Monthly Report January 2015

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	

Performance

Return %	1m	3m	1yr	3yrs	5yrs	Incept*
Ralton Aust Shares	3.09	5.86	19.66	18.38	11.10	7.34
Income Return	0.00	0.69	3.96	4.17	4.34	4.40
Growth Return	3.09	5.17	15.70	14.21	6.76	2.94
S&P/ASX 300 Accum. Index	3.22	1.91	12.05	14.00	8.53	4.20
Difference	**-0.13**	**3.95**	**7.61**	**4.38**	**2.57**	**3.13**

**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	ANZ Banking Group	ANZ
3	Telstra Corporation Limited	TLS
4	National Australia Bank Limited	NAB
5	BHP Billiton Limited	BHP
6	Incitec Pivot Limited	IPL
7	ResMed Inc.	RMD
8	Amcor Limited	AMC
9	Westpac Banking Corporation	WBC
10	Brambles Limited	BXB

GICS Sector	Ralton	Index	+/-
Consumer Discretionary	11.1%	4.2%	7.0%
Industrials	14.1%	7.3%	6.8%
Health Care	9.7%	5.9%	3.8%
Materials	18.4%	14.6%	3.8%
Telecommunication Services	6.7%	6.1%	0.6%
Energy	4.9%	4.6%	0.3%
Utilities	1.1%	2.0%	-0.9%
Information Technology	0.0%	0.9%	-0.9%
Property	3.4%	8.0%	-4.7%
Consumer Staples	1.2%	7.4%	-6.2%
Financials (ex-Property)	29.4%	39.0%	-9.6%
Total	100.0%	100.0%	

Month in Review

Performance Summary

- The S&P/ASX 300 Accumulation Index finished 3.22% higher for January, with Consumer Discretionary and Telecoms the top performing sectors for the month

- The Ralton Australian Shares Model Portfolio added 3.09% for the month, underperforming the benchmark by 0.13%

- The portfolio's Materials and Healthcare sector exposures added to returns, while our cash holdings and underweight exposure to Financials detracted from relative performance for the month

Portfolio Commentary

Monthly Performance Attribution

Top Contributors	Positioning	Key Detractors	Positioning
Incitec Pivot	Overweight	QBE Insurance	Overweight
ResMed Inc.	Overweight	Amcor Limited	Overweight
Orora Limited	Overweight	iSelect Limited	Overweight

Positive Contributors

Incitec Pivot (IPL, +13.2%) consolidated gains made in the last quarter of 2014, adding a further 13% in January. As we highlighted in the latest quarterly report, IPL had traded in a tight range for some time, however with the release of the company's annual profit results in November, the continuing decline in the Australian dollar, and easing US gas prices, sentiment towards the company appears to have changed. Perhaps the key to the turnaround in share price was the improved operating performance and projected manufacturing output for both of IPL's Moranbah and Phosphate Hill manufacturing plants - issues at each of these plants have certainly weighed on investor confidence in recent times. Global prices for fertiliser, mainly DAP or Di-ammonium phosphate, although somewhat seasonal, have also strengthened in recent months, further supporting short-term profits. In summary, the market is beginning to recognise both the improvement in manufacturing performance and the rising free cash flow that should be delivered by IPL.

Medical technology company Resmed (RMD, +16.4%) was another key contributor to portfolio returns for January, buoyed by a strong quarterly profit result. Here, the key driver was the launch of ResMed's latest product platform, namely the S10 flow generator used for patients with sleep apnea. RMD's sales results for the 2nd quarter of the financial year, the first full period after the much-anticipated launch of the S10, did not disappoint, with very strong sales growth in both the US and ROW regions. The S10 is very much "infomatics" (or data sharing) focused with the device monitoring patient results and compliance, automatically sending the data via an inbuilt modem to doctors, distributors and insurance companies. At this stage, RMD appear to have the jump on their competitors, leading distributors and doctors to preference the use of the RMD device. The key here is user simplicity. If the device is easy to use for patients, and the distributors spend less time in set-up and service calls, profitability is boosted.

