

## Long-Short Quarterly Report – Dec 2017

### Portfolio Performance

As at 31 Dec 2017	3mth	6mth	1yr	Since Inception
Alleron Long-Short*	7.63%	11.60%	21.25%	38.92%
S&P/ASX 100 Acc**	7.07%	7.52%	11.04%	23.24%
RBA Cash Rate	0.38%	0.75%	1.50%	2.25%

Performance figures are net of fees and expenses

\*Inception date is 1 July 2016

\*\* Performance benchmark

### Portfolio Commentary

Alleron's Long Short Fund produced a strong return of +7.63% for the December 2017 quarter following the +3.69% quarterly increase in the September quarter. This takes the total return for the fund since inception to just under +39% after fees, significantly exceeding the market return of +23.24% over the same period.

The Australian market in the December quarter increased in line with international markets, as it became clearer to investors that major economies are starting to produce synchronised growth for the first time since before the GFC. This along with the stimulatory tax breaks eventually passed in the US are improving company's earnings outlooks. Improved Industrial production outlooks drove commodity prices upward and hence the resources sector benefitted. The Banking sector released their year-end results which confirmed subdued growth outlooks with the exception of Macquarie Group who benefitted greatly from their specialist funds management division.

The long side of Alleron's portfolio performed very strongly driven primarily by stocks of mid and smaller capitalisations. Elders reinstated their dividend for the first time since the GFC, driving a positive rerating. Lovisa continued its store growth strategy which expanded its available market size. Mineral Resources rose despite bidding for AWE Limited with a cash and script offer while Treasury Wine Estates and Seek Limited continued to add to portfolio performance as the market became more comfortable with their positions in growing markets.

The Short side of the portfolio detracted from performance as stocks that had previously added to portfolio performance rebounded from their lows. Alleron also held a short position in Westfield Group which was subject to a takeover offer. These were offset by relative gains from a short position held in Domino's Pizza Enterprises.

### Portfolio Highlights

#### Positives:

*Elders Ltd* (Long) - The Company's FY17 result confirmed significant progress in the turnaround with dividends being paid for the first time since 2008. Margin expansion and recent acquisitions both contributed to strong profit growth and cashflow generation.

*Lovisa Holdings Ltd* (Long) – The Company's global expansion plan is gathering momentum as management announced the opening of a pilot store in the US.

*Oz Minerals Ltd* (Long) – The Company's September quarterly report showed strong production numbers with lowered cost guidance, taking advantage of rising copper prices. The company also announced progress is on track with construction of its Carrapateena project.

#### Negatives:

*Santos Ltd* (Short) – The share price rose after they received and rejected a \$4.55 takeover bid by a US energy company. The market became more comfortable that cost reduction targets and higher energy prices will reduce debt levels over time.

*TPG Telecom Ltd* (Short) – Management confirmed FY18 EBITDA guidance of \$800-815m and announced the rollout of a high-speed fibre network in Adelaide at the Company's AGM. The Company also announced mobile network coverage would be ready in major Australian cities by mid-2018.

*Vocus Group Ltd* (Short) – The share price rallied after an investor presentation confirmed FY18 underlying NPAT guidance of \$140-150m. Management also announced the intention to sell the New Zealand business and non-core Australian assets to reduce high debt levels.

## Australian Eagle Trust Long Short Fund - Net Monthly Returns

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY
2016/17	10.52%	0.99%	-1.08%	-4.14%	2.94%	5.16%	-0.25%	5.15%	-0.06%	1.94%	1.31%	0.36%	24.48%
2017/18	-1.70%	5.27%	0.20%	5.35%	1.05%	1.10%							11.60%



## Market Overview

The Australian market rose as the big miners rose with commodity prices. Xero's 1H18 result showed a positive EBITDA for the first time and announced plans to delist from the NZ stock exchange by Jan 18. The ACCC announced it will oppose the acquisition of Woolworths' service station network by BP. Westfield agreed to be acquired by Unibail-Rodamco for US\$24.7bn Domino's announced the termination of its existing Enterprise Bargaining Agreement in Jan 18 with franchise employees to be paid at or above award wage after. Fortescue announced that CFO Elizabeth Gaines will replace the outgoing Nev Power as CEO in 2018.

## Portfolio Changes

### Stocks purchased:

*Santos Ltd* (+4.00%; Short): An Australian based natural gas company. The Company is a potential takeover target for larger energy companies.

*QBE Insurance Group Ltd* (+3.00%; Long): A global general insurance and reinsurance company. Earnings should improve in 2018 with rising insurance premiums and higher investment earnings. The company has also started its \$1bn share buyback.

