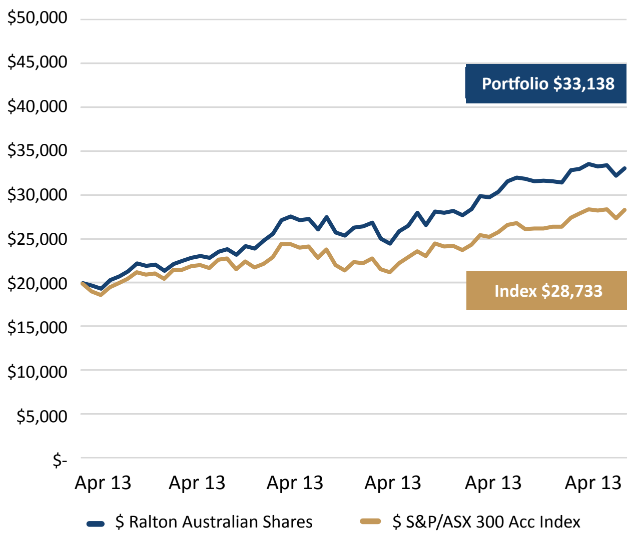
Sector allocation

GICS sector	Ralton	Index	+/-
Materials	22.6%	18.4%	4.2%
Consumer Discretionary	7.8%	4.8%	3.0%
Information Technology	5.4%	2.4%	3.0%
Consumer Staples	10.4%	7.9%	2.5%
Health Care	9.3%	8.0%	1.3%
Telecommunication Services	3.8%	2.7%	1.1%
Energy	5.9%	5.5%	0.4%
Utilities	0.0%	1.9%	-1.9%
Real Estate	3.9%	8.0%	-4.2%
Financials	28.5%	32.9%	-4.3%
Industrials	2.2%	7.4%	-5.2%
Total	**100.0%**	**100.0%**	**0.0%**

Top 10 holdings#

Company name	ASX code
BHP Billiton Limited	BHP
Woolworths Limited	WOW
Westpac Banking Corp	WBC
National Australia Bank	NAB
ANZ Banking Group Limited	ANZ
Aristocrat Leisure	ALL
Amcor Limited	AMC
Macquarie Group Ltd	MQG
Boral Limited	BLD
Computershare Ltd	CPU

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
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
Jacinta King	Business Development Associate	0413 962 922 | jking@copiapartners.com.au

Performance of the Ralton Wholesale 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.

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