Ralton High Yield Australian Shares

Monthly Report
April 2015

Investment Profile

A Professionally Managed Portfolio of Australian Shares

The Ralton High Yield 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 High Yield Australian Shares SMA is to provide investors with consistent, tax-efficient and growing cash dividend yield, and long-term capital growth. The Portfolio aims to deliver a return superior to that of the market over periods of five years or longer and an above market yield.

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	2% to 5%
Investment Horizon	At least 5 years
Ratings	MORNINGSTAR ★★★★ / Approved Lonsec Research

Performance

Return %	1m	3m	1yr	3yrs	5yrs	Incept*
Ralton High Yield	-1.23	6.03	18.51	20.04	11.91	8.54
Income Return	0.00	1.37	4.61	4.68	4.89	5.02
Growth Return	-1.23	4.66	13.90	15.37	7.01	3.53
S&P/ASX 300 Acc. Index	-1.65	5.11	10.16	14.18	8.26	4.77
Difference	**0.42**	**0.92**	**8.35**	**5.87**	**3.65**	**3.77**

*Since Inception p.a., Feb 2008

The Portfolio is designed for investors who...

- Seek an above market, tax-efficient cash dividend yield and long term capital growth
- 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	Telstra Corporation Limited	TLS
3	ANZ Banking Group	ANZ
4	National Australia Bank Limited	NAB
5	BHP Billiton Limited	BHP
6	Woodside Petroleum Limited	WPL
7	QBE Insurance Group Limited	QBE
8	Amcor Limited	AMC
9	Transurban Group	TCL
10	Westpac Banking Corporation	WBC

GICS Sector	Ralton	Index	+/-
Consumer Discretionary	15.0%	4.5%	10.5%
Industrials	17.0%	7.5%	9.5%
Telecommunication Services	7.4%	5.7%	1.8%
Energy	6.3%	5.1%	1.2%
Utilities	1.8%	2.0%	-0.2%
Materials	14.4%	14.8%	-0.4%
Information Technology	0.0%	1.0%	-1.0%
Health Care	4.5%	6.0%	-1.5%
Consumer Staples	2.6%	6.8%	-4.2%
Property	1.9%	7.7%	-5.7%
Financials (ex-Property)	29.0%	39.0%	-10.0%
Total	100%	100%	

Monthly in Review

Performance Summary

- The S&P/ASX 300 Accumulation fell 1.65% for the month of April, with gains in Energy and utilities offset by falls in Healthcare and Financials
- The Ralton High Yield Model Portfolio lost 1.23% for April, outperforming the benchmark by 0.42%
- The portfolio's overweight to Industrials and underweight to Financials contributed to this outperformance

Portfolio Commentary

Monthly Performance Attribution

Top Contributors	Positioning	Key Detractors	Positioning
QBE Insurance Group	Overweight	Coca-Cola Amatil	Overweight
Asciano Limited	Overweight	Amcor Limited	Overweight
Origin Energy	Overweight	Ardent Leisure	Overweight

Positive Contributors

Global insurer QBE Insurance (QBE, +5.1%) was the portfolio's biggest contributor to outperformance, with the highlight being positive comments from management and board at the company's April 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.

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.

Origin Energy (ORG, +12.6%) was boosted by higher oil prices, with the Brent Crude Oil price rising by 16% in April. Origin and its partners in the Gladstone APLNG gas plant also confirmed a key milestone with the start up of the first gas turbine power generator at the plant. The gas turbine generators will generate electrical power to operate the LNG processing trains. APLNG is now substantially complete, with key milestones in the lead up to production being progressively ticked off. ORG recently confirmed a target start date for first gas shipment in second half of this year.

Underperformers

Coca-Cola Amatil (CCL, -4.7%) gave back some recent gains and detracted from portfolio returns for the month. It was hard to pinpoint the reason for the weakness other than general market weakness. During April, CCL confirmed regulatory approval for the investment by parent, The Coca-Cola Company (KO) into CCL's Indonesian business. Although announced some time ago, this deal is important as it reduces the capital intensity of the Indonesian expansion and hence improves CCL's cash flow. CCL's AGM, held in early May, confirmed that trading conditions for the Australian business have stabilised and that the launch of 'Coca-Cola Life' has so far achieved good reception in the market.

Packaging company Amcor Limited (AMC, -3.6%) also weighed on performance, with currency movements across the month the key reason for the share price weakness. Amcor announced the acquisition of Souza Cruz's internal tobacco packaging operations in Brazil for US$30m. Such bolt-on acquisitions in emerging markets are consistent with AMC's strategy and further boosts AMC's presence in Latin America.

Ardent Leisure's (AAD, -11.4%) recent share price woes continued into April. As highlighted last month, following the half-year results in February and the disappointing results from the health clubs or gyms business, the AAD board, led by Neil Balnaves, removed CEO Greg Shaw and replaced him with current board member, Deborah

Thomas. Shaw was well respected by the investors and had been group CEO since before the IPO in 2001. The market immediately focused on Thomas' lack of operational experience versus Shaw's and the share price has continued to be under pressure. Despite the board and management ructions, the company holds strong assets and we expect that value to be realised over time. Supportive of this view, the company's third quarter trading update, announced in early May, highlighted ongoing strong results from the US Main Event business and reasonable results across the other divisions. Commentary suggested that the health business has somewhat stabilised and that new initiatives around transforming gyms to a 24-hour format were gaining traction on key measures.

Portfolio Adjustments

During the Month we...

SOLD: *Reduced* Origin Energy Ltd (ORG), Sky City Entertainment (SKC)

BOUGHT:

Portfolio Additions & Material Adjustments

There were no outright purchases or sales for the portfolio during the month. We did however reduce our position in both Origin Energy (ORG) and Sky City Entertainment (SKC).

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 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

Financial advisers seeking additional information can contact Ralton Adviser Services at:

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