

## Total returns

At 30 September 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 Leaders	-0.76	1.60	10.34	13.69	11.13	10.07	13.07	9.42	7.41
Income return	0.65	1.37	2.29	4.35	4.15	4.06	4.26	4.48	4.52
Growth return	-1.41	0.23	8.04	9.34	6.97	6.01	8.82	4.94	2.88
S&P/ASX 100 Accum. Index	-1.30	1.55	10.13	13.32	11.68	8.09	11.49	7.92	5.77
<b>Difference</b>	<b>0.54</b>	<b>0.06</b>	<b>0.21</b>	<b>0.37</b>	<b>-0.55</b>	<b>1.99</b>	<b>1.58</b>	<b>1.50</b>	<b>1.64</b>

## Performance review

- The S&P/ASX 100 Accumulation Index returned 1.55% for the September Quarter, with Telecommunication Services and Health Care the top performing sectors and Utilities and Consumer Discretionary the weakest performers for the period.
- The Ralton Leaders portfolio returned 1.60% for the quarter, outperforming the benchmark by 0.06%.
- For the September Quarter, being overweight Materials and Energy added relative value to the portfolio. The portfolio's overweight to Consumer Discretionary and Consumer Staples were the key detractors from portfolio returns.

## Performance attribution

### Key contributors

Key contributors	Positioning
Woodside Petroleum	Overweight
Northern Star Resources	Overweight
Boral Ltd	Overweight

**Woodside Petroleum (WPL, +8.8%)** – has benefited from tightening oil and LNG markets and remains on track to grow its production to 100 million boe by 2020. Recent operational performance at Pluto LNG and Wheatstone LNG has been strong with Wheatstone T-1 and the recently commissioned T-2 unit running above nameplate capacity. In addition, WPL's suite of low-risk LNG growth projects to be tied back to its Burrup Hub are expected to contribute to further increases in LNG production over the next 10 years and they remain on track for a Final Investment Decision (FID) in 2020 for Scarborough and in 2021 for Browse. WPL is a major supplier of LNG to the rapidly growing Asia Pacific market and its LNG projects are underpinned by contracts leveraged to the oil price. The Brent oil price has rallied +19% over the quarter from a low of US\$70 per barrel on 15 August to US\$83 per barrel on 30 September. Key oil price drivers have been a continuing tightening of the global oil market amid supply-side issues related to ongoing production declines in Venezuela and the early stages of sanction-driven impacts on Iranian exports. Global oil demand growth also appears to be holding up at around 1.4 million bbl/d

this year, despite the potential escalation of a US-China trade war and a slowing global economy. Higher than expected LNG demand from China has also extended into 2018 with coal-to-gas switching continuing at a rapid rate. In 2017, Chinese LNG imports increased by 12Mt to 38Mt (+46% increase). According to Wood Mackenzie, Chinese LNG demand growth in 2018 will be at least a further 10 million tonnes to reach 49Mtpa.

**Northern Star Resources (NST, +14.3%)** – growth strategy has delivered outstanding results at every level. The company achieved record gold sales and production in the June quarter. NST has attractive financial metrics with a sector-leading return on invested capital and a balance sheet at 30 June with cash of \$512m and no debt. The Pogo acquisition announced on 30 August at an implied price of US\$63/ounce and EV/EBITDA multiple of 2.2x appears highly attractive. This acquisition is EPS accretive and adds 250-260,000 ounces to NST's FY19 production, making NST Australia's second largest gold producer. Pogo is widely expected to deliver on NST's proven formula of growing production, extending mine life and delivery of guidance, as demonstrated at Jundee and Kalgoorlie. This is to be achieved by converting the mining method at Pogo to deliver 2,450,000 ounces of measured and indicated mineral resources located within the mining leases into reserves and the mine plan.

