


## Investment Profile

### A Professionally Managed Portfolio of Australian Shares

The Ralton Leaders 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 Leaders SMA is to provide investors with long-term capital growth and tax effective income from a portfolio of blue-chip Australian shares. The portfolio aims to deliver returns that are consistently above the S&P/ASX 100 Accumulation Index over a three to five year period.

Key Portfolio Features	
<b>Inception</b>	1 February 2008
<b>Benchmark</b>	S&P/ASX 100 Accumulation Index
<b>Authorised Investments</b>	Companies in the S&P/ASX 100 Index or those amongst the top 100 by size.
<b>Number of Stocks</b>	25-40
<b>Cash Allocation</b>	0% to 10%
<b>Tracking Error</b>	1.5% to 3.5%
<b>Investment Horizon</b>	At least 3 to 5 years
<b>Ratings</b>	

## Performance

Return %	1m	3m	1yr	3yrs	5yrs	Incept*
<b>Ralton Leaders</b>	5.21	0.87	16.09	19.15	12.06	7.47
<i>Income Return</i>	0.00	0.62	3.84	3.99	4.32	4.38
<i>Growth Return</i>	5.21	0.25	12.25	15.15	7.73	3.09
S&P/ASX 100 Index	4.55	-0.53	6.25	15.80	10.21	5.21
<b>Difference</b>	<b>0.66</b>	<b>1.39</b>	<b>9.85</b>	<b>3.35</b>	<b>1.85</b>	<b>2.26</b>

\*Since Inception p.a., Feb 2008

### The Portfolio is designed for investors who...

- Seek long term capital growth & tax-effective income
- Expect consistent above market returns
- Have a long term investment horizon of at least 3-5 years and accept the risk of equity markets.

## Portfolio Structure

No.	Company Name	ASX Code
1	National Australia Bank Limited	NAB
2	Commonwealth Bank of Australia	CBA
3	CSL Limited	CSL
4	Westpac Banking Corporation	WBC
5	BHP Billiton Limited	BHP
6	ANZ Banking Group Limited	ANZ
7	QBE Insurance Group Limited	QBE
8	Amcor Limited	AMC
9	Woolworths Limited	WOW
10	Echo Entertainment Group	EGP

GICS Sector	Ralton	Index	+/-
Consumer Discretionary	8.2%	2.9%	5.3%
Health Care	11.0%	6.1%	4.9%
Industrials	9.2%	6.7%	2.6%
Information Technology	2.6%	0.6%	1.9%
Materials	15.1%	14.1%	1.0%
Energy	5.1%	4.8%	0.3%
Consumer Staples	6.5%	7.0%	-0.5%
Utilities	0.0%	2.2%	-2.2%
Financials (ex-Property)	38.5%	42.1%	-3.6%
Telecommunication Services	1.7%	6.0%	-4.3%
Property	2.2%	7.6%	-5.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	

## Month in Review

### Performance Summary

- The S&P/ASX 100 Accumulation Index posted healthy gains for the month, adding 4.55% for July, with Healthcare and Consumer Staples the top performing sectors.
- The Ralton Leaders Model Portfolio also gained ground, adding 5.21% for the month, outperforming the benchmark index by 0.66%.
- Our overweight position in Healthcare, together with an underweight exposure to Materials, principally resource stocks, was the key contributor to portfolio outperformance for the period.

### Portfolio Commentary

## Monthly Performance Attribution

Top Contributors	Positioning	Key Detractors	Positioning
Asciano Ltd	Overweight	Transpacific Industries	Overweight
BlueScope Steel Ltd	Overweight	Coca-Cola Amatil	Overweight
Echo Entertainment	Overweight	Incitec Pivot	Overweight

### Positive Contributors

Shares in Asciano Limited (AIO, +22.3%) were boosted by a takeover bid from Brookfield Investment Management which offered \$9.05 per share for the company. The offer price is a mixture of cash and shares in US-listed Brookfield Investment Partners. Asciano disclosed the offer to the market following media speculation, noting the Brookfield proposal was highly conditional and subject to a range of matters, including due diligence. Like many takeovers, there's some water to flow under the bridge, hence we elected to take some profits in AIO. We have a very positive view of AIO's assets and believe there's good reason for a bid by Brookfield (and potentially others), hence we maintain a material stake in AIO.

