

Ralton Smaller Companies

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

Investment Profile

The Ralton Smaller Companies 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 Smaller Companies SMA is to provide investors with long-term capital growth and some tax effective income from a concentrated portfolio of smaller capitalisation ASX listed 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 Small Ordinaries Accumulation Index
Authorised Investments	ASX listed companies that are not included in the S&P/ASX 50 Index
No. of stocks	25 to 40
Cash Allocation	0% to 15%

Performance

Return %	1m	3m	1yr	3yrs	Incept*
Ralton Small Cos.	+6.87	+3.12	-3.59	17.03	-0.39
Income Return	0.00	0.21	3.73	4.00	3.93
Growth Return	6.87	2.91	-7.32	13.03	-4.32
S&P/ASX Small Ords	7.75	-0.71	-13.46	16.48	-4.73
Difference	-0.87	3.83	9.87	0.55	4.34

*Since inception, Feb 2008

Model Portfolio Commentary

- In January the portfolio gained an impressive 6.9% though still underperformed a very strong market.
- The S&P/ASX Small Ords Index gained 7.7% during the month, buoyed by strong share price movements for both the Energy and Materials (largely resources) sectors.
- At a sector level the portfolio's bias to Energy was a strong contributor to returns as were many of our Industrial stocks. However both our underweight to Materials and our overweight to Consumer Staples contributed to underperformance across the month.
- Key positions in Dart Energy (DTE), Perilya (PEM) & Ausdrill (ASL) each added to portfolio performance, both in terms of absolute and relative returns.
- On the downside our holdings our active positions in Gloucester Coal (GCL), Ramsay Healthcare (RHC) and Transfield Services (TSE) each detracted from both absolute and relative portfolio performance.

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

Portfolio Structure

Top 10 Holdings

No.	Company Name	ASX Code
1	SAI GROUP LIMITED	SAI
2	DUET GROUP	DUE
3	IINET LIMITED	IIN
4	GLOUCESTER COAL LTD	GCL
5	AUSTRALIAN INFRASTRUCTURE FUND	AIX
6	RAMSAY HEALTH CARE LTD	RHC
7	AUSDRILL LIMITED	ASL
8	QUBE LOGISTICS	QUB
9	NEW HOPE ORDINARY	NHC
10	ADELAIDE BRIGHTON	ABC

Industry Allocation (ex-Cash)

GICS Sector	Ralton	Index	+/-
Industrials	36.5%	18.8%	+17.7%
Financials (ex-Property)	8.3%	4.3%	+4.0%
Consumer Staples	5.0%	0.6%	+4.4%
Energy	16.2%	11.5%	+4.7%
Health Care	3.3%	3.5%	-0.2%
Utilities	4.3%	4.1%	+0.2%
Telecommunication Services	6.1%	3.3%	+2.8%
Property	2.7%	4.9%	-2.2%
Information Technology	0.00%	2.7%	-2.7%
Consumer Discretionary	4.2%	13.1%	-8.9%
Materials	13.5%	33.2%	-19.8%
Total	100.0%	100.0%	0.00%

Portfolio Adjustments During the Month....

Bought

- Increased our holdings in iiNet Limited (IIN).

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)

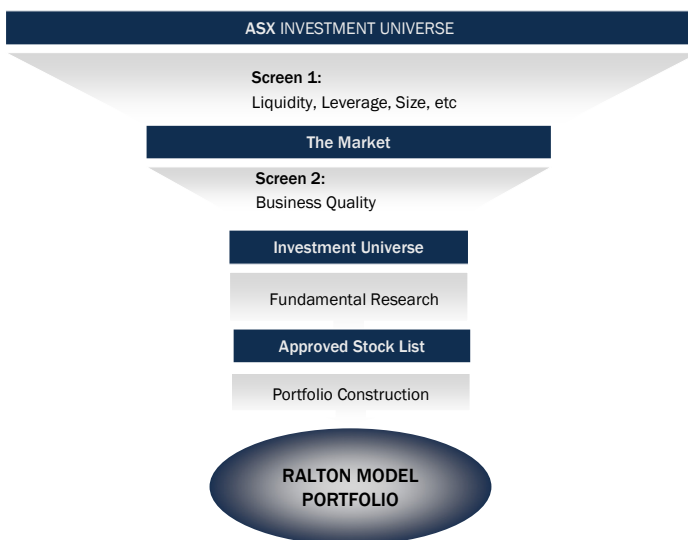
The first stage of the process is to narrow the number of stocks in the investment universe by applying a number of screens. This approach systematically eliminates companies that do not meet certain minimum standards, allowing the Investment team to focus more intensely on companies of potential interest.

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

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