Amcor spin-off Orora Limited (ORA, +9.2%) was the portfolio's next-best contributor, adding to the 68% share price return delivered in calendar year 2014. ORA is benefitting from various cost savings derived from a capital investment program and operational improvements initiated by its former parent. The new B9 pulp mill in Botany continues to 'ramp-up' production and management has thus far delivered on the cost savings that the B9 business case was targeting. At a financial level, the strong free cash flow and strong asset base mean that ORA is paying down debt quickly. As debt flexibility improves, investors will be looking for the company to either make further value adding purchases in the fragmented US market (thus far ORA has only made a small US acquisition) or alternatively, return excess funds to shareholders in some form.

Underperformers

QBE Insurance (QBE, -5.4%) was weaker across the month, with the share price again being impacted by the strength in global bond prices. A fall in bond yields is a negative for QBE as it reduces the expected re-investment rate on their massive investment book and increases their liabilities (through its impact on the discount rate). By contrast, several of our portfolio holdings, such as Telstra (TLS), Transurban (TCL) and Sydney Airports (SYD), benefit from the decline in yields. At an operational level, QBE continues to focus on business simplification and cost cutting. At a strategic level, QBE continues to exit what it considers marginal insurance businesses and to focus on its core offering. This has been a clear message since CEO Neal took the reins more than 2 years ago, and supports our continued investment.

Amcor Limited (AMC, -5.9%) lost ground in January when CEO Ken MacKenzie announced his intention to resign in June this year, after a highly successful 10-year stint in the top job. MacKenzie has been instrumental in the corporate turnaround at Amcor, driving a material change in the sales culture of the company, a restructure and realignment of business divisions, the integration of two large acquisitions and finally, a concerted push into emerging markets with AMC's key customers. Although change at the top always needs to be considered, we view his replacement, the current CFO Ron Delia, as a very capable executive. Prior to being CFO he ran one of the key AMC business divisions and brings considerable global experience from major companies. We have confidence that MacKenzie's culture and returns-driven approach will endure, and that given the opportunities that still exist for AMC across their markets, the company remains a worthy investment. As always, we will be monitoring this investment closely for any changes that may alter our view.

iSelect Limited (ISU, -5.1%) also detracted from returns, declining in a rising market. Our investment thesis for ISU is that the company is capable of capitalising on its position as a premier provider of online comparison websites. ISU has a very strong offering in Health Insurance, however we believe the company can use its brand to build out its offering in a series of consumer verticals, such as Energy, Life, and Car Insurance. Since listing, ISU has attracted negative attention due to changes in management and board responsibilities, however with these distractions now in the past we are looking for the company to generate returns for shareholders on the basis of the quality of the underlying business.

Portfolio Adjustments

During the Month we...

SOLD: Nil

BOUGHT: Nil

Portfolio Adjustments

There were no portfolio changes during the month.

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)

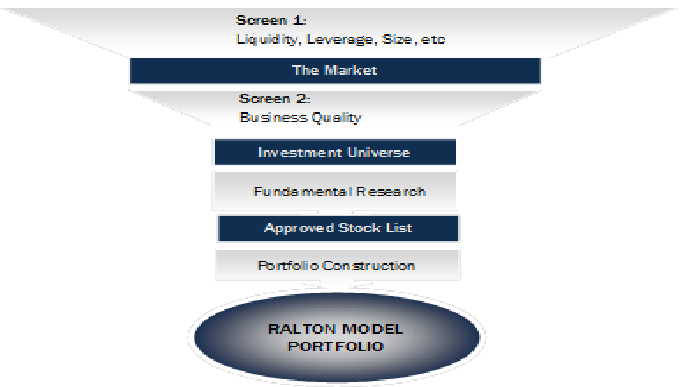
The first stage of the process is to narrow the number of stocks in the investment universe by applying a number of screens. This approach systematically eliminates companies that do not meet certain minimum standards, allowing the Investment team to focus more intensely on companies of potential interest.

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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