Total returns

At 30 June 2016	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	Inception % p.a. (Feb 2008)
Ralton Smaller Companies	-0.66	5.51	2.89	13.57	14.62	12.46	14.73	7.59
Income return	*0.23*	*0.26*	*1.41*	*3.12*	*3.21*	*3.53*	*3.61*	*3.72*
Growth return	*-0.89*	*5.24*	*1.48*	*10.44*	*11.41*	*8.92*	*11.12*	*3.87*
S&P/ASX Small Ord Accum. Index	-1.31	5.85	6.94	14.40	9.13	1.00	4.49	-1.03
Difference	**0.65**	**-0.34**	**-4.05**	**-0.83**	**5.49**	**11.46**	**10.24**	**8.62**

Performance review

- The S&P/ASX Small Ordinaries Accumulation Index gained 5.85% in the June quarter, with Materials, largely resources the key contributor to index returns.
- The Ralton Smaller Companies portfolio added 5.51% for the quarter, underperforming the benchmark by 0.34% for the period.
- Our overweight position in Consumer Discretionary and Healthcare added to portfolio returns, however despite solid returns from our gold holdings, the portfolio's underweight position in resources was a detractor from overall returns.

Performance attribution

Key contributors

Key contributors	Positioning
Aristocrat Leisure Limited (ALL)	Overweight
AUB Group Ltd (AUB)	Overweight
Equity Holdings (EQT)	Overweight

Aristocrat Leisure (ALL, +34.0%) – added significant value to the portfolio following a 20% upgrade to profit guidance for the 2016 financial year. The profit uplift was driven by a number of factors including market share gains in Australia and North America, continued growth in participation gaming machine installations (annuity-style income) and further stellar growth for the Digital division (from a low base). This growth reflects the continued investment in product by ALL through its studio strategy. Looking forward, we believe ALL's operating momentum should continue while its main peers remain distracted by their own large-scale acquisitions. With a strong balance sheet and free cash flow, ALL has the option of increasing distributions or making another acquisition. We are comfortable with ALL pursuing acquisitions given its success integrating VGT and Product Madness.

AUB Group Ltd (AUB, +23.2%) – shares in 'Austbrokers' rallied strongly in the June quarter, reflecting expectations of rising premiums in the Australian SME insurance market. Our research indicates that the cycle for SME pricing is likely at or near a bottom, driven by the lack of profitability in a number of key lines for insurers. Further discussions with other parties also suggest the premium cycle is hardening and this is an attractive point of the cycle to invest in an insurance broker as they take commissions on the rising premiums upfront (as opposed to insurance companies which earn the premium over time). Austbrokers' network of insurance brokers is heavily weighted to the SME segment and hence the leverage to rising premiums. The share price move saw us trim our holding in AUB recently, although we note that together with our more recent purchase in Steadfast Group (SDF), we are well exposed to this theme.

Equity Holdings (EQT, +23.6%) – the former 'Equity Trustees' recovered well from recent lows in the June quarter. From our vantage, the recent profit warning and management changes created an opportunity to add a good quality business at a reasonable valuation. As highlighted during our recent purchase note, EQT is focused on two segments within financial services, namely: 1) Estate planning, private wealth services, and philanthropy along with 2) Corporate fiduciary services, such as RE or responsible entity. The recent strategy day highlighted the strengths of the business, the barriers to entry and steps the new management team is taking to both enhance its service offering, but also simplify its delivery capability. EQT is expected to benefit from the growing wealth effect, noting tailwinds from expanding philanthropic pursuits and trends.

