

August 2017 Long-Only Monthly Report

Portfolio performance and attribution analysis

	Inception p.a.	FYTD	Month
Portfolio	10.85%	2.48%	3.03%
Benchmark	7.39%	0.52%	0.54%

Top 3 and bottom 3 performing stocks

Top 3: Treasury Wine Estates Ltd (TWE), Cochlear Ltd (COH), Sydney Airport Holdings Ltd (SYD)

Bottom 3: Japara Healthcare Ltd (JHC), Elders Ltd (ELD), Suncorp Group Ltd (SUN)

Portfolio changes

Stocks joined or increased:

Altium Limited (+1.00%, Entry): A printer circuit board designer and licensor. The operating leverage of its intellectual property and growing subscription pool have set a platform for future organic growth.

Mineral Resources Ltd (+1.00%, Entry): A diversified mining services and mining company. The company's lithium earnings have added a new growth driver to its existing iron ore operations.

Stocks removed or reduced:

Suncorp Group Limited (-1.00%): An Australian insurance company and bank. The company's share price is approaching our valuation target.

Sydney Airport Holdings Ltd (-0.75%): An airport operator. The share price is approaching our valuation target.

Market commentary

World markets were mixed as they were plagued by increasing tension between North Korea and the rest of the world. Hurricane Harvey wreaked havoc in the state of Texas. China tightened foreign exchange controls to keep capital within their borders. Copper rose 7% on strong Chinese demand. Iron ore also rose 7% to US\$79 per tonne as Chinese authorities continued their clampdown on local illegal steel production. Oil remained flat at \$47 per barrel. The AUD also remained at US79c as the market awaits more information on the Fed's stance on further interest rate hikes.

The Australian market rose slightly as the big miners outperformance was offset by underperformance of CBA which was the primary focus of a money laundering scandal. Downer EDI closed its offer to Spotless shareholders, having acquired over 87%. Medibank had lower customer complaint numbers and wait times in FY17 but increased investment in IT impacted margins. NextDC announced upgraded capacity for existing and new data centres. Nanosonics announced a slowdown in US installed base but signed a new capital reseller agreement with GE Healthcare until 2022. Lovisa announced expansion into 3 new geographic territories during FY17.

Monadelphous announced a 38% increase in headcount to cope with a ramp up in maintenance and construction activity. Fortescue more than doubled their final dividend after enjoying strong free cashflow from higher iron ore prices. BHP also experienced improving free cashflow and announced it will divest its US onshore oil assets.

Portfolio commentary

Positives:

TWE - The company's result showed higher margins helped by volume and price increases in its Asia business.

COH - The FY17 report showed the company's ability to leverage its growing installed base with sales to existing customers.

SYD - The company upgraded distribution 1c to 34.5c on the back of growth in international passengers and retail revenue.

Negatives:

JHC - The share price fell after the company gave flat guidance for FY18.

ELD - The share price consolidated after a period of outperformance.

SUN - The share price fell due to a subdued outlook for growth in FY18 and increased investment in its Marketplace platform.

Current portfolio: Top ten holdings

Stock	31/08/2017
Sydney Airport Holdings Ltd	6.31%
Commonwealth Bank Ltd	6.22%
Cochlear Ltd	6.05%
National Australia Bank Ltd	5.86%
Seek Ltd	5.61%
Treasury Wine Estates Ltd	5.59%
Resmed Inc	4.09%
Fortescue Metals Group Ltd	3.74%
BHP Billiton Ltd	3.59%
Rio Tinto Ltd	3.28%

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 82.02% of fund
Ex 100 15.69% 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.