Monthly Report
April 2014

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 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.
Number of Stocks	20-35
Cash Allocation	0% to 10%
Tracking Error	3% to 6%
Investment Horizon	At least 5 years
Ratings	

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 equity markets.

Portfolio Structure

No.	Company Name	ASX Code
1	ANZ Banking Group	ANZ
2	Commonwealth Bank of Australia	CBA
3	BHP Billiton Limited	BHP
4	Westpac Banking Corporation	WBC
5	Telstra Corporation Limited	TLS
6	Oil Search Limited	OSH
7	Amcor Limited	AMC
8	Origin Energy Limited	ORG
9	QBE Insurance Group Limited	QBE
10	Resmed Inc	RMD

GICS Sector	Ralton	Index	+/-
Industrials	11.0%	7.1%	3.9%
Consumer Discretionary	7.6%	5.7%	1.8%
Health Care	6.1%	4.8%	1.3%
Energy	7.4%	6.6%	0.8%
Financials (ex-Property)	36.0%	35.6%	0.4%
Telecommunication Services	5.7%	5.3%	0.4%
Materials	17.3%	17.3%	0.0%
Information Technology	0.0%	0.9%	-0.9%
Utilities	0.0%	2.0%	-2.0%
Property	4.2%	7.0%	-2.8%
Consumer Staples	4.7%	7.6%	-3.0%
Total	100.0%	100.0%	

Performance

Return %	1m	3m	1yr	3yrs	5yrs	Incept*
Ralton Aust Shares	1.59	6.83	14.52	10.59	13.59	6.31
Income Return	0.00	1.24	3.60	4.41	4.34	4.50
Growth Return	1.59	5.59	10.93	6.18	9.25	1.82
S&P/ASX 300 Accum. Index	1.68	6.91	10.14	8.77	12.32	3.94
Difference	**-0.09**	**-0.07**	**4.38**	**1.81**	**1.27**	**2.38**

**Since Inception p.a., Feb 2008*

Month in Review

Performance Summary

- The S&P/ASX 300 finished the month 1.68% higher, with the Property Trusts and Energy the best performing sectors in percentage terms.
- For the month, the Ralton Australian Shares Model Portfolio also gained ground, adding 1.59%, underperforming the benchmark index by 0.09%.
- At a sector level, the portfolio's overweight exposure to Healthcare added value, whilst our underweight position in Consumer Staples detracted from performance.

Portfolio Commentary

Monthly Performance Attribution

Top Contributors	Positioning	Key Detractors	Positioning
ResMed Inc	Overweight	QBE Insurance	Overweight
Oil Search Ltd	Overweight	Coca-Cola Amatil	Overweight
Cash Converters	Overweight	Aristocrat Leisure	Overweight

Positive Contribution

ResMed Inc. (RMD, +14.1%) was a strong contributor to the portfolio in April, reversing recent underperformance. The company's third quarter profit result delivered 8% growth in earnings per share (EPS) and was well received by the market. Critically, sales in the US region, which accounts for about 55% of company sales, demonstrated an improving trend for both masks and breathing devices compared to recent quarters. The result and associated management commentary strongly suggest that recent disruptions caused by changes in pricing and service providers (known as DME's) in the US were abating and that 'business as usual' was returning. RMD is expanding its clinical offering with a full launch of the Astral 150 in Europe later this year, targeting the market for invasive and non-invasive life support ventilation for both adult and paediatric patients. This launch, together with new product initiatives and possibly a whole new platform offering in their sleep apnea segment, should, in our opinion, drive solid revenue growth and support our investment in ResMed.

Our core energy holding, Oil Search (OSH, +5.1%) benefited from the rising oil price, which was in turn driven by ongoing geopolitical concerns centred on Ukraine and Russia, with Russia of course a major supplier of energy (gas) to Europe and the rest of the world. For Oil Search however, the key news was that commissioning of the PNG LNG gas plant was now running ahead of schedule and on budget, with the first gas shipments likely to leave port during May. Cash flow from the project for the JV partners, Exxon, Oil Search, and Santos, will be significant. For OSH the dollar amounts will prove transformational, allowing scope for the company to increase dividends to shareholders and invest in further projects, such as additional LNG gas trains in PNG. OSH recently acquired a material interest in another PNG gas field, named Elk/Antelope or PRL15. This field, co-owned by TOTAL and InterOil, will likely be used to support further LNG facilities. The size and nature of any future LNG plants will be determined by further field (exploration) works, together with negotiations between the joint owners of PRL15 and the PNG government. We expect clarification on this front over the course of 2014.

Cash Converters (CCV, +15.2%) also boosted portfolio returns. The CCV share price has been steadily recovering off it's lows from late last year, when the company announced that trading results in the September quarter were more severely impacted by regulatory changes than the market expected. Despite this, we were prepared to back company management. The company's half-year results for December and a further market update in April confirmed loan volumes have continued to improve following the regulatory changes to a more normal trading level.

Negative Contribution

QBE Insurance (QBE, -9.7%) reversed its positive start to the calendar year during April. Contributing to the weakness was the ongoing strength of the Australian dollar, (which of course impacts translation of US dollar profits), together with declining government bond yields, which impacts QBE's investment returns and the value of its liabilities. In the short term it appears that bond investors are tempering their view of the US growth outlook following a severe winter that has weakened economic activity in the US. At it's AGM, QBE also announced a 'strategic review' of its US middle market business. This will likely see the company sell this business and we view this as a positive given its subscale operations.

