

Long-Short Quarterly Report – March 2017

Portfolio Performance

As at 31 Mar 2017	3mth	6mth	Since Inception
Alleron Long-Short*	4.82%	8.78%	20.10%
S&P/ASX 100 Acc**	5.06%	11.16%	16.60%
RBA Cash Rate	0.38%	0.75%	0.75%

Performance figures are net of fees and expenses

*Inception date is 1 July 2016

** Performance benchmark

Portfolio Commentary

For the nine months ending March 2017, the Alleron Long Short Fund has returned just over 20% net of fees. The fund produced a very strong absolute performance for the March Quarter of 2017 returning 4.82%.

While the general market has been relatively strong since November 2016, the recent reporting season has provided support to the market's advance with most companies meeting expectations and providing improved outlook statements. The largest portfolio gains came from the Long side of the portfolio with our largest stock weights contributing the most to performance. The reporting season results reaffirmed the underlying quality and strong growth in the companies that Alleron is most confident in, such as Treasury Wines and Cochlear. After very strong returns in previous quarter, the resources stocks consolidated and held previous gains.

Given the strength in the market, the Short side of the portfolio detracted from overall performance. In March, some previously underperforming companies staged rebounds. Short positions in the telecom company Vocus, and cancer therapy company Sirtex, detracted as their share prices rebounded after strong falls in the previous quarter, coupled with no further deterioration in earnings outlook after the release of their results. Further, despite deteriorating operating conditions for Qantas, the stock price was supported by their buyback.

Portfolio Highlights

Positives:

Treasury Wine Estates Ltd (Long) - The Company's half year result produced strong cashflow conversion and growing margin accretion, mainly driven by the Americas and Asia businesses. The CEO revealed plans for further growth targets in the Americas as well selling French wine to the Asian market before the end of 2017.

Sydney Airport Holdings Ltd (Long) – The Company announced full year EBITDA growth of 10.3%, driven by international passenger growth. Management increased FY17 distribution guidance to 33.5c, reflecting confidence in the business outlook.

Cochlear Ltd (Long) – The half year result showed double digit profit and unit volume growth across all regions. With continual product innovation helping maintain a market leadership position, management reaffirmed FY17 profit guidance at double digit growth rates.

Negatives:

Sirtex Ltd (Short) – Despite the immediate termination of the CEO after an external review on his share trading activities, the share price rose in anticipation of positive results from its upcoming studies.

Vocus Group Ltd (Short) – The share price rose as half year earnings stabilised when the market consensus expected further top and bottom line deterioration due to increasing competitive pressures.

Qantas Airways Ltd (Short) – The share price rose in the quarter despite a poorer result with only their Loyalty business growing compared to last year. A stop in the domestic airfare war with Virgin offset the slowdown in resources sector activity. The reinstatement of the dividend and continuation of the on-market share buyback supported the share price.

Australian Eagle Trust Long Short Fund - Net Monthly Returns

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
2016/17	10.52%	0.99%	-1.08%	-4.14%	2.94%	5.16%	-0.25%	5.15%	-0.06%				20.10%



Market Overview

The Australian market rose as outperformance from the big banks and income stocks was slightly offset by volatility in the resources sector. World markets continued to rise in the March quarter from strong economic data out of Asia and the US. Seek announced a further \$118m investment into Online Education Services. Fortescue paid off another US\$1bn of debt to bring net debt to US\$4bn. Downer launched a \$1.2bn takeover bid for Spotless, a listed catering and cleaning company. Sydney Airport CEO announced her retirement pending the search for a suitable replacement.

Portfolio Changes

Stocks purchased:

Elders Ltd (+1.50%; New Long): A diversified agricultural retailer and agency business. The livestock agency and retail businesses have responded positively to the turnaround strategy. Management has also redeemed its hybrid securities earlier than anticipated, paving the way for dividends to ordinary shareholders.

Woolworths Ltd (+2.50%; Closed Short): A diversified Australian retailer. The company's turnaround strategy and increased focus on its core supermarket business has started to generate same store sales growth compared to peers.

Stocks sold:

Brambles Ltd (-4.00%; New Short): A supply chain logistics company. The company's core reusable pallet business in the US has resulted in 2 consecutive profit warnings due to destocking from US retailers.

