

Ralton Australian Shares

Winner of the 2010 Standard & Poors' Fund Awards
- Separately Managed Accounts Category

Investment Profile

A Professionally Managed Portfolio of Australian Shares

The Ralton Australian Shares model portfolio is a separately managed account, or SMA, actively managed by Ralton Asset Management (Ralton). SMAs are professionally managed portfolios of direct shares whereby the investor receives beneficial ownership of the underlying securities.

Investment Objective

The objective of the Ralton Australian Shares SMA is to provide investors with long-term capital growth and some tax effective income from a concentrated portfolio of Australian shares. The Portfolio aims to deliver a return superior to that of the market over periods of five years or longer while at the same time seeking to minimise the risk of investment capital loss.

Key Portfolio Features

Inception	1 February 2008
Benchmark	S&P/ASX 300 Accumulation Index
Authorised Investments	Companies in the S&P/ASX 300 Index or those amongst the top 300 by size
No. of stocks	20-35
Cash Allocation	0% to 10%
Tracking Error	3% to 6%
Time Horizon	At least 5 years
Ratings	  

Performance

Return %	3m	1yr	3yrs	Incept*
Ralton Aust Shares	3.00	-9.98	8.23	-1.31
Income Return	1.49	4.75	4.59	4.64
Growth Return	1.51	-14.73	3.64	-5.95
S&P/ASX 300 Index	2.05	-10.98	7.67	-3.71
Difference	0.94	1.00	0.56	2.40

*Since inception p.a., Feb 2008

The Portfolio is designed for investors who...

- Seek long term capital growth & some tax-effective income
- Expect consistent above market returns
- Have a long term investment horizon of at least five years and accept the risk of significant price fluctuations.

Portfolio Structure

Top 10 Holdings

No.	Company Name	ASX Code
1	BHP BILLITON LTD	BHP
2	WESTPAC BANKING CORPORATION	WBC
3	COMMONWEALTH BANK OF AUSTRALIA	CBA
4	ANZ BANKING GROUP LTD	ANZ
5	TELSTRA CORPORATION LIMITED	TLS
6	RIO TINTO LTD	RIO
7	WESFARMERS - PRICE PROTECTED	WESN
8	DUET GROUP	DUE
9	WOODSIDE PETROLEUM	WPL
10	AMCOR LTD	AMC

Industry Allocation (ex-Cash)

GICS Sector	Ralton	Index	+/-
Financials (ex-Property)	32.1%	31.6%	+0.5%
Telecommunication Services	7.5%	4.5%	+3.0%
Industrials	11.9%	7.2%	+4.7%
Property	9.3%	6.6%	+2.7%
Utilities	3.3%	1.6%	+1.7%
Energy	7.7%	7.0%	+0.7%
Information Technology	0.0%	0.7%	-0.7%
Consumer Discretionary	3.8%	3.9%	-0.1%
Consumer Staples	3.5%	8.0%	-4.5%
Health Care	0.00%	3.6%	-3.6%
Materials	20.9%	25.2%	-4.3%
Total	100.0%	100.0%	0.00%

Quarter in Review

Performance Summary

- Despite significant volatility the S&P/ASX 300 Index gained 2.05% in the December Quarter with positive contributions from the Financials and Industrial sectors offset by falls in the Materials and Consumer Discretionary sectors.
- Over the same period, the Ralton Australian Shares portfolio delivered a return of **3.00%**, outperforming the index by **0.95%**.
- This was a solid outcome driven by good performances for some of our defensive, high yielding stocks and an underweight to the Resources sector.