Coca-Cola also detracted from portfolio performance during April (CCL, -16.1%), although most of the fall came after we had significantly reduced the portfolio weighting. CCL has faced substantial headwinds over the past couple of years. These related to increased competition from a Japanese-controlled competitor (lacking profit discipline), de-stocking by the major supermarkets, a soft consumer environment and cost increases in Indonesia arising from a decline in the value of the rupiah and a rise in the minimum wage. In addition, there are rising health concerns about sugar consumption (i.e. is this the next tobacco?). If the health concerns are a factor, we think it will be a long time before it significantly dents consumption. At the time we acquired the initial holding we expected a number of these headwinds would ease in CY14. We reduced our holding in early April after revising our expectations regarding the timing of this.

Later in the month, CCL's new CEO Alison Watkins surprised us with a dramatic downgrade in current year earnings expectations. We are of the view that some of this downgrade is a re-basing of earnings to give the new CEO room to manoeuvre when making some structural changes in the company. Also, there is a recognition that the competition from Schweppes, the soft domestic consumer environment, and Indonesian pressures will all persist in the short-term. We are still a fan of the products CCL produces, the financial returns it has generated over a long period of time, and the growth options presented by Indonesia, and we expect it will get back on the path of profit growth. So we will continue to monitor the progress of Alison Watkins as she conducts a restructure of operations, with a view to adjusting the portfolio weight further at an appropriate time.

Gaming machine manufacturer Aristocrat Leisure (ALL, -6.5%) gave up some its recent share price outperformance. There was no news flow from the company, however the strength of the Australian dollar and a mixed update from one global peer perhaps weighed on the share price. As flagged previously, we continue to back the 5-year turnaround plan under CEO Jamie Odell, particularly given clear signs of operating improvement in recent periods.

Portfolio Adjustments

During the Month we...

SOLD: ASX Limited (ASX)

BOUGHT:

Purchases/Additions

Although there were no new stocks added to the portfolio during April, we increased some positions, including CSL Ltd (CSL), Macquarie Group Limited (MQG) and Origin Energy (ORG).

We added to the holding in CSL Ltd (CSL) on the basis of ongoing demand for the company's core plasma-derived products, together with the high barriers to entry for this business. CSL are a top 1 or 2 provider of plasma products across most geographies and continue to demonstrate manufacturing excellence in what is a highly regulated segment of the healthcare industry. Dealing with blood products is not taken lightly by the general public! Our view is that demand for CSL's products, including IVIG, Albumin and a broad range of 'specialty' products, will remain strong. Going forward, the company has a solid pipeline of both novel and follow-on compounds in R&D and overall we have a positive outlook on the company's prospects.

With Macquarie Group Limited (MQG), we would highlight that since the Global Financial Crisis, MQG has shifted its business model and profit mix, and now receives a far higher percentage of its earnings from annuity type businesses such as funds management. However, the earnings form the transactional businesses of FICC, investment banking and securities have continued to be a drag. We are now seeing signs of life for investment banking in the US and Asia with good volume lifts in the last half. Further, the pending sales by state governments of infrastructure assets should provide a string of opportunities in the Australian market. Finally, the wind-down of US Fed QE3 should see a rise in volatility globally which can be positive for FICC businesses.

Finally, we increased the Origin Energy (ORG) weighting in the portfolio. The company's APLNG plant near Gladstone continues to progress. As per the company's most recent quarterly production report in April, the APLNG plant's construction activities are near 70% complete, the revised budget is still being kept to and the first gas shipments are still targeted for CY15. As the project effectively de-risks and cash flow moves closer we believe the stock will contine to re-rate. With several LNG projects set to commence production shortly, the rise in demand for Australian gas to supply these plants, together with the direct link that these gas plants will provide with global oil prices, will see the price of domestic gas rise. Whilst this is certainly a negative for most businesses and consumers in Australia, companies who are 'long gas' should benefit. Origin's annual sales of domestic gas are circa 200 PJ and, as a low cost producer and purchaser of gas, the company should, we believe, benefit from rising prices.

Disposals

The one stock sale for the month was ASX Ltd (ASX), with most of the proceeds used to increase the investment in Macquarie Group Limited (MQG). Whilst we still like the business models, it does face some headwinds given the volume growth for equities and derivatives continues to be subdued.

RALTON
ASSET MANAGEMENT

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)

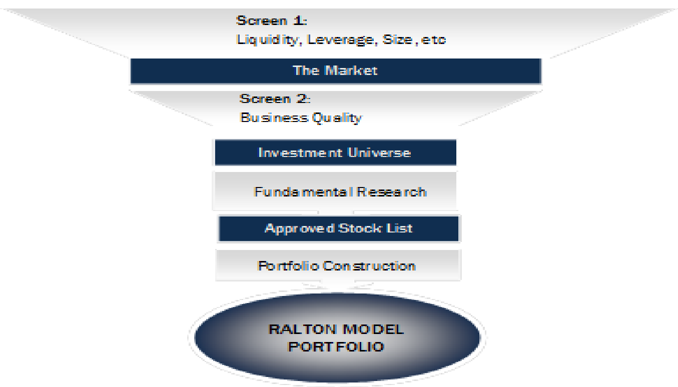
The first stage of the process is to narrow the number of stocks in the investment universe by applying a number of screens. This approach systematically eliminates companies that do not meet certain minimum standards, allowing the Investment team to focus more intensely on companies of potential interest.

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 OC Group, a boutique investment specialist majority owned by members of its investment team and key executives.

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.

Roger Walling *BOptom, MBB* Portfolio Manager, Ralton Model Portfolios

Stephen Evans *B Com, ACA*, Portfolio Manager

Stephen Sedgman Chairman OC Funds Risk Mgt Committee

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For Further Information

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