*Altium Ltd* (+2.25%; Long): A printed circuit board design software company. Management have announced plans to combine Upverter with its existing Octopart business as part of its cloud business offering at its AGM.

### Stocks sold:

*GrainCorp Ltd* (-2.25%; New Short): An Australian based grain agribusiness. Despite a near record FY17 crop, management has announced a subdued outlook for FY18 due to a substantially smaller crop and margin pressure across its diversified businesses.

*Sydney Airport Holdings Ltd* (-2.25%; Long): An Australian infrastructure monopoly. The potential for rising interest rates is a risk to the valuation.

*Mineral Resources Ltd* (-1.50%; Long Exit): A diversified miner and mining services company. Operational and financial risk is increasing with the potential acquisition of oil and gas producer AWE Ltd.

## Quarter-End Position & Portfolio Exposures

As at 31 December 2017, the fund had a net exposure of 94.62% and gross exposure of 200.39% to equities. Cash was 5.38%.

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

## Stock Highlight

### Elders Limited (ELD) – Long Position

*Energy Argument:* Alleron sees one of its competitive advantages is in that, when researching a company, where available, we tend to look back further than most would do in order to get an idea of the potential for that company. A company that fits this bill is Elders Limited. Elders' strength has always been its strong long established distribution network in the farming industry. Indeed, the strong cash flows generated in this division allowed them to gear the Company to invest in a number of non-associated businesses chasing a conglomerate structure. Outside the core rural services, the Company had interests in diverse sectors like, telecommunications, automotive parts, Banking, Insurance, and MIS plantation schemes. They subsequently suffered under the pressure of excessive debt and underperforming investments. Under a new CEO in 2014, Elders embarked upon a turnaround by selling diversified assets and targeting a focus on the core cash producer, rural services. They repaired the balance sheet and reset the cost base to more efficiently target their core rural customer.

*Trigger:* Post the company repairing its balance sheet, Alleron's proof for continued growth in earnings came from the early retirement of listed Hybrids highlighting management outlook for cash flow and earnings which allowed the company to restart paying dividends for the first time in 8 years.

*Outlook:* While the restoration of the core business has now been completed, the Company is in good shape to pursue growth strategies that further leverages off and extends the core network of rural services. This is expected to result in double digit earnings growth over the next 3 years. With an undemanding PER of just under 14X and a strongly performing management team, Alleron sees potential for continued outperformance.





### **About the Australian Eagle Trust Long-Short Fund**

Alleron is an Australian boutique wholesale fund manager specialising in Australian equities. Alleron's investment process seeks to deliver significant outperformance by identifying mispriced stocks with changing growth profiles and building concentrated portfolios of those stocks.

The Australian Eagle Trust Long-Short Fund aims to achieve strong double digit returns by allowing clients to access Alleron's demonstrated historical strength in constructing Australian share portfolios applied to a long-short product.

Modelling a combination of Alleron's actual long investment performance since 2005 in conjunction with a short selling discipline, suggests that this product can provide strong investment returns along with an alpha performance that is negatively correlated to the broader Australian equity market.

### **How to Invest**

The Australian Eagle Trust Long-Short Fund is only available to investors via the Australian Eagle Trust Information Memorandum that is available on [www.alleron.com.au/how-to-invest/](http://www.alleron.com.au/how-to-invest/). The Information Memorandum offers investors the opportunity to invest a minimum of \$500,000 in the Australian Eagle Trust (the Fund). Alleron has the discretion to waive or vary this minimum requirement.

The offer of units in the Fund are available to investors both resident in Australia and elsewhere receiving this document (including electronically) in Australia or elsewhere who qualify as "wholesale" clients as that term is defined in section 761G and 761GA of the Corporations Act. The Trustee may also accept applications from investors who are otherwise permitted to invest as permitted by the Corporations Act. Investors who are not resident in Australia can invest in the Fund where they are permitted by law to do so. The Trustee and Investment Manager of the Fund is Alleron.

*Disclaimer:* This communication is issued by Alleron Investment Management Limited ABN 71 109 874 160 AFSL 278856 Suite 301, Level 3, 161 Walker Street, North Sydney NSW 2060. This information does not constitute a recommendation, offer or solicitation to buy or sell any securities. It reflects Alleron's Portfolio at the end of the month stated and Alleron's views at the date of preparation. Both the Portfolio and Alleron's views are subject to change without notice. Past performance figures are no guarantee of future returns. Date of preparation: 11 January 2018.

