



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 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	-1.50	6.19	18.94	19.22	10.92	7.97
<i>Income Return</i>	0.00	1.17	3.88	4.01	4.28	4.41
<i>Growth Return</i>	-1.50	5.02	15.06	15.21	6.64	3.56
S&P/ASX 300 Accum. Index	-1.65	5.11	10.16	14.18	8.26	4.77
Difference	0.15	1.09	8.77	5.05	2.66	3.20

*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	CSL Limited	CSL
5	BHP Billiton Limited	BHP
6	National Australia Bank Limited	NAB
7	QBE Insurance Group Limited	QBE
8	Arcor Limited	AMC
9	Aristocrat Leisure Limited	ALL
10	Westpac Banking Corporation	WBC

GICS Sector	Ralton	Index	+/-
Consumer Discretionary	15.6%	4.5%	11.1%
Industrials	15.4%	7.5%	7.9%
Health Care	8.9%	6.0%	3.0%
Materials	15.8%	14.8%	1.0%
Energy	5.8%	5.1%	0.7%
Telecommunication Services	5.4%	5.7%	-0.3%
Utilities	1.4%	2.0%	-0.6%
Information Technology	0.0%	1.0%	-1.0%
Consumer Staples	1.2%	6.8%	-5.6%
Property	2.0%	7.7%	-5.7%
Financials (ex-Property)	28.6%	39.0%	-10.5%
Total	100.0%	100.0%	

Month in Review

Performance Summary

- The S&P/ASX 300 Accumulation fell 1.65% for the month of April, with gains in Energy offset by weakness in Financials and Healthcare
- The Ralton Australian Shares Model Portfolio lost 1.50% for the month, outperforming the benchmark by 0.15%
- The portfolio's overweight to Industrials and underweight to Financials added value, offset to some degree by our underweight position in Materials

Portfolio Commentary

Monthly Performance Attribution

Top Contributors	Positioning	Key Detractors	Positioning
Oil Search	Overweight	ResMed Inc.	Overweight
Asciano Limited	Overweight	BlueScope Steel Ltd	Overweight
QBE Insurance Group	Overweight	Brambles Limited	Overweight

Positive Contributors

Oil Search (OSH, +12.4%) was the top performer for the portfolio in April, boosted by a 16% rebound in the oil price over the month and a well-received quarterly drilling report confirming progress in key drilling programs in Papua New Guinea (PNG) this calendar year. The drill results will confirm the size of the gas resource in two key PNG gas fields, which will in turn determine of scope and size of two separate future LNG trains in PNG. OSH, together with their partners in PNG, which include ExxonMobil, also confirmed an agreement to build a 25-megawatt electricity plant in the capital, Port Moresby. Such measures are commercial in nature, but also help bring power supply to the population - significant in a country where only 6% of people have access to the electricity grid. Electricity is a visible sign of the wealth effect of PNG's abundance of resources and in our view, OSH's participation in these social projects forms part of their ongoing social license to operate in this developing nation.

Shares in transport company Asciano (AIO, +4.2%) rose in April and added to portfolio returns. AIO announced their haulage volumes for the third quarter of the financial year for all operations - coal haulage in QLD and NSW, port container volumes for their four container ports, and

intermodal trains (which captures haulage of all remaining general goods). Volumes overall were within expectations and as such the company maintained their full year profit guidance. AIO recently commenced operations with their automated cranes at the Port Botany container terminal, the company's second largest. Pleasingly, the changeover from the more manual operation has gone smoothly - always a positive when a company 'turns the key' after spending considerable capital on an upgrade. The automated facility is expected to both reduce costs per container lift and further increase the overall capacity of the terminal.

Global insurer QBE Insurance (QBE, +5.1%) also added value to the portfolio, with the highlight for April being positive comments from management and board at the company's AGM. QBE confirmed that operations were on track to meet previous guidance in relation to premium revenue and insurance profit margins at this stage of the financial year. Further, the board reiterated their view that dividends were set to rise. We see this as further confirmation that our faith in what has been a frustrating investment, has been well-placed. The company has also completed a major business transformation, moving many back-office functions from high cost operations in Sydney, London and New York to a company-owned operation in Manila.

Underperformers

Medical technology company Resmed (RMD, -11.4%) reversed some of the share price gains achieved of late and detracted from portfolio performance for the month. Despite strong sales results for the third quarter of FY16, the company reported a lower gross margin (GM) and profit than forecast and the market sold off the stock accordingly. The GM was affected by adverse currency movements, particularly the decline in the Euro, and the fact that a higher percentage of sales were from their lower-margin hardware products. This followed the successful launch of the much-anticipated S10 ventilator, for which manufacturing and delivery costs were high, the latter because the company resorted to air, rather than sea freight of many S10 units to meet the high demand. These last points are clearly good problems, and the company is confident that their GM will improve as manufacturing and freight costs come down.

Although only a small position in the portfolio, BlueScope Steel (BSL, -16.3%) weighed on portfolio returns for April. The key reason for the share price fall appeared to be the ongoing weakness in the Asian price for steel, specifically HRC or hot rolled coil. Prices in US dollars have been weak, weighed down by Chinese steel companies selling excessive supply into global markets - including several

confirmed instances of dumping. In our view, this short-term weakness in HRC pricing is unlikely to be sustained. These prices do not reflect input costs, including of course iron ore - even more so since the recent bounce in this commodity off multi-year lows. As BSL sell or price their key Australian products based on the price of imports, the local price is heavily influenced by the HRC price. BSL has been restructured significantly in recent years, with loss-making assets consolidated or sold, and solid positions in both Asian and US markets developed. The balance sheet is in good shape and hence we feel that the current depressed pricing for HRC is not sustainable and that value exists in BSL.

Brambles (BXB, -6.0%) also weighed on portfolio returns for the month, following a marginally weaker than expected third quarter trading update. Brambles narrowed their own profit range guidance for the financial year, however this was at the margin in our view. To be fair, the share price had run strongly in recent times and with it, perhaps, investor expectations. Positives from the trading update included the continuation of strong, recent growth in the company's Rigid Plastic Containers (RPC) business. RPCs are the plastic display containers that are common in the 'fresh food' segment at many supermarkets. Brambles acquired this business in 2011 as part of the IFCO transaction and are now beginning to make decent headway with key customers in the US.

Portfolio Adjustments

During the Month we...

SOLD: *Reduced* Oil Search Limited (OSH)

BOUGHT: *Nil*

Portfolio Additions & Material Adjustments

There were no purchases for the portfolio during the month. We did however reduce our position in Oil Search (OSH), responding as the share price rose in line with the underlying oil price.

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.



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About the Manager

Ralton Asset Management is partnered with Copia Investment Partners, an administration and distribution specialist providing a range of tailored services to each of our leading boutique investment partners.

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*
Head of Australian Equities, 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 24 years, including the past 7 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

Roger Walling is responsible for stock coverage of several industry sectors and assists with the portfolio management process. He has over 12 years of direct funds management experience, including the past 7 years managing the Ralton portfolios. Previous to Ralton, Roger was a shareholder and employee of Cinnabar Equities, a Global Healthcare Fund. In his role as a Senior Analyst, he had sub-sector and stock investment decision responsibility. Prior to his career in financial markets, Roger practiced as an Optometrist.

For Further Information

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