Monthly Report July 2014

RALTON ASSET MANAGEMENT

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	LONSEC Investment Grade SMA; van Eyk

Performance

Return %	1m	3m	1yr	3yrs	5yrs	Incept*
Ralton Aust Shares	2.93	3.02	15.90	15.13	11.80	6.55
Income Return	0.00	0.69	4.02	4.39	4.34	4.43
Growth Return	2.93	2.33	11.88	10.74	7.46	2.12
S&P/ASX 300 Accum. Index	4.41	3.57	16.27	13.00	10.34	4.34
Difference	**-1.48**	**-0.55**	**-0.37**	**2.12**	**1.46**	**2.21**

**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 equity markets.

Portfolio Structure

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

GICS Sector	Ralton	Index	+/-
Industrials	14.2%	7.4%	6.9%
Consumer Discretionary	7.9%	5.5%	2.5%
Energy	7.9%	6.6%	1.3%
Health Care	6.0%	4.8%	1.2%
Telecommunication Services	5.9%	5.4%	0.5%
Information Technology	0.0%	0.9%	-0.9%
Materials	15.8%	17.3%	-1.5%
Financials (ex-Property)	33.5%	35.4%	-1.9%
Utilities	0.0%	2.1%	-2.1%
Property	4.3%	7.1%	-2.8%
Consumer Staples	4.6%	7.6%	-3.0%
Total	100.0%	100.0%	

Month in Review

Performance Summary

- The S&P/ASX 300 accumulation index performed strongly in July, adding 4.41% for the month, with Materials and Information Technology the top performing sectors.

- For the month, the Ralton Australian Shares Model Portfolio returned 2.93%, underperforming the benchmark index by 1.48%.

- Although the portfolio made a positive return, our underweight exposure to both Materials and Financials detracted from relative returns, offsetting strong returns from other sectors, such as Consumer Discretionary.

Portfolio Commentary

Monthly Performance Attribution

Top Contributors	Positioning	Key Detractors	Positioning
Recall Holdings	Overweight	Oil Search Ltd	Overweight
Aristocrat Leisure	Overweight	Amcor Limited	Overweight
Transpacific Industries	Overweight	Sky Network Television	Overweight

The market rose a strong 4.41% in July, while the portfolio gained 2.93%, underperforming the benchmark by 1.48%. The key reason for the underperformance was the portfolio's underweight exposure to both metals and mining (resource) stocks and, to a lesser degree, several 'China facing' industrial stocks. Iron ore focused miner, Rio Tinto (+11.9%), Alumina Limited (AWC, +18.9%), BlueScope Steel (BSL, +15.9%) and Orica Limited (ORI, +12.9%) were all not held by the portfolio and therefore detracted from relative returns.

Regular readers will understand our cautious views on the Chinese economy as it seeks to rebalance from a fixed asset investment and export driven growth model to a domestic consumption driven growth model. This means slowing demand growth for commodities in future years just as the major miners are delivering massive supply increases to the market. Whilst this analysis has proven largely correct in recent years, short-term improvements in several Chinese economic indicators fuelled the performance of this segment of the market in July. We are sticking to our view that China will need to address the imbalance in their economy in the next couple of years, and as such, we believe there are better opportunities for us to invest in companies with less direct exposure to the Chinese economy.

Positive Contributors

Document and information management company Recall Holdings (REC, +8.0%) was the portfolio's top contributor for July. Late in June, REC announced a Facility Optimisation Program (i.e. productivity improvements), designed to decrease costs and increase utilization across their global storage facilities. Essentially, REC will be fine-tuning their real estate footprint and boosting storage density at their remaining facilities. The company's plan is to achieve $11m in cost savings over the next 18 months. Our investment in Recall is based on its existing annuity-type revenue streams and the opportunity focused management (post demerger from BXB) have to continue to grow the business through productivity improvements and selective acquisitions. We consider there is a huge opportunity for REC to make bolt-on acquisitions given its global footprint and the changing global regulatory environment making it harder for small players. We continue to view REC as a stable business with strong market positions and an outlook for reasonably steady organic and acquisition growth.

Aristocrat Leisure (ALL, +8.4%) shares were boosted by the acquisition of US-based Video Gaming Technologies (VGT) for US$1.28bn. VGT operate in a different space to ALL's existing gaming machine business and VGT has the benefit of having all its revenue come from participation contracts (i.e. annuity style revenue stream whereby VGT shares in the profit from the machine). The acquisition appears to have been made at an attractive price given other recent gaming transactions. We remain attracted to the progress being made by ALL under CEO Jamie Odell's 5-year turnaround plan. ALL have invested heavily in new product to improve the quality of their gaming offering. ALL also has "blue sky" upside from the rise of mobile gaming (i.e. via Facebook and other mobile sites). There is no online gambling, as such, but people pay small amounts for changes to the screen or play experience (e.g. $0.10 for a new screen). It seems weird to us, but if people are going to spend money to play these games on their mobiles, who are we to argue!

Finally, Transpacific Industries (TPI, +6.9%), which we recently added back into the portfolio, contributed strongly to portfolio returns. We exited the holding at a somewhat higher share price and have taken the opportunity to re-enter after its admission into the Top 100 index created some short-term market noise which led to a sharp pull-back in the share price (small cap managers were forced sellers and large cap managers had not had a chance to get their minds around the new profile of the company).