After a recent period of underperformance, shares in Bluescope Steel (BSL, +21%) rebounded strongly in July. The shares have been under pressure in recent times due to excess steel production capacity in the region pressuring steel prices, which in turn is negative for BSL's exported and domestic steel sales from Port Kembla in NSW. However, these pressures are likely to drive change, specifically the potential for BSL to close or downsize their Port Kembla steel production, an option BSL didn't deny in a public release. Such a measure would significantly

improve the profitability of the group, given BSL's Asian, American and, to a lesser extent, NZ businesses hold quite strong industry positions. We expect an update from BSL on its long-term plans for its operations with the August full-year profit results.

Echo Entertainment (EGP, +15.1%) shares were boosted when the Queensland government announced Echo as the preferred tenderer for Brisbane's Queen's Wharf casino and entertainment precinct. Echo and its partners in the 'Destination Brisbane' consortium, including the Chow Tai Fook Enterprises (CTF) and Far East Consortium (FEC), will now be responsible for building what will become a key feature of the Brisbane city landscape. This will be a significant undertaking for Echo, however it cements its position as the only licensed casino operator in Brisbane. We should get more details about the financial arrangements for the casino over the next couple of months.

### Underperformers

Waste services company, Transpacific Industries (TPI, -7.8%), underperformed the market and weighed on portfolio returns. Recent years have been quite disruptive for TPI, with the business undergoing management change, asset sales and substantial organizational change. We remain optimistic on the outlook for the transformation of the business over the next few years. In particular, a revamped sales model should drive improved asset utilisation, and therefore drive profit growth. In July, TPI appointed Vik Bansal to the position of CEO. Mr Bansal has most recently headed Valmont Industries in the US, however he has considerable experience in corporate Australia. We expect to hear more about his plans for the company with the full-year results in August.

Coca-Cola Amatil (CCL, +1.4%) was largely flat for the month and hence underperformed against the broader rise in the market. CCL is part way through a multi-year transformation and we expect there will be ups and downs along the way. We are attracted to the solid and sustainable dividend (given the strong free cash flow, near-term decline in capex and the recapitalisation of its Indonesian operations) and the turnaround of the business being put in place by Alison Watkins (Managing Director).

Global explosives and fertilizer manufacturer, Incitec Pivot (IPL, -6.0%), also weighed on portfolio returns for the month, with investors focused on gas supply issues at their Queensland Moranbah plant. The plant is relatively new and is responsible for the production of ammonia nitrate for Queensland customers. Specifically, the plant's gas supplier, Arrow (a JV between Petro China and Shell), has encountered issues with their gas production, which

in turn has resulted in reduced gas supply to all their customers, including the IPL plant. This has forced IPL to curtail production forcing them to source alternative supply for their own customers at additional cost. We understand Arrow's contractual obligations require them to make every effort to improve the gas supply problem and that the incentives to do so are significant. While not ideal, the impact on IPL as a whole is modest, however, investors were all the same unnerved and the stock sold down.

## Portfolio Adjustments

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### During the Month we...

**SOLD:** nil

**BOUGHT:** nil

### Portfolio Additions & Material Adjustments

There were no new stock additions to the portfolio in July. We did, however, increase our position in IPL, reflecting our view that reaction to the gas supply issue, described above was an over-reaction.

### Portfolio Disposals & Material Adjustments

We reduced our holding in both Sonic Healthcare (SHL) and AIO during the month. Shares in the global pathology company have fared well in recent times, boosted by the recent acquisition of the Switzerland-based business called Medisupport for \$A445m. Conditions in the company's US operations are also likely to have been improving if peer results for US-listed Quest and Labcorp are any guide. Despite this, pathology volumes in Australia have remained somewhat below trend, marking a reasonable headwind for group profits. This, together with the valuation of SHL, reached the point where we felt trimming the position was justified.

We also reduced our holding in Asciano Limited (AIO). The latter had been boosted by the potential acquisition by Brookfield Infrastructure and, given the rise in the share price, some uncertainty as to the timing of a formal bid and the nature of the offer, we elected to take some profits.

## 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

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

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