



May 2018 Long-Only Monthly Report

Portfolio performance and attribution analysis

	Inception p.a.	FYTD	Month
Portfolio	11.68%	22.21%	1.57%
Benchmark	7.57%	8.31%	0.89%
Out/(under) performance	4.12%	13.90%	0.68%

Top 3 and bottom 3 performing stocks

Top 3: Lovisa Holdings Ltd (LOV), Elders Ltd (ELD), OZ Minerals Ltd (OZL)

Bottom 3: Treasury Wine Estates Ltd (TWE), Monadelphous Ltd (MND), QBE Insurance Group Ltd (QBE)

Portfolio changes

Stocks joined or increased:

Xero Ltd (+1.00%): A cloud based accounting software provider. Continued subscriber growth and new recurring platform revenues at the recent FY18 result has produced the company's maiden annual positive EBITDA result.

Stocks removed or reduced:

Seek Limited (-1.00%): A global online job seeking and advertising company. Continued investment in early stage growth options has slowed the company's growth profile.

Market commentary

World markets were mixed due to US-China trade tensions and political uncertainty in Italy, causing peripheral European bond yields to rise while US bond yields fell on flight to safety reasons. Speculation on a US North Korean summit contributed to instability. Global inflation firmed as the Bank of Canada signalled a likely interest rate rise in July. China debt concerns amid slowing demand caused increased volatility in iron ore and other commodity prices. Iron ore ended the month flat at US\$65. Oil fell from US\$72 intra-month to US\$67 after Russia and Saudi Arabia signalled their intentions to increase oil output. The AUD remained flat at US75c. The Australian market rose slightly as the big banks and agricultural stocks reported earnings. The Federal Budget was announced with a promise to return to budget surplus in 2 years while increasing spending on infrastructure. The fallout from the ongoing Banking Royal Commission continued with a refresh of personnel at large financial institutions. The big banks reported modest growth and further commitments towards cost cutting targets. CBA announced a slight rise in consumer home loan arrears. Fortescue issued a voluntary redemption notice of US\$160m senior unsecured notes as well as development of a new higher grade iron ore mine to start production in late 2020. Sydney Airport announced significant upgauging of aircraft and increasing frequency of flights to and from Asia and the US.

ASX revealed a new JV to disrupt the property settlement and conveyancing market. Elders reiterated its FY20 targets utilising organic & inorganic growth. Xero FY18 result showed its first positive annual operating cashflow with monthly recurring revenue growing at over 30%. Computershare announced the acquisition of an earnings accretive European share plans business using existing cash & debt.

Portfolio commentary

Positives:

LOV - The share price rose after the company updated progress on its store rollout in UK and Spain.

ELD - The FY18 result showed strong growth in retail network earnings despite tough weather conditions.

OZL - The share price rose with the copper price.

Negatives:

TWE - The share price fell due to rumours of an oversupply of less popular wine brands and customs clearance problems in China.

MND - The share price came under pressure from concerns of lack of contract wins compared to peers.

QBE - The market is awaiting new information regarding the CEO's turnaround plan.

Current portfolio: Top ten holdings

Stock	31/05/2018
Commonwealth Bank Ltd	7.69%
Cochlear Ltd	6.43%
Seek Ltd	6.12%
National Australia Bank Ltd	5.37%
Resmed Inc	4.69%
Macquarie Group Ltd	4.31%
Treasury Wine Estates Ltd	4.30%
OZ Minerals Ltd	3.98%
Fortescue Metals Group Ltd	3.37%
BHP Billiton Ltd	3.29%

Portfolio Exposures

Major portfolio exposures were medical devices & services and resource stocks with less portfolio weight in major banks and retailers.

Portfolio Analysis

Top 100 82.44% of fund
Ex 100 17.56% of fund

Portfolio focus

Alleron's investment process focuses on companies with a competitive advantage and a developing organic growth profile. An investment will be made once an identified investment trigger occurs.