Portfolio Commentary

Merger and Acquisition activity assisted some of the portfolios leading performers for the quarter. Mid cap Telco company iiNet (+31.4%) benefitted from their acquisition of two small peers, both announced late in the quarter. MSF Sugar Ltd (+41.5%) and Gloucester Coal (+28.2%) were both the targets of corporate activity. Utility owner Duet Group (+13.7%) and ANZ Bank (+9.4%) both delivered solid returns for the quarter.

iiNet's share price gains were driven by the acquisition of two smaller competitors, TransACT in Canberra and InterNode in South Australia. Our view remains that iiNet is a well run business that produces good cash flow and hence will be a key player in the consolidation of internet service providers (ISPs) ahead of the National Broadband Network (NBN). For iiNet the introduction of the NBN creates greater regulatory certainty and with it an opportunity to build scale and continue to offer their service driven model to consumers. Competitor TPG Telecom has also been buying shares in iiNet, creating some price tension on the share registry.

The portfolio also benefitted from a nil holding in Newcrest Mining—the stock being impacted by the twin forces of a falling gold price into year end and production issues at their own mines.

There was no common theme to our stocks that underperformed during the quarter. JB Hi-Fi (-25.6%) was victim to the retail weakness experienced across much of Australia and Dart Energy (-31.4%) was sold down on overall sector weakness plus no doubt Dart was influenced by negative media perception surrounding coal seam gas production. Coal and Allied (0.49%) remained largely flat across the quarter as we awaited the acquisition by their major shareholders and payment of the special fully franked dividend.

JB Hi-Fi was a particularly disappointing result for the portfolio. Although our view of the Australian economic outlook has been highly cautious [reflected by our limited investment in Australian, consumer exposed stocks] our view was that JB's model of being the low cost, leading electronics store in Australia would ensure that they would deliver solid profit results even in a tough retailing environment. However in December the company sought to update the market and lowered their profit guidance for FY 12. Although JB's had grown sales ~ 6.5% for the period, discounting pressure had been extreme and hence mar-

gins and overall profit expectations slipped below expectations. Despite the disappointment we remain holders of the stock and believe that JB's business model remains sound. With the likelihood of further interest rate cuts across CY 12 we expect that consumer sentiment and spending patterns will improve and provide support for retail stocks such as JBH in the medium term.

During the quarter, a couple of stocks detracted from performance as they were not held in the portfolio. Stockland (+17.5%) and CSL (+8.5%), both defensive type stocks performed well in a volatile market.

Quarterly Performance Attribution

Top Contributors	Positioning	Key Detractors	Positioning
iiNet Ltd	Overweight	JB Hi-fi	Overweight
Newcrest Mining	Underweight	Dart Energy	Overweight
MSF Sugar	Overweight	NAB	Underweight
Gloucester Coal	Overweight	Coal & Allied	Overweight
Duet Group	Overweight	Henderson Grp	Overweight

Portfolio Adjustments

During the quarter we...

SOLD: Charter Hall Office REIT (CQO), Clearview Wealth Limited (CVW), Mineral Resources Limited (MIN), MSF Sugar Limited (MSF) & National Australia Bank (NAB). Coal and Allied was compulsorily acquired;

BOUGHT: Asciano Limited (AIO), ASX Limited (ASX), Investa Office Fund (IOF), New Hope Ordinary (NHC), Sims Metal Group (SGM) & Suncorp Group (SUN);

During the quarter we made a number of changes to the portfolio where we saw the opportunity to add attractively valued stocks. These included Investa Office Fund (IOF) and Asciano (AIO).

IOF was a new position to the portfolio and coincided neatly with Charter Hall Office (CQO) trading up to fair value and providing an opportunity to exit this position. IOF is following a not dissimilar pattern to CQO in that the fund is selling their overseas properties to focus on their domestic office properties. Debt levels for the fund will be low once these asset sales are complete allowing for further domestic purchases and the overall valuation remains attractive.

We also added a new position in Asciano during November. Like QR National, Asciano's growth is linked to the ongoing growth in coal volume exports from QLD and NSW, which together with the cost savings highlighted by the new management team provide for a strong likelihood of good growth for the medium term. Chairman Malcolm Broomhead was highly successful as CEO of Orica and we are beginning to see the benefits of his disciplined business approach filtering through at Asciano.