Key detractors

Key detractors	Positioning
MG Unit Trust (MGC)	Overweight
Ardent Leisure (AAD)	Overweight
Speedcast International (SDA)	Overweight

MG Unit Trust (MGC, -52.2%) – although only a small position, our recent investment in the MG Unit Trust or 'Murray Goulburn' would have to rank as one of our most ill-timed investments. Despite our due diligence, it would appear the now former CEO and management had either unrealistic expectations at best, or at worst had completely misled the board and investors in an attempt to keep face and achieve the revised profit forecast for the current financial year. The profit downgrade reported by MGC in late April was highly material, triggered a revised milk price to dairy farmers for the current financial year and led to the CEO and CFO exiting the company. Taking a deep breath, while this was a very poor result for investors in the short term, the initial attraction and logic for our investment remains. MGC has access to key raw dairy ingredients and is looking to monetise this by value adding to the milk. This includes the build-out of manufacturing capacity to process milk into branded products, cheese, UHT, infant formula and whey, rather than powdered or regular milk product. We are sticking to our investment at this stage, and despite expecting some ongoing ructions within the company (such as director resignations) we expect value can be achieved from this name.

Since the resignation of the CEO, we have had the opportunity to meet the interim CEO. Reassuringly, his focus appears on stabilising the business, ensuring any inventory build is minimised and has, thus far, reiterated MGC's commitment to the existing business plan of which we were supportive. Since the profit downgrade, we increased our positon in MGC in a measured manner and pleasingly, the share price has recovered somewhat from its lows. We will continue to monitor the stock closely, as you would expect.

Ardent Leisure (AAD, -17.9%) – the share price of AAD drifted lower across the quarter to finish in line with where it traded in late February. Some investors are no doubt concerned about the growth rate the key US Main Event division is currently achieving given its exposure to the oil-focused US states such as Texas, and increased competition in its space, which in the short term is likely weighing on the stock. In March, the company announced its intention to divest the domestic 'Marine' assets, the d'Albora Marinas, and apply the proceeds to a faster rollout for the US Main Event centres. From our perspective, a relatively speedy sale process that still maximises the value of the marinas, which in turn allows for prompt acceleration of the US store rollout, should be well received by investors.

Speedcast International (SDA, -22.4%) – shares in SDA were lower across the June quarter, tempered by cautious comments from management at the AGM who specifically flagged delays in terms of contract awards in the energy segment and their service start-up being pushed out. This in turn has been driven by the pressures on the oil industry at present. All the same, energy is a smaller part of SDA's business which primarily services the growing demand for telecommunications services to shipping lines and other remote business locations. As such, the current moderation of growth should only be temporary and we expect SDA to grow substantially through acquisition and organically in coming years. We also note SDA has continued to win contracts across a range of geographies and client sectors, validating its business model.

Portfolio changes

Key additions and material adjustments

Bought
Nufarm Limited (NUF)
Steadfast Group Ltd (SDF)
Clydesdale Bank PLC (CYB)
Worley Parsons Ltd (WOR)
Nextdc Limited (NXT)
Evolution Mining (EVN)
Northern Star (NST)

There were several new stocks added to the portfolio during the month.

We added two gold exposures to the portfolio, namely **Evolution Mining (EVN)** and **Northern Star (NST)**. Both of these names have a strong capital position and across their portfolios mining costs are heavily biased to the first and second quartile of global production (i.e. low-cost mines). Australian gold miners have benefited in recent times from the falling Australian dollar which increases the value of gold sales, while the bulk of their costs are Australian-dollar based. With costs across the whole mining sector falling as miners seek large productivity improvements, this has been highly favourable to the gold names as the gold price has trended higher. Going forward, we expect both EVN and NST to participate in further industry consolidation as it arises.

Nufarm Limited (NUF) – we added global crop protection specialist, Nufarm Ltd, back into the portfolio having exited the position late in 2015 when the share price was higher. With the valuation coming back to a more realistic level, we were comfortable to begin buying the stock again. Our investment thesis is unchanged however, highlighting the benefits of costs savings, productivity measures and a simplified, strategic focus. At a recent investor day, we gained further insights and confidence into the strategic focus and management team changes NUF has undertaken and hence our confidence to re-enter the stock. Critically, we look to NUF to not only achieve the costs savings, but to retain them on an ongoing basis.

