

Alleron Investment Management Limited

Monthly Report

September 2016

Portfolio performance and attribution analysis

	Since Inception (Annualised)	Month
Portfolio	+10.365%	-0.080%
Benchmark	+7.130%	+0.406%

Top 3 and bottom 3 performing stocks

Top 3: Rio Tinto Ltd (RIO), Downer EDI Ltd (DOW), Nanosonics Ltd (NAN).

Bottom 3: Resmed Inc (RMD), Sydney Airport Ltd (SYD), Car-sales.com Ltd (CAR).

Portfolio changes

Stocks joined or increased:

Woodside Petroleum Ltd (+0.50%): An Australian oil and gas producer. The company has been utilising its strong balance sheet by acquiring exploration assets while oil prices remain low.

The Reject Shop Ltd (+0.25%): An discount small goods retailer. Management's strategy of customer focus and continued cost synergy benefits will be the driver of organic growth.

Stocks Removed or Reduced:

Nil

Market commentary

Global markets fell due to continued speculation of a US interest rate rise and concerns about the impact on Deutsche Bank of a US\$14bn penalty on its liquidity and capital. Chinese imports rose for the first time since 2014 and some economic indicators improved. Most currencies rose slightly against the USD with the A\$ up from 75 to US76 cents. Iron ore fell to US\$56 per tonne and oil rose to US\$48 per barrel as OPEC announced an indicative agreement to limit production.

The Australian market outperformed global markets with miners offsetting falls in income stocks (mainly infrastructure, REITs and telecoms). The unemployment rate fell 0.1% to 5.6%. The Port of Melbourne was sold for \$9.7bn to a consortium of investors, an Australian record 25 times forecast earnings for an infrastructure asset. Fortescue repaid US\$700m of long term debt, saving US\$26m interest expense annually. Medibank Private appointed a new Chief Customer Officer in line with their new customer focus strategy. Severe storms in South Australia interrupted power service to the entire state, leaving Oz Minerals's Prominent Hill mine temporarily shut. Navitas converted their existing relationship with Edith Cowan University

into a JV. Macquarie Bank reaffirmed guidance stating 1H17 performance will be in line with 2H16.

Portfolio commentary

Positives:

RIO - The company has continued its debt reduction program, launching a bond purchase plan for up to US\$3bn.

DOW - The company announced it was awarded 5 mining services contracts valued over \$250m in total.

NAN - The share price outperformed due to continued optimism after its maiden full year profit.

Negatives:

RMD - The share price fell since the result as the market awaits clearer indication of strong revenue growth translating to earnings growth.

SYD - Falls in income stocks impacted the share price despite continued strong passenger growth.

CAR - The company's share price consolidated after a period of outperformance.

Portfolio focus

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

Current portfolio Top ten holdings

Stock	30/09/16
National Australia Bank Ltd	5.88%
Cochlear Ltd	5.57%
Sydney Airport Holdings Ltd	5.45%
Resmed Inc	5.44%
Seek Ltd	4.87%
Treasury Wine Estates Ltd	4.81%
Rio Tinto Ltd	4.32%
Fortescue Metals Group Ltd	3.77%
AMP Ltd	3.73%
Woodside Petroleum Ltd	3.57%

Portfolio Exposures

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

Portfolio analysis:

Top 100	81.89% of fund
Ex 100	16.27% of fund