

# Alleron Investment Management Limited

## Yearly Report

June 2005

### Portfolio performance and attribution analysis

	Inception (7/2/05)	Year to date
Portfolio	5.45%	5.45%
Benchmark (ASX 100)	4.28%	4.28%

### Top 3 and bottom 3 performing stocks

Top 3: Cochlear Ltd. (COH), Caltex Ltd. (CTX), Oilsearch Ltd (OSH)  
 Bottom 3: McGuigan Simeon Wines Ltd. (MGW), Sims Group Ltd. (SMS), Perpetual Trustees Ltd. (PPT)

### Portfolio changes

Stocks joined or increased significantly:

AXA Group (3%): A financial services group with strong growth options in the Asia Pacific region. The Chinese business is on track to deliver a significant portion of the Company's earnings growth.

Telstra (3%): A telecommunication company with dominant positions in fixed line, mobile and broadband businesses. The management has focused on capital management after the government indicated their intention to sell their shares. The newly appointed CEO will develop a new growth strategy.

Stocks removed or reduced significantly:

WMC Resources Limited (4%): A diversified resources company. Accepted the takeover bid from BHP Billiton Limited.

Newcrest Mining (4%): A gold mining company. The production level was below market expectation and the capital expenditure was significantly above their budget.

### Current portfolio Top ten holdings

Stock	30/06/2005
CSL Limited	5.91%
Suncorp-Metway Limited	5.85%
National Australia Bank Limited	5.79%
BHP Billiton Limited	5.61%
RIO TINTO Limited	5.03%
St George Bank Limited	4.93%
Cochlear Limited	4.79%
QBE Insurance Group Limited	4.56%
John Fairfax Holdings Limited	3.91%
Perpetual Trustees Limited	3.88%

### Sector analysis

Industry Classification	Weight
Consumer Discretionary	10.91%
Energy	7.53%
Financials	38.92%
Healthcare	13.37%
Materials	20.48%
Utilities	3.57%
Telecommunication Services	2.90%
Cash	2.33%
Total	100.00%

### Portfolio analysis:

Top 100 84.0% of fund

Ex 100 13.7% of fund

Tracking error: 5.8%

Breach report: No breaches recorded to date

### Portfolio Return Dispersion

Range of Performance: 5.45% to 5.45%

Notable Differences: No Reportable Differences.

### Market commentary

The market managed to put on strong gains for the year underpinned by the relatively benign domestic economy. In his most recent speech, the Reserve Bank governor indicated that the inflationary fears had subsided and hinted that another increase in interest rates would be unlikely.

Towards the end of the year, most major bank stocks managed to hit all time high levels and resources companies approached their previous highs. However, small retailers struggled amidst a very difficult operating environment. The current high oil prices will continue to dampen discretionary spending for the time being.

### Portfolio commentary

#### Positives

Cochlear: There is a strong chance that the company will be able to report FY05 earnings above market expectations. Unconfirmed reports indicated that their current US market share has increased to 70% and the strong momentum for the European sales continued.

Caltex: The company has delivered a strong earnings result for FY05. Despite the first half FY06 earnings guidance being weaker than market expectation, the second half result should be stronger, underpinned by the firmer refining margins.

#### Negatives

McGuigan Simeon Wines: The company was unable to meet earnings forecasts. The management has lost their creditability and the process of rebuilding creditability takes time.

Sims: Investors are concerned that the operating environment for the company will be difficult for 2006. The current oversupply of steel could trigger weakness in ferrous scrap metal prices.

#### Portfolio focus

For the last few months, there were several successful corporate deals which led to the formation of some very dominant companies in the resources, retail and wine sectors. Among these companies, some valuable growth opportunities could develop and strong earnings growth situations could result.