

December 2017 Long-Only Monthly Report

Portfolio performance and attribution analysis

	Inception p.a.	FYTD	Month
Portfolio	11.48%	14.09%	2.25%
Benchmark	7.76%	7.52%	1.71%

Top 3 and bottom 3 performing stocks

Top 3: Elders Limited (ELD), Lovisa Holdings Ltd (LOV), Oz Minerals Limited (OZL)

Bottom 3: Cochlear Limited (COH), Japara Healthcare Limited (JHC), Monadelphous Group Limited (MND)

Portfolio changes

Stocks joined or increased:

Macquarie Group Limited (+1.00%): An Australian investment bank. The company's disposal of 11% in Macquarie Atlas Roads will potentially recycle capital into renewable investments following its acquisition of the UK Green Investment Bank.

Stocks removed or reduced:

Mineral Resources Limited (-1.75%, Exit): A diversified mining and mining services company. The company's potential acquisition of AWE Ltd has increased operational and financial risk.

Sydney Airport Holdings Limited (-0.50%): An Australian airport infrastructure monopoly. The company's share price is approaching our valuation target.

Market commentary

World markets were mixed, with US markets hitting record highs from strong employment numbers and the passing of US tax cuts. The Fed raised interest rates, projecting 3 more hikes in 2018. Chinese economic data showed 10.2% growth for consumer demand offset by slowing industrial output. Iron ore rose 7% to US\$72/t on continued demand for higher grade product amid China's winter pollution crackdown. Copper also increased 7% on the back of strong Chinese demand. Oil rose 5% to \$60/barrel as OPEC output fell to its lowest level since May 17. The AUD recovered slightly, gaining 1c to US78c.

The Australian market rose with mid cap stocks and big miners outperforming. The RBA left interest rates unchanged at 1.50%. CBA filed a response to AUSTRAC claims, admitting to some of the allegations. ANZ sold its life insurance business to Zurich for \$2.85bn and announced a \$1.5b buyback. Japara downgraded FY18 earnings due to slower than expected recovery in room occupancy from the winter influenza outbreak. Nanosonics received notification from British and European medical societies that identified their patented high level disinfection as best practice for infection control. Elders refinanced its \$180m debtor finance facility.

Sydney Airport announced strong Asian international passenger growth in November. NextDC rejected a \$300m offer from Asia Pacific Data Centres to sell it some of its original leased data centre properties. QBE settled a class action for \$132.5m dating back to 2015. Oil Search is acquiring oil fields in Alaska for US\$400m. further funding of a similar amount is required for development and production to start by 2024.

Portfolio commentary

Positives:

ELD - The share price continued to rise after the FY17 result, buoyed by its strong cash generation.

LOV - The share price rose as the market continued to digest its global expansion plans.

OZL - The share price recovered after a period of underperformance.

Negatives:

COH - The share price corrected following recent outperformance.

JHC - The share price fell after the company announced lower profit guidance following the flu outbreak.

MND - The share price pulled back after recent outperformance.

Current portfolio: Top ten holdings

Stock	31/12/2017
Commonwealth Bank Ltd	7.99%
Seek Ltd	6.19%
National Australia Bank Ltd	5.90%
Cochlear Ltd	5.57%
Treasury Wine Estates Ltd	4.97%
Resmed Inc	4.21%
Sydney Airport Holdings Ltd	3.71%
BHP Biliton Ltd	3.64%
Rio Tinto Ltd	3.29%
Fortescue Metals Group Ltd	3.23%

Portfolio Exposures

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

Portfolio Analysis

Top 100 85.36% of fund
Ex 100 14.64% of fund

Portfolio focus

Alleron's investment process focuses on companies with a competitive advantage and a developing organic growth profile. An investment will be made once an identified investment trigger occurs.