

Alleron Investment Management Limited

Yearly Report

June 2007

Portfolio performance and attribution analysis

	Inception (7/2/05)	Year to date
Portfolio	+92.59%	+35.15%
Benchmark (ASX 100)	+64.62%	+27.42%

Top 3 and bottom 3 performing stocks

Top 3: Incitech Pivot (IPL), CSL Ltd (CSL), Henderson Global Investors (HGI)

Bottom 3: Great Southern (GTP), Oil Search (OSH), Cochlear (COH)

Portfolio changes

Stocks joined or increased significantly:

West Australian Newspaper Holdings Limited (4%): A print media provider. The 06 financial result exceeded market expectations with a very positive outlook for 07. The two year capital expenditure program is finishing. It is likely that the company will be able to achieve their cost reduction targets.

Telstra Corporation Limited (6%): A telecommunications company. The re-investment strategy progressed very well. The sell down by the government facilitated the management to be more focused on value creation for shareholders.

Stocks removed or reduced significantly:

ResMed Inc. (2.75%): A medical device company. The share price reached expectation.

Perpetual Limited (1.75%): A financial services provider. The share price reached expectation.

Current portfolio Top ten holdings

Stock	30/06/2007
BHP Billiton Limited	6.27%
National Australia Bank Limited	6.04%
CSL Limited	5.73%
AXA Asia Pacific Holdings	5.61%
Cochlear Limited	5.58%
RIO Tinto Limited	5.27%
Telstra Limited (incl TLSCA)	5.00%
QBE Insurance Group Limited	4.73%
St George Bank Limited	4.55%
WA Newspapers Limited	3.99%

Sector analysis

Industry Classification	Weight
Consumer Discretionary	12.83%
Consumer Staples	4.92%
Energy	2.09%
Financials	32.94%
Healthcare	12.67%
Industrials	3.91%
Information Technology	4.40%
Materials	18.71%
Telecommunications	5.00%
Cash	2.52%
Total	100.00%

Portfolio analysis:

Top 100	86.4% of fund
Ex 100	11.1% of fund
Tracking error:	4.3%

Portfolio Return Dispersion

Range of Performance: 35.0% to 35.2%
Notable Differences: No Reportable Differences.

Market commentary

The market continued its record breaking rally amid a very favorable economic backdrop with tame inflation around the world. The market sentiment was underpinned by positive corporate earnings reports and takeover talk triggered by private equity groups. Resources stocks recovered their strength during the year after bulk commodity and metal prices staged a very strong recovery. Contrarily, interest rate sensitive stocks pared their gains after the global bond yields surged to year high levels on concerns of US sub-prime loan problems.

Despite the benign domestic inflation backdrop, the Reserve Bank reiterated their concerns about the tight labor market and robust economic activity. Analysts expected that there will be strong likelihood of a hike in the interest rate soon..

Portfolio commentary

Positives

IPL: The share price was underpinned by the better than expected corporate result and positive outlook for 08.

CSL: The share price rallied on the strong profit result and increase in profit guidance for 07.

HGI: Investors were excited about the prospect of further capital management initiatives.

Negatives

GTP: The share price was underpinned by the negative tax ruling on horticulture projects.

OSH: Investors awaited the alternative business plans for the PNG gas reserve.

COH: Investors were concerned that the firmer A\$ will negatively impact on earnings growth.

Portfolio focus

Genuine long term growth assets that will generate above average growth in earnings for the foreseeable future will continue to be the focus for investment opportunity. The global rising bond yield will increase the cost of capital. Capital structure will be increasingly important in analyzing situations. Identification of investment triggers for interesting situations will continue to be the primary focus.