**Boral Ltd (BLD, +5.8%)** – gained during the quarter after reporting a better-than-expected FY18 result. The drivers of the result were broadly spread across its Australian and United States operations and illustrated that the company continues to manage operations well in the face of increasing input costs, which have impacted peers. The most pleasing part of the result was the ability of the company to raise product prices to offset cost pressures and, looking forward, we expect margins to expand gradually. Key drivers of the top line remain in place as US activity is boosted by road spend and the current government infrastructure spend more than offsetting any housing weakness within BLD's domestic operations. The potential for long-term growth was also evident in the company's expanding US FlyAsh operations. We remain positive on the potential of BLD's expanded US operations following the Headwater acquisition as well as the company's exposure to the recovering US housing

market and infrastructure boom in Australia. BLD is trading at attractive multiples, and we remain confident in the company's outlook.

#### Key detractors

Key detractors	Positioning
Aristocrat Leisure	Overweight
Woolworths Group	Overweight
Ampcor Ltd	Overweight

**Aristocrat Leisure (ALL, -8.0%)** – trended lower during the quarter as stock performance was driven by weaker US casino operator performance and minor EPS downgrades from domestic brokers on approach to the FY18 result. We continue to believe ALL is in a strong competitive position as over-indebted US peers continue to underspend on product development. As such, we remain confident that ALL's current suite of land-based products will continue to take share in a market that is supported by strong US consumer confidence. In addition, we feel the Australian market is discounting the strong earnings outlook for the newly formed Digital division. Pleasingly, ALL is not reliant on any single growth driver as we see sustainable growth from its core slot operations, expansion into adjacent markets, continued momentum in its digital businesses as well as a strong US economic backdrop driving future performance. Valuation remains attractive as outperformance to date has been driven by strong EPS growth rather than PE expansion.

**Woolworths Group (WOW, -8.0%)** – underperformed during the quarter as the market digested a weaker-than-expected 1Q update for its supermarket division. In addition, the company indicated that margins were unlikely to expand following a significant recover. Instead, the company will look to invest to maintain their leadership position. We see the weaker-than-expected 1Q19 sales number as transitory as sales have moved to Coles due to the highly successful 'Little Shop' campaign as well as Coles providing free reusable bags as shoppers struggled to change shopping habits with retailers looking to cease the use of disposable bags. Key drivers of performance within WOW remain strong, including transaction numbers and customer satisfaction. Overall, the outlook for the supermarket industry looks solid with Coles likely to become a rational competitor after its spin-out from WES and food price deflation beginning to ease. Management execution remains strong. Balance sheet strength offers flexibility and valuation remains undemanding compared to domestic defensive names.

**Ampcor Ltd (AMC, -5.1%)** – the global packaging company, declined over the quarter as the market digested the implications of its all-scrip bid for US-based Bemis and its FY18 result came in below investors' expectations. 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. While AMC has paid a full price, it has a history of successfully integrating acquisitions and can move to make more accretive bolt-on acquisitions in the US market following the integration of Bemis. By making an all-scrip bid, the group leaves itself with a strong balance sheet after the deal is completed and both businesses are cash generative. At the results, AMC indicated rising raw material costs could continue to be a drag in 1H19 before the cost recovery from customers starts to provide a larger offset in 2H19. This was a disappointment as we had expected there to be a benefit on this front across the full year. Also, the issues the group was facing in North America in its Rigid's business should ease as Pepsi continues to see a lift in volumes after raising its marketing for its key brands. After a recent meeting with the company to follow-up on the Bemis acquisition and cost pressures, we continue to be comfortable with our holding in the stock.

#### Portfolio changes

##### Key additions and material adjustments

Bought
Rio Tinto Ltd (RIO)
Spark Infrastructure (SKI)

We added **Rio Tinto Ltd (RIO)** to the portfolio during the quarter after the company delivered substantial increases in the production of its key commodities over the June '18 quarter. The company delivered substantial increases in the production of its core commodities over the June '18 quarter – hard coking coal, copper, and Pilbara iron ore. However, while highlighting the flexibility of its Pilbara iron ore system and mine-to-market productivity program in bauxite and copper, RIO has also warned that cost inflation is being experienced, particularly in the Aluminium group through higher raw material costs. Disruptions during 1H18 have adversely impacted TiO2 and iron ore pellet production, and as a result, unit costs at RBM and IOC are also up. Average iron ore pricing achieved over 1H18 was slightly below that realised in 2017. Planned asset sales have progressed well, with a US\$3.5bn Heads of Agreement for the sale of the Grasberg copper mine subject to final terms and applicable government and regulatory approvals.