Steadfast Group Ltd (SDF) – we acquired a small position in SDF, Australia's largest general insurance broker - a service provider and equity investor for insurance brokers in Australia, New Zealand and Singapore. SDF's broker network distributes general insurance products and related services to the SME segment of the market. SDF also operates a number of specialist insurance agencies focusing on businesses such as caravan parks and boutique transport operators. One of the key drivers of SDF's profitability is the position in the insurance premium cycle. SDF has been early in calling that we will see hardening insurance premiums in the Australian market given the lack of profitability in a number of key lines for insurers. Our discussions with other parties also suggest the premium cycle is hardening and this is an attractive point of the cycle to invest in an insurance broker as they take commissions on the rising premiums upfront (as opposed to insurance companies which earn the premium over time). At our recent meeting with management, we walked away impressed by the investment SDF is making in its service offering, and in particular, in its IT systems. All of this is very user friendly and designed to assist the brokers in accessing a full range of service options and ultimately, becoming more efficient. The group should also be able to continue down the path of acquiring more insurance broking businesses to further enhance growth.

Clydesdale Bank PLC (CYB) – we added a position in mid-tier UK bank, Clydesdale and Yorkshire Banking Group, the UK bank demerged from NAB earlier this year. We note, both the recent strong profit result and outlook statement, together with the volatility that a Brexit 'leave' vote has brought. The key plank of our investment thesis for CYB is the cost out opportunity. May's half-year profit result - the first major update since CYB demerged from NAB earlier this year – was very strong, driven by its achievements on costs to date and the full-year guidance around costs. Specifically for the current year, CYB lowered its cost-to-income ratio guidance by a little over 2%, but also clearly stated its intent to continue to lower costs further in the years to come (the cost-to-income ratio from a very high 72% into the high 50s). Other aspects of the result were broadly as expected and CYB has now made all key appointments of senior executives post the demerger. One risk to any UK business at present is the pending Brexit vote or referendum in the UK which focused on remaining in the European Union. With the success of the 'leave' vote we continue to monitor the impact on CYB and our investment.

Worley Parsons Ltd (WOR) – we added a position in WOR following its investor day in late May. WOR is a contract engineering service provider focused predominantly on the energy sector. WOR is a former market darling, however with the downturn in the oil price and as a service provider to the hydrocarbon industry, WOR has been hit hard by the collapse in capital investment across the sector. The investor day provided Ralton with comfort on two key fronts. Firstly, WOR's actions to downsize its operations are progressing and the likelihood is that capital expenditure across the sector is nearing a bottom, which suggests further steep declines in WOR's profits are unlikely. Secondly, under new CFO, Tom Honan, we believe WOR has a clear strategy to improve its cash flow and continue the repair of its balance sheet. Honan was CFO of Transurban post GFC, where he had to repair the capital structure which was too aggressive in the post-GFC environment. We are more confident after the investor day that Honan will be able to contribute to the improvement of the WOR capital structure to adapt to the post-oil boom environment. On the basis of these two factors, the stock looked attractive from a valuation perspective.

Nextdc Limited (NXT) – NXT is an owner and operator of data centres or 'DCs' across Australia's east coast. The business model relies on acquiring and building electronic storage capacity close to major population centres and then renting out these facilities and capabilities to corporates and governments that have significant data and security requirements. NXT has spent many years and significant capital to build several centres and attract customers. Barriers to entry are high, as you would expect, and NXT now appears to have reached critical mass in terms of customer growth, number of centres and capital sustainability. We like the exposure NXT offers to the growth in demand for data, cloud computing and associated technology services and believe it offers good value over the medium term.

Key disposals and material adjustments

Bought
Blackmores Limited (BKL)
Vitaco Holdings Ltd (VIT)
Super Retail Group Ltd (SUL)

There were three outright sales from the portfolio during the quarter.

