



July 2018 Long-Only Monthly Report

Portfolio performance and attribution analysis

	Month	FYTD	Inception p.a.
Portfolio	0.14%	0.14%	11.78%
Benchmark	1.59%	1.59%	7.87%
Out/(under) performance	-1.45%	-1.45%	3.92%

Top 3 and bottom 3 performing stocks

Top 3: Treasury Wine Estates Ltd (TWE), Medibank Private Ltd (MPL), QBE Insurance Group Ltd (QBE)
Bottom 3: Elders Ltd (ELD), Altium Ltd (ALU), Carsales.com Ltd (CAR)

Portfolio changes

Stocks joined or increased:

QBE Insurance Group Ltd (+0.50%): A global general insurance company. Management's simplification initiatives are gaining traction and returning the company to organic growth.

Stocks removed or reduced:

Fortescue Metals Group Ltd (-0.75%): An iron ore miner. The company reported weaker quarterly cashflow and concerns have arisen regarding execution of strategy by new management.

Monadelphous Ltd (-0.50%): An oil and gas engineering services company. The share price is approaching our valuation target.

Market commentary

World markets rose as trade tensions eased between the US and EU despite a late correction in technology led by Facebook. The US economy grew +4.1% last quarter, mainly attributable to increased activity before official implementation of trade tariffs. The Bank of Canada hiked rates for the 4th time this year while the Bank of Japan left its QE program unchanged and introduced a more flexible long term monetary policy. The iron ore price rose 4% to US\$67 on Chinese stimulus measures while most other commodity prices fell due to global trade war concerns. Oil fell back to US\$69 as OPEC production jumped to a 2018 high. The AUD rose 1c to US74c. The Australian market underperformed global markets as financial and mining stocks fell from continued pressure of the Royal Commission and weaker Chinese growth. The unemployment rate remained steady at 5.4% while the RBA kept interest rates at 1.50%, stating that inflation is expected to remain low for some time. Mining stocks announced quarterly production reports with Iluka and Oil Search both benefiting from rising commodity prices. Fortescue repaid debt of US\$160m and approved development of a new higher grade iron ore mine and rail project. BHP confirmed its exit of US shale with the US\$10.5bn asset sale to BP. Macquarie Group announced its current head of Asset Management as the new group CEO effective November 2018. National Australia Bank appointed a former Perpetual MD as

the new CEO of MLC. Sydney Airport announced mid single digit international passenger growth, helped by Taiwan, Vietnamese and Indian nationals. Elders' seasonal update revealed its retail earnings were negatively impacted by unseasonably dry weather conditions. Xero announced a new strategic alliance with Gusto, a US payroll platform, subsequently ceasing development of its own in-house US payroll product.

Portfolio commentary

Positives:

TWE - The share price continued its recovery after a period of underperformance.

MPL - The share price rose as the private hospital sector downgraded earnings from lower admissions.

QBE - The share price rose in anticipation of a positive FY18 result.

Negatives:

ELD - The share price fell as management announced flat earnings from tough weather conditions affecting the agricultural sector.

ALU - The share price experienced profit taking.

CAR - The share price corrected after recent strength.

Current portfolio: Top ten holdings

Stock	31/07/2018
Commonwealth Bank Ltd	8.05%
National Australia Bank Ltd	6.19%
Cochlear Ltd	6.05%
Treasury Wine Estates Ltd	5.39%
Seek Ltd	4.84%
Resmed Inc	4.01%
Xero Ltd	3.95%
Macquarie Group Ltd	3.95%
Fortescue Metals Group Ltd	3.73%
OZ Minerals Ltd	3.72%

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 82.66% of fund
Ex 100 17.34% 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.