

Ralton Leaders

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



Investment Profile

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%
Ratings	 

Performance

Return %	1m	3m	1yr	3yrs	Incept*
Ralton Leaders	+4.48	0.34	-6.62	11.7	-0.76
Income Return	0.03	1.02	5.04	4.58	4.62
Growth Return	4.46	-0.68	-11.66	7.13	-5.38
S&P/ASX 100 Index	4.88	0.13	-5.75	10.93	-2.28
Difference	-0.40	0.21	-0.87	0.77	+1.52

*Since inception, Feb 2008

Model Portfolio Commentary

- The portfolio's defensive tilt lead to a modest underperformance in a strong market for January.
- The S&P/ASX 100 Index gained 4.9% during the month, buoyed by strength in the Energy, Materials and Industrial Sectors.
- The portfolio's overweight position in Telcos, Utilities and Real Estate each detracted from relative returns. Although our overweight stocks made gains, our underweight positions in Energy & Materials each detracted from performance.
- Key positions in Sims Metal Management (SGM), Rio Tinto (RIO) and Newcrest Mining (NCM) each added to portfolio performance, both in terms of absolute and relative returns.
- On the downside our holdings in QBE Insurance (QBE), Transfield Services (TSE) and Treasury Wine (TWE) each detracted from both absolute and relative performance.

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

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 LIMITED	AMC

Industry Allocation (ex-Cash)

GICS Sector	Ralton	Index	+/-
Financials (ex-Property)	32.8%	33.6%	-0.8%
Utilities	3.4%	1.3%	+2.1%
Telecommunication Services	6.3%	4.6%	+1.7%
Energy	6.0%	4.4%	+1.6%
Property	8.7%	6.8%	+1.9%
Industrials	8.7%	6.2%	+2.5%
Consumer Discretionary	3.3%	3.0%	+0.3%
Information Technology	0.00%	0.4%	-0.4%
Consumer Staples	6.1%	8.4%	-2.3%
Materials	25.0%	25.6%	-0.6%
Health Care	0.00%	3.4%	-3.4%
Total	100.0%	100.0%	0.00%

Portfolio Adjustments During the Month...

Bought

- Nil.

Sold

- Nil.

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 *B.Ec, 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

Bradley King *B.Bus (EcoFin), AFIN* Investment Analyst

Peter Rudd *BSc, MBA, SF Fin, MESAA* Min & Resources Consultant

For Further Information

Financial advice professionals seeking additional information can contact Armytage Adviser Services:

- ☎ 03 9674 0600
- ✉ backoffice@armytage.com.au
- 🌐 www.armytage.com.au



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