Domino's Pizza Enterprises Ltd (-3.00%; New Short): A fast food franchisor. Sustainability of franchisee profitability has been questioned due to rising wage costs from new enterprise bargaining agreements in its core Australian business.

Fairfax Media Ltd (-2.25%; Exit Long): A multimedia and real estate services company. The share price has reached our valuation target due to management's announcement to spin off Domain into a separate entity.

Navitas Ltd (-1.50%; Exit Long): An education provider. The Company issued a profit downgrade after the Department of Education announced that the Company was no longer the preferred tenderer for some existing contracts of its Adult Migrant Education Program.

Quarter-End Position & Portfolio Exposures

As at 31 March 2017, the fund had a net exposure of 95.45% and gross exposure of 198.34% to equities. Cash was 2.95%.

Major portfolio exposures were to medical devices & services and resource stocks with less portfolio weight in major banks and retailers.

Stock Highlight

Cochlear Limited (COH) – Long Position

Energy Argument: COH is the current incarnation of the company that developed the world's first commercially produced bionic ear or Cochlear implant 30 years ago. By being first to market and with thousands of filed patents, the Company has over 70% of the global installed base of implantable hearing devices. Consistent investment in innovation and product quality has maintained their market share along with their growth rates. Despite being available for 30 years, Cochlear continues to calculate the market penetration for their range of implantable devices is less than 5%. This suggests that despite their significant growth rates, and installations of over 30,000 units per year, they are still implanting less units than new incidents of hearing loss. This along with the innovation, allows both continued strong growth and ability to sell upgrades to historical patients.

Trigger: While Alleron has had a very long history of investment in Cochlear, there have been clear examples of recent events that have served to reinforce the strength and continued growth potential of the company. The first event was in 2011 when the Company withdrew their product from the market due to a manufacturing fault, thereby highlighting management capability in crisis and returning to market with a stronger product. The second was the very recent establishment of their new division that creates and markets products directly to their large 450,000 installed customer base, thereby creating another growth driver on top of their underpenetrated core market.

Outlook: Despite already achieving compound annual earnings growth of around 13.5% over the past 18 years, the extremely low product penetration rate, ROE's at over 40% and constant reinvestment into R&D still places Cochlear as one of the highest quality growth companies in the Australian market. Indeed, with forecast for earnings to grow close to 50% over the next three years with only marginal impact on market penetration, the growth outlook is expected to remain consistently strong.



About the Australian Eagle Trust Long-Short Fund

Alleron is an Australian boutique wholesale fund manager specialising in Australian equities. Alleron's investment process seeks to deliver significant outperformance by identifying mispriced stocks with changing growth profiles and building concentrated portfolios of those stocks.

The Australian Eagle Trust Long-Short Fund aims to achieve strong double digit returns by allowing clients to access Alleron's demonstrated historical strength in constructing Australian share portfolios applied to a long-short product.

Modelling a combination of Alleron's actual long investment performance since 2005 in conjunction with a short selling discipline, suggests that this product can provide strong investment returns along with an alpha performance that is negatively correlated to the broader Australian equity market.

How to Invest

The Australian Eagle Trust Long-Short Fund is only available to investors via the Australian Eagle Trust Information Memorandum that is available on www.alleron.com.au/how-to-invest/. The Information Memorandum offers investors the opportunity to invest a minimum of \$500,000 in the Australian Eagle Trust (the Fund). Alleron has the discretion to waive or vary this minimum requirement.

The offer of units in the Fund are available to investors both resident in Australia and elsewhere receiving this document (including electronically) in Australia or elsewhere who qualify as "wholesale" clients as that term is defined in section 761G and 761GA of the Corporations Act. The Trustee may also accept applications from investors who are otherwise permitted to invest as permitted by the Corporations Act. Investors who are not resident in Australia can invest in the Fund where they are permitted by law to do so. The Trustee and Investment Manager of the Fund is Alleron.

Disclaimer: This communication is issued by Alleron Investment Management Limited ABN 71 109 874 160 AFSL 278856 Suite 301, Level 3, 100 Walker Street, North Sydney NSW 2060. This information does not constitute a recommendation, offer or solicitation to buy or sell any securities. It reflects Alleron's Portfolio at the end of the month stated and Alleron's views at the date of preparation. Both the Portfolio and Alleron's views are subject to change without notice. Past performance figures are no guarantee of future returns. Date of preparation: 12 April 2017.

