

Alleron Investment Management Limited

Yearly Report

June 2012

Portfolio performance and attribution analysis

	Since Inception (Annualised)	Year to Date
Portfolio	+ 7.654%	- 7.784%
Benchmark	+ 4.386%	- 6.252%

Top 3 and bottom 3 performing stocks

Top 3: ConnectEast Group (CEU), Coca-Cola Amatil Limited (CCL), Suncorp Group (SUN).

Bottom 3: Dart Energy (DTE), Newcrest Mining Limited (NCM), Seven West Media Limited (SWM).

Portfolio changes

Stocks joined or increased significantly:

Sydney Airport (+3%; New Stock): An Airport investment fund. The fund simplified its structure by internalising management and exchanged its stakes in overseas airports for an increased stake in Sydney airport.

Woodside Petroleum Limited (+3%): An oil and gas producer. The company finished a large capital expenditure program to bring the Pluto LNG project to successful completion.

Stocks removed or reduced significantly:

ConnectEast Group (-2.75%; Removed): A toll road operator. An investment vehicle managed by the group's largest shareholder, CP2, made a successful takeover offer for the road operator.

David Jones Limited (-2.75%; Removed): An Australian department store owner. The company was not able to overcome the difficult trading environment during 2011's crucial June/July clearance sales.

Market commentary

It was a mixed year for global equities with only the US amongst major markets ending in the positive. Investors were concerned by the depth of the government directed property market slowdown in China and that Greece's economic woes would cause contagion in Italy and Spain. Emerging markets were less of a global growth driver due to last year's monetary policy tightening. The Facebook IPO was judged to be a failure by investors while Apple soared due to successful product launches. The positive news at year end was a 25% fall in oil prices, as well as some signs that Europe may finally be producing policies intended to solve its debt crisis.

Australian indices underperformed due to the exposure to resources. Banks and stocks with higher yields outperformed. Restructuring industries such as media and retail struggled and consequently became corporate targets. Companies with strong cashflows and balance sheets were able to takeover competitors or return cash to shareholders. News Corporation tried to do both while restructuring its global operations. The generally weak economy forced the RBA to reduce official interest rates by 1.25%.

Portfolio commentary

Positives:

CEU: The group was taken over by infrastructure investors.

CCL: The company sold out of its beer joint venture with SAB Miller and invested this capital in the growing Indonesian market and improving efficiency.

SUN: Suncorp upgraded its cost-cutting targets and expects an improvement in insurance profits.

Negatives:

DTE: Dart disappointed with drilling results in China but is focusing on near-term UK gas production.

NCM: The share price was impacted by a falling gold price and two downward revisions of production.

SWM: The company could not resist the subdued advertising environment and downgraded earnings in April followed by the CEO's replacement by an oil executive.

Portfolio focus

Following the EU leaders meeting, market attention will now focus on the upcoming results season. With the uncertain economic outlook, Alleron continues to identify companies that can execute superior medium-term growth strategies.

Current portfolio Top ten holdings

Stock	30/06/12
BHP Billiton Ltd	8.66%
National Australia Bank Ltd	6.21%
Westpac Banking Corp	6.15%
Suncorp-Metway Ltd	5.38%
Seek Ltd	4.77%
AMP Ltd	4.62%
Cochlear Ltd	4.39%
Stockland Ltd	4.28%
Woodside Petroleum Ltd	3.87%
Coca Cola Amatil Ltd	3.55%

Sector analysis

Industry Classification	Weight
Consumer Discretionary	5.97%
Consumer Staples	4.84%
Energy	7.97%
Financials	32.25%
Healthcare	13.36%
Industrials	11.59%
Information Technology	0.00%
Materials	17.74%
Telecommunications	2.28%
Cash	3.99%
Total	100.00%

Portfolio analysis:

Top 100 90.70% of fund

Ex 100 5.31% of fund

Tracking error: 4.4%

Breach report: No Breaches to report

Portfolio Return Dispersion

Range of Performance: -7.92% to -7.72%

Notable Differences: No notable differences.