Investment Approach

A Three Stage Investment Process

Intensive bottom-up research is the cornerstone of the entire process, supplemented by top-down economic and thematic views. The process is disciplined and consistently applied, using a number of proprietary qualitative and quantitative techniques to ensure that targeted companies have been thoroughly scrutinised. The aim is to uncover undervalued businesses. The companies that Ralton typically invests in are those with strong and reliable management, good profit and dividend growth expectations, reasonably predictable future profits and cash flows, and a very clear business model.

Stage 1: Defining the Investment Universe (Screening)

The first stage of the process is to narrow the number of stocks in the investment universe by applying a number of screens. This approach systematically eliminates companies that do not meet certain minimum standards, allowing the Investment team to focus more intensely on companies of potential interest.

Stage 2: Bottom-up Fundamental Company Research

Ralton's research programme is focused on understanding the key drivers of business performance and returns, namely people, operations, products and services, and market dynamics. For companies remaining in the Investment Universe, a detailed assessment is made of executive management, interviews competitors and suppliers, reviews financials, and forms a clear view on the outlook for the company's industry.

Stage 3: Portfolio Construction

Risk management and capital preservation are key themes underlying the portfolio construction framework. With a focus on actively managing down-side portfolio risk for investors, Ralton constructs an efficiently diversified portfolio of high quality, undervalued companies, and invests for the long term (typically 3 to 5 years) in an effort to maximise after-tax returns.

About the Manager

Ralton Asset Management is part of the Armytage group, a boutique investment specialist majority owned by members of its investment team and key executives. Founded in 1997, Armytage is a pioneer in Australia's investment industry, offering a suite of actively managed SMAs, IMAs and managed funds.

Ralton is a Value manager with a fundamental investment approach designed to identify quality businesses trading at a considerable discount to valuation. The process is guided by three fundamental beliefs:

- Markets are not perfectly efficient and the true value of a business is not always reflected in its share price;
- Undervalued companies can be identified through detailed and intensive research; and
- Capital preservation is critical to wealth creation.

The Investment Team

Andrew Stanley *BEC, LLB, ACA, FFin, MA AppFin*
Portfolio Manager, Ralton Model Portfolios

Andrew Stanley is the lead portfolio manager for the Ralton portfolios. He is supported by a dedicated and highly experienced team of investment professionals each with an average 18 years investment experience. Andrew has been working in financial markets for more than 19 years, including the past 5 years managing the Ralton portfolios. Prior to Ralton, he was an Executive Director at UBS in Hong Kong, and over the course of his career has held senior positions with major investment institutions in Melbourne, Hong Kong, Tokyo and New York. Andrew started his career at Arthur Andersen in Melbourne.

Campbell McComb *B.Econ, FFIN* Portfolio Manager, Analyst

Lee laFraté *B.Bus, FCPA, FFIN* Portfolio Manager, Analyst

Roger Walling *BOptom, MBB* Portfolio Manager, Analyst

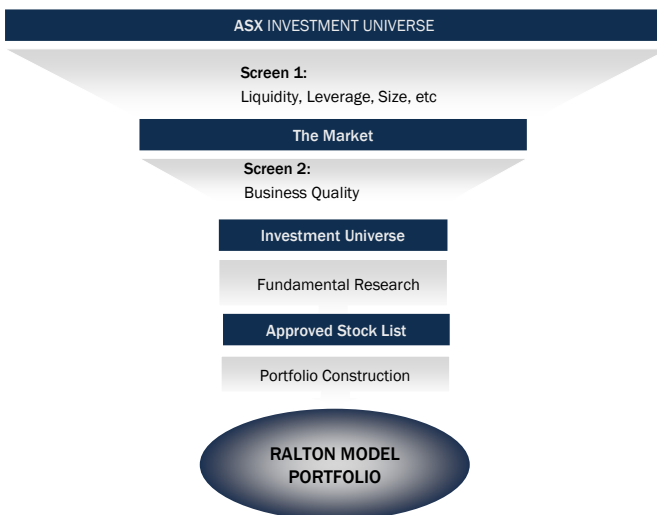
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