After a near death experience during the GFC when the company was over-indebted, there has been a major transformation to the point where the company is debt free after the recent disposal of its NZ operations. This has put TPI into the position where it should be able to start paying dividends again after an extended period of no distributions. In addition, Robert Boucher (CEO) can focus on the core Australian business and domestic growth options. The company has already outlined a number of productivity initiatives to improve its existing business. Further, the group is looking to use its balance sheet capacity to acquire additional landfills which offer attractive margins (i.e. you would appreciate this if you have attempted to take any garden waste to a recycling area recently). We believe short-term market noise has created an attractive entry point into a company with a solid medium term growth outlook.

Negative Contributors

PNG-focused energy company Oil Search Ltd (OSH, -2.0%) gave up some of their recent gains and detracted from performance in a strong market. A 6% fall in the oil price in July certainly contributed to the relative weakness across the Energy sector. This has not changed our investment thesis for OSH. OSH shipped the first gas to customers in Japan from their flagship PNG LNG gas plant, train 1, during May. OSH and plant operator Exxon Mobil have since confirmed that ramp up of first gas from the second LNG train is running ahead of schedule. For OSH the absolute dollars generated will be transformational, allowing scope for the company to increase dividends to shareholders and likely invest in further LNG gas trains in PNG (up to another three by 2020 are possible). We expect clarification on expansion programs, including drilling results and progress toward feasibility studies, across the balance of 2014 and calendar year 2015.

Amcor Limited (AMC, 0.0%) finished flat for the month of July and, given the strong market, contributed to our relative underperformance. We have held the stock for many years, prior to the large, transformational acquisitions of both Alcan and Ball Packaging, and have witnessed management deliver on a series of cost and operational targets as well as pursue their drive to consolidate and rationalise their industry and markets. Late in the month Amcor announced the introduction of a revolutionary 'liquiform technology' designed to reduce both cost and manufacturing steps in production of Amcor's RPCs (rigid plastic containers). Together with joint venture partner Sidel we expect AMC to license, commercialise and manufacture this technology. Amcor's intellectual property in the packaging space is considerable and a key differentiator with global customers when it comes to choice of packaging partner in emerging markets.

Finally, Sky Network Television (SKT, -3.8%), one of the portfolio's smaller positions, underperformed in a strong market on a lack of news flow. The NZ-based pay TV operator has an industry-leading position in the New Zealand market, where the economy as a whole is strong and demand for its services remain high.

Portfolio Adjustments

During the Month we...

SOLD:

BOUGHT:

Portfolio Additions & Material Adjustments

There were no new stock additions to the portfolio in July. The major change was a significant increase in our National Australia Bank (NAB) holding. Although NAB has been our least preferred bank, two recent developments renewed our interest in the stock. Firstly, new CEO Andrew Thorburn (replacing Cameron Clyne) is an experienced banker who achieved encouraging cultural change in the NZ operations - something we believe is essential to improve the Australian operations. Secondly, the improvement in the outlook for the UK should mean the bank can divest its legacy UK commercial property loan portfolio and potentially divest its interest in Clydesdale Bank. During the month the bank sold a £625mn parcel of UK commercial real estate loans at above book value to an affiliate of Cerberus Global Investors. This was a good start, although there is still some way to go on this legacy book. This potential for change and the discount at which NAB trades relative to its peers gave us more confidence to increase our position.

Portfolio Disposals & Material Adjustments

The increase in our NAB holding was funded by a reduction in our positions in each of ANZ Banking Group (ANZ) and Westpac Banking Corporation (WBC), leaving our exposure to the sector as a whole unchanged.

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)

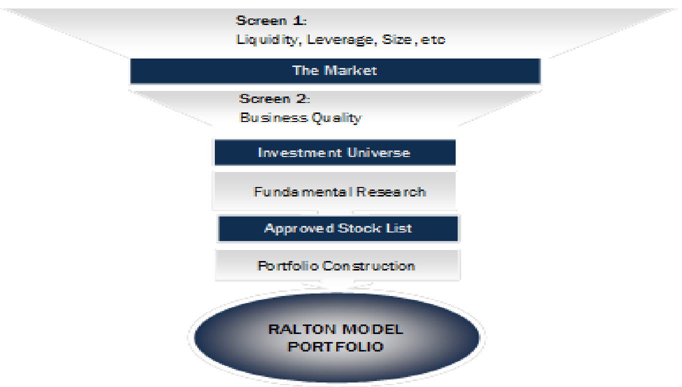
The first stage of the process is to narrow the number of stocks in the investment universe by applying a number of screens. This approach systematically eliminates companies that do not meet certain minimum standards, allowing the Investment team to focus more intensely on companies of potential interest.

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

Robert Frost *B Com, LLB*, Portfolio Manager

Robert Calnon *B Com, ACA*, Portfolio Manager, Equities Dealer

For Further Information

Financial Advisers seeks additional information can contact Ralton Advisers Services at:

Name: John Clothier
Phone: 02 8216 0782
Mobile: 0408 488 549
Email: jclothier@ocfunds.com.au

S&P FUND AWARDS 2010 AUSTRALIA FINALIST
STANDARD & POOR'S professional planner

This report provides general information only and does not take into account the investment objectives, financial circumstances or needs of any person. To the maximum extent permitted by law, Ralton, its directors and employees accept no liability for any loss or damage incurred as a result of any action taken or not taken on the basis of the information contained in the report or any omissions or errors within it. Before making an investment decision you should consider the latest PDS or FSG and assess whether the product and/or service is appropriate for you. It is advisable that you obtain professional independent financial, legal and taxation advice before making any financial investment decision. Ralton does not guarantee the repayment of capital, the payment of income, or the performance of its investments. Performance of the Ralton Wholesale SMA Service (PDS dated December 2009) is based on theoretical portfolio tracking of the model portfolio and is gross of investment management & administration fees, but net of transaction costs. Quoted performance is annualised for periods of 1 year or greater.