

Alleron Investment Management Limited

Yearly Report

June 2015

Portfolio performance and attribution analysis

	Since Inception (Annualised)	Year to date
Portfolio	+9.724%	+5.003%
Benchmark	+7.565%	+6.065%

Top 3 and bottom 3 performing stocks

Top 3: Caltex Australia Ltd (CTX), Cochlear Ltd (COH), Resmed Inc (RMD).

Bottom 3: Bradken Ltd (BKN), Oil Search Ltd (OSH), Seek Ltd (SEK).

Portfolio changes

Stocks joined or increased:

Transpacific Industries Ltd (+2%; New): A waste management provider. The company is refocusing on its Cleanaway business and executing on its growth strategy with the acquisition of a landfill from Boral Limited.

Perpetual Ltd (+2%; New): A fund manager. The company continues to attract strong fund inflows and is extracting synergies from the Trust Company acquisition.

Stocks Removed or Reduced:

BHP Billiton Ltd (-2.25%): A global diversified miner. Weak iron ore and oil prices will limit shareholder returns.

Iluka Resources Ltd (-2.25%; Exit): A global mineral sands producer. Lower Chinese economic growth will impact on mineral sands demand.

Market commentary

Global equity markets rose slightly over the year as markets focussed on US Federal Reserve actions as the economy improved. Easier monetary policy in Asia drove significant outperformance by China and Japan although gains were tempered with a year end Chinese correction and concerns over a Greek default.

Bond yields fell although European bonds suffered a correction as some yields at one stage fell into negative territory. Low interest rates drove significant merger activity. Oil prices fell 44% to US\$59 a barrel as OPEC sought to maintain market share in the face of rising US production. Iron ore fell 32% to US\$59 a tonne on slowing Chinese demand.

Australia underperformed global equity markets. The Australian dollar fell 18% to US 77 cents as the Reserve Bank cut cash rates by 0.5% to 2%. Overseas earners such as healthcare and income stocks outperformed and resources underperformed. The banks matched the market as earnings growth slowed while regulators pressured banks to increase capital and reduce the growth in investment property lending. Increased shareholder returns were a theme with buybacks from Fairfax and Rio Tinto.

Portfolio commentary

Positives:

CTX: The company doubled its 2014 dividend as more stable earnings from the marketing division is likely to improve shareholder returns.

COH: The company is reporting double digit sales growth driven by new product releases.

RMD: The company has reported double digit flow generator sales for three consecutive quarters driven by new product releases.

Negatives:

BKN: Free cashflow generation has been impacted by the slowdown in mining capital expenditures.

OSH: The fall in the oil price has reduced the benefit on cashflow of the start of the PNG LNG project.

SEK: The company will accelerate investment in its employment classifieds business which will slow profit growth.

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	30/6/15
National Australia Bank	6.05%
Westpac Banking Corporation	5.78%
AMP Ltd	5.11%
Cochlear Ltd	5.10%
Rio Tinto Ltd	4.99%
BHP Billiton Ltd	4.98%
Sydney Airport Holdings Ltd	4.91%
Seek Ltd	4.90%
Resmed Inc	4.65%
Suncorp Group Ltd	4.06%

Sector analysis

Industry Classification	Weight
Consumer Discretionary	6.04%
Consumer Staples	5.53%
Energy	10.52%
Financials	33.84%
Healthcare	12.34%
Industrials	15.66%
Information Technology	1.00%
Materials	11.61%
Telecommunications	0.00%
Cash	3.46%
Total	100.00%

Portfolio analysis:

Top 100 94.21% of fund

Ex 100 2.32% of fund

Tracking error: 4.1%

Breach report: No Breaches to report

Portfolio Return Dispersion

Range of Performance: -1.521% to +2.617%

Notable Differences: The differences in the year to June 2015 were due to clients' cash-flows.

