

Ralton Leaders

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

Investment Profile



A Professionally Managed Portfolio of Australian Shares

The Ralton Leaders 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 Leaders SMA is to provide investors with long-term capital growth and tax effective income from a portfolio of blue-chip Australian shares. The portfolio aims to deliver returns that are consistently above the S&P/ASX 100 Accumulation Index over a three to five year period.

Key Portfolio Features

Inception	1 February 2008
Benchmark	S&P/ASX 100 Accumulation Index
Authorised Investments	Companies in the S&P/ASX 100 Index or those amongst the top 100 by size
No. of stocks	25-40
Cash Allocation	0% to 10%
Tracking Error	1.5% to 3.5%
Time Horizon	At least 3 to 5 years
Ratings	 

Performance

Return %	3m	1yr	3yrs	Incept*
Ralton Leaders	2.34	-9.75	8.18	-1.41
Income Return	1.53	5.02	4.58	4.70
Growth Return	0.81	-14.77	3.60	-6.11
S&P/ASX 100 Index	2.32	-9.82	7.39	-3.21
Difference	0.02	0.07	0.80	1.79

*Since inception p.a., Feb 2008

The Portfolio is designed for investors who...

- Seek long term capital growth & tax-effective income
- Expect consistent above market returns
- Have a long term investment horizon of at least 3-5 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	ORIGIN ENERGY LTD	ORG
10	AMCOR LTD	AMC

Industry Allocation (ex-Cash)

GICS Sector	Ralton	Index	+/-
Financials (ex-Property)	33.2%	34.3%	-1.1%
Utilities	3.4%	1.3%	+2.1%
Telecommunication Services	6.3%	4.6%	+1.7%
Energy	6.0%	6.7%	-0.7%
Property	8.6%	6.8%	+1.8%
Industrials	9.0%	6.1%	+2.9%
Consumer Discretionary	3.3%	3.0%	+0.3%
Information Technology	0.00%	0.5%	-0.5%
Consumer Staples	6.3%	8.7%	-2.4%
Materials	24.0%	24.5%	-0.4%
Health Care	0.00%	3.6%	-3.63%
Total	100.0%	100.0%	0.00%

Quarter in Review

Performance Summary

- The S&P/ASX 100 gained 2.32% 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 Leaders Portfolio delivered a return of **+2.34%**, performing in line with the market.
- This was a reasonable outcome driven by good performances from some of our defensive, high yielding stocks, and an underweight exposure to the Resources sector offset stock specific losses.

Portfolio Commentary

Of our overweight positions adding to performance during the period, Duet Group (+13.7%) was the strongest contributor. Our overweight holding in the banks and specifically ANZ (+9.4%) also added to performance. Amongst our Industrial holdings Brambles (+11.7%) and Transfield Services (+15.4%) were strong contributors. In the case of Transfield Services the stock has been supported by ongoing contract wins and the recently announced share buyback.

For Brambles, recent progress has confirmed to us the ongoing improvements and refined strategic direction made by CEO Tom Gorman. In response to poor customer perception and loss of some key customers, Brambles have reinvested in the pallet businesses (CHEP) in both Europe and the United States and begun to win back market share. Simultaneously Brambles acquired IFCO in late 2010, using this to expand their product offering in the transport and logistics arena into Reusable Plastic Containers (RPC's). A final piece of the strategic plan will see Brambles sell their paper and documents storage division, Recall and use the proceeds to further invest in both RPC's and new pallet pools in the rapid growth markets of China, India and South America. Brambles recently confirmed that despite the challenging economic environment in some of their global markets, that they remain on track to deliver on their profit forecasts, initially provided in August 2011.

The portfolio also benefitted from not holding Newcrest Mining although as the share price weakened we began to buy the stock in mid December.

We also held a number of positions in the portfolio which underperformed the market over the quarter. JB Hi-Fi (-25.6%) was the main negative contributor and marked 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 margins 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.

Holding onto to Coal and Allied (0.49%) until the acquisition was complete, including payment of an \$8 fully franked special was a drag on performance for the quarter.

During the quarter, a couple of stocks detracted from performance as they were not held in the portfolio. Stockland (+17.5%) and Iluka Recourses (+24.4%) were the key top 100 performers not held in our portfolio.

Quarterly Performance Attribution

Top Contributors	Positioning	Key Detractors	Positioning
Newcrest Mining	Underweight	JB Hi-Fi	Overweight
Duet Group	Overweight	NAB	Underweight
ANZ Bank	Overweight	Coal and Allied	Overweight
Transfield Service	Overweight	Iluka Resource	Underweight
Brambles	Overweight	Stockland	Underweight

Portfolio Adjustments

During the quarter we...

SOLD: Charter Hall Office REIT (CQO), National Australia Bank (NAB), OneSteel (OST). Coal and Allied was compulsorily acquired.

BOUGHT: Asciano Limited (AIO), Investa Office Fund (IOF), Newcrest Mining (NCM), Sims Metal Group (SGM);

During the quarter we made changes to the portfolio where we saw the opportunity to add positions which were attractively valued. These included Investa Office Fund and (IOF) Sims Metal Management.

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.

Sims returns to the portfolio and together with an increased holding in Rio Tinto boosts our exposure following a period of share price weakness across the Resources sector. Sims key profit drivers are the price of scrap metal, itself linked to the price of iron ore and activity levels in the United states. Our analysis tells us that the stock is oversold at current levels based on the outlook for both of these factors.

In the case of Newcrest, the precipitous fall in the Gold price, together with a more realistic appraisal of near term production targets by the company lead to the stock being oversold.

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

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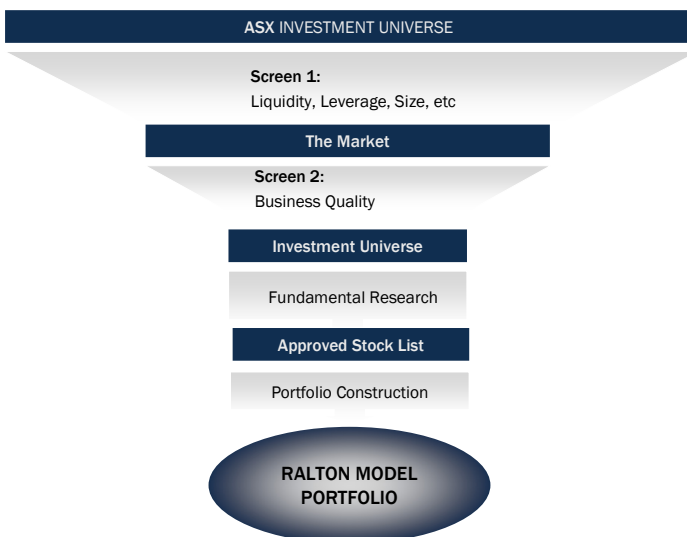
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