Blackmores Limited (BKL) – we exited BKL, one of our more successful, long-held investments during the month. This sale was driven by both valuation considerations and also regulatory concerns that relate to BKL's key growth market, China. Despite some confusion, the recent regulatory changes by the Chinese authorities in relation to the importation and sale of vitamins and other food products into China appear to be driven by a desire to increase taxes for the central government and provide greater regulatory oversight for Chinese consumers. We note however, that these regulatory changes will likely have some negative impact on BKL, certainly in the short term and in the long term it is simply too hard to say with any conviction. These measures will impact BKL's direct retail sales in China, its online or e-commerce sales and also the 'grey market' of friends and relatives who purchase goods in Australia and transport or perhaps post them into China. BKL's long-term presence in China will no doubt assist the company in navigating a pathway through these changes in time, though to be clear, we felt the current climate was simply too uncertain upon which to maintain our investment.

Vitaco Holdings (VIT) – we also exited our position in the NZ-based consumer goods company, Vitaco. Since we last increased our position, the stock has performed quite well, and to be fair, we continue to like the brand proposition and global focus VIT is taking to expansion. As examples, we note VIT is a leading provider of health food products into the Middle East, it has recently signed an agreement with Boots in the UK to distribute its 'body building' brands and also continues its aggressive expansion into the Chinese vitamin and milk channels – unlike BKL, VIT sales into China are quite a modest percentage of overall sales. In the short term however, our sense is VIT has material investment ahead to realise its potential. Sales, marketing and distribution costs are all set to be increased, having perhaps been 'fine tuned' ahead of the prospectus in order to maximise near-term profits.

Super Retail Group Ltd (SUL) – after reducing the position following a poor profit result for SUL in February, we fully exited the stock in early April. We still harbour concerns as to management's ability to improve returns from the Leisure division and also note the potential for larger scale foreign players in the mass sports category to impact on returns and market share gains for both Rebel Sport and Super Amart.

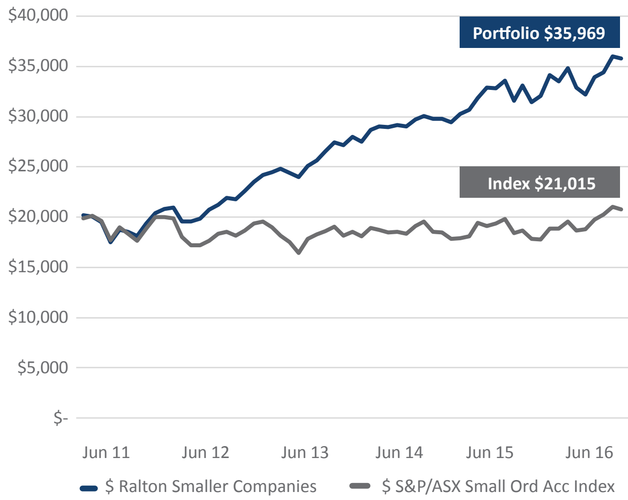
Sector allocation

GICS sector	Ralton	Index	+/-
Financials (ex-Property)	14.4%	7.9%	6.4%
Consumer Staples	13.7%	7.9%	5.7%
Industrials	12.0%	10.1%	1.8%
Telecommunication Services	2.5%	1.4%	1.2%
Health Care	7.5%	6.7%	0.8%
Energy	4.0%	3.7%	0.3%
Consumer Discretionary	22.8%	23.0%	-0.2%
Materials	18.0%	18.4%	-0.4%
Utilities	0.0%	0.9%	-0.9%
Information Technology	2.4%	7.7%	-5.3%
Property	2.8%	12.1%	-9.3%
Total	**100.0%**	**100.0%**	

Top 10 holdings#

Company name	ASX code
Macquarie Atlas Roads Group	MQA
Fisher & Paykel Healthcare Corporation Limited	FPH
Sky Network Television Ltd	SKT
Fletcher Building Limited (Australia)	FBU
Aristocrat Leisure Limited	ALL
Tassal Group Limited	TGR
Ardent Leisure Group	AAD
News Corporation	NWS
Costa Group Holdings	CGC
SAI Global Limited	SAI

Performance comparison of $20,000*



CONTACT COPIA

1800 442 129 | clientservices@copiapartners.com.au | ralton.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