

# Alleron Investment Management Limited

## Yearly Report

June 2006

### Portfolio performance and attribution analysis

	Inception (7/2/05)	Year to date
Portfolio	+41.27%	+33.97%
Benchmark (ASX 100)	+28.01%	+22.76%

### Top 3 and bottom 3 performing stocks

Top 3: Lihir Gold (LHG), CSL Ltd (CSL), Rio Tinto (RIO)

Bottom 3: John Fairfax Ltd (FXJ), Ten Network Holdings (TEN), Tattersalls (TTS)

### Portfolio changes

Stocks joined or increased significantly:

Foster's Group (3%): A beer and wine group. The group acquired Southcorp Limited. The enlarged US wine business and the prospect of significant synergy benefits will become the driver for future earnings growth.

Alumina Limited (2.5%): An alumina producer. The production profile has improved significantly after the growth strategy implemented two years ago. The increase in production and strengthened Aluminum price will contribute to the strong earnings growth for the next few years.

Stocks removed or reduced significantly:

Sims Group (3%): A recycling specialist. The share price reached expectation.

Telstra Corporation Limited (2.75%): The telecommunication group provided a very gloomy profit guidance. Investors will focus on the disappointing operating environment in the near future.

### Current portfolio Top ten holdings

Stock	30/06/2006
BHP Billiton Limited	6.96%
National Australia Bank Limited	6.38%
CSL Limited	6.08%
RIO Tinto Limited	5.89%
Cochlear Limited	5.14%
AXA Asia Pacific Holdings	5.08%
Suncorp-Metway Limited	4.76%
St George Bank Limited	4.75%
QBE Insurance Group Limited	4.11%
AMP Limited	3.87%

### Sector analysis

Industry Classification	Weight
Consumer Discretionary	11.46%
Consumer Staples	5.45%
Energy	2.94%
Financials	36.49%
Healthcare	13.98%
Industrials	2.29%
Materials	24.92%
Cash	2.46%
Total	100.00%

### Portfolio analysis:

Top 100 81.5% of fund

Ex 100 16.0% of fund

Tracking error: 4.9%

Breach report: No breaches recorded to date

### Portfolio Return Dispersion

Range of Performance: 41.27% to 41.27%

Notable Differences: No Reportable Differences.

### Market commentary

The market rallied strongly during the year. Resources stocks were underpinned by strong metal and oil prices whilst industrial stocks were impacted favorably by the strong underlying economic environment. Profit taking was evident for the last quarter of the financial year as metal prices retreated from their peaks.

The Reserve Bank raised the bank bill rate by 0.25% in May on concerns over the tightness of the labor market. The global interest rate trend was in full upswing as central bankers were concerned over the outlook for inflation. The strong domestic fiscal conditions have provided room for more tax cuts and reforms which will be beneficial to the economy.

### Portfolio commentary

Positives

LHG: The share price was underpinned by the strength in the gold price.

CSL: The share price was aided by the strong profit result and increase in profit guidance for 06.

RIO: The share price was supported by the continuing strength in metal prices and strong production.

Negatives

FXJ: Investors were concerned about the financial impact of a slowing economy on the advertising market.

TEN: Continued concerns over future earnings growth depressed the share price.

TTS: The share price was undermined by the uncertainty about the growth strategy.

### Portfolio focus

The portfolio strategy will continue to focus on companies with significant earnings growth potential for the medium term.

The current reform of the superannuation legislation will induce more demand for financial products and underpin the long term strong organic growth of the industry. Well positioned financial services providers with strong management and financial backing will be able to generate above market returns.