We added **Spark Infrastructure (SKI)**, which provides an attractive defensive and growing earnings stream backed by its highly efficient electricity distribution network. Most of the SKI networks is in the middle of a regulatory period which implies stable predictable revenues for the next ~2.5yrs. Future capital growth is underpinned by the \$2-4.9bn of contingent capex projects included in Transgrid's recent determination. Potential future tax headwinds appear to be more than compensated by a distribution yield of >6% expected to grow at CPI levels.

### Key disposals and material adjustments

Sold
IOOF Holdings (IFL)
Coca-Cola Amatil (CCL)
Qube Holdings (QUB)

We disposed of our holding in **IOOF Holdings (IFL)** during the quarter as we are becoming more concerned about the structural implications of the Royal Commission in the financial services industry. While we remain attracted to IFL's competitive position, which we expect to be strengthened by the pending acquisition of ANZ Wealth Management, the lack of clarity around the outcomes for the industry makes it particularly challenging to determine an appropriate valuation at this point.

We also exited our position in **Coca-Cola Amatil (CCL)** as we believe the current valuation appropriately reflects the stabilisation of key drivers under CEO Alison Watkins. We also acknowledge continued headwinds with consumers drinking less carbonated beverages and heightened emerging market risk in the Indonesian segment.

We exited our position in **Qube Holdings (QUB)** during the quarter, taking profits from our holding. The company is leveraged to the downside in import/export volumes from potential deterioration in the global and/or domestic economy. In particular, we are cautious on the outlook for the underlying logistics business, specifically for volumes in grain (the outlook for a weak harvest in NSW and Queensland) and in new vehicles.

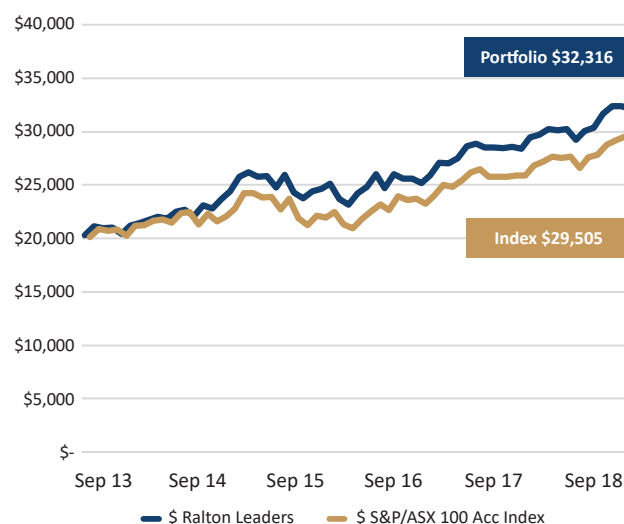
### Sector allocation

GICS sector	Ralton	Index	+/-
Energy	10.0%	5.7%	4.3%
Materials	22.2%	18.0%	4.2%
Consumer Discretionary	7.2%	3.2%	4.0%
Information Technology	2.3%	1.3%	1.0%
Utilities	2.1%	2.0%	0.1%
Financials	33.9%	34.9%	-1.0%
Telecommunication Services	2.0%	3.2%	-1.2%
Consumer Staples	6.3%	7.8%	-1.4%
Health Care	6.7%	8.8%	-2.1%
Real Estate	3.9%	7.4%	-3.5%
Industrials	3.4%	7.7%	-4.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.0%</b>

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

Company name	ASX code
BHP Billiton Limited	BHP
Commonwealth Bank	CBA
ANZ Banking Group Limited	ANZ
Woolworths Limited	WOW
National Australia Bank Limited	NAB
Westpac Banking Corp	WBC
Woodside Petroleum	WPL
Macquarie Group Ltd	MQG
Aristocrat Leisure	ALL
Amcort Limited	AMC

### 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.

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