



February 2019 Long-Only Monthly Report

Portfolio performance and attribution analysis

	Month	1 yr	Inception p.a.
Portfolio	5.77%	7.69%	11.36%
Benchmark	5.92%	7.22%	7.62%
Out/(under) performance	-0.14%	0.47%	3.74%

Top 3 and bottom 3 performing stocks

Top 3: Altium Ltd (ALU), QBE Insurance Group Ltd (QBE), Commonwealth Bank of Australia Ltd (CBA)
Bottom 3: Cochlear Ltd (COH), NextDC Ltd (NXT), Treasury Wine Estates Ltd (TWE)

Portfolio changes

Stocks joined or increased:

Invocare Ltd (+1.00%, New): An Australian funeral homes provider. The company's growing market share and \$200m Protect & Grow strategy have provided a solid foundation for future organic growth.

Webjet Ltd (+0.50%, New): An online travel services and agency business. In addition to gaining market share in the online B2C space, the company's WebBeds business is now the largest profit contributor and consolidated its position as the #2 global B2B player.

Stocks removed or reduced:

Carsales.com Ltd (-1.00%): An online vehicle trading platform provider. The company is struggling to grow in Australia or internationally apart from the Korean business.

Coles Ltd (-1.00%, Exit): An Australian retail company. The outlook has deteriorated with sales growth falling sharply from 5.1% in the first quarter to 1.5% in the second quarter combined with a Coles Express downgrade.

Current portfolio: Top ten holdings

Stock	28/02/2019
Commonwealth Bank Ltd	7.95%
National Australia Bank Ltd	6.05%
QBE Insurance Group Ltd	5.92%
Xero Ltd	5.22%
Cochlear Ltd	4.91%
Treasury Wine Estates Ltd	4.52%
OZ Minerals Ltd	4.28%
ASX Ltd	4.18%
Macquarie Group Ltd	4.10%
Fortescue Metals Group Ltd	3.77%

Market commentary

World markets continued their recovery with US markets rising 3% as the March deadline for increased US-Chinese tariffs was extended. Weak US retail sales data led to concerns about the health of the US economy. Rising costs and weak sentiment led to the lowest Lunar New Year sales growth in China since 2005. The UK economy grew its slowest since 2012 in the Dec18 quarter. The iron ore price was flat as the market readjusted for the Brazil dam disaster. The oil price rose 6% to US\$57 due to continued US sanctions and political tensions in Venezuela. The AUD fell 1c to US71c.

The Australian market outperformed as the big banks recovered after the Banking Royal Commission report was released. The RBA held rates steady but downgraded their economic growth forecast. Many companies announced special dividends in reporting season in anticipation of a potential new government changing franking credit refunds. QBE reported improvement in its insurance business helped by cost discipline and rising insurance premiums in all geographies. Treasury Wine Estates provided FY20 growth targets of 15-20% after a strong 1H19 performance. NextDC reported strong growth in contracted utilisation and customers. Cochlear announced 28% growth in services revenue while reaffirming its previous FY19 profit guidance. CSL's flu vaccine profit grew 63% offsetting a decline in its blood products business due to temporary restrictions in supply to China.

Portfolio Exposures

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

Portfolio Analysis

Top 100 86.48% of fund
Ex 100 13.52% of fund

Monadelphous announced it was awarded \$770m of new contracts this FY while reporting 25% growth in maintenance revenues. Fortescue reaffirmed plans to produce 8-10mtpa 60% grade iron ore in FY19. Altium reported 49% growth in China revenue, validating management's decision to open offices in key Chinese cities. Woodside Petroleum achieved record Pluto LNG production while increasing free cashflow by 83% to \$1.5bn.

Portfolio commentary

Positives:

ALU - The share price rose after the company provided a new FY25 target of \$500m revenues.

QBE - The share price rose as management's turnaround has started to yield positive results.

CBA - The share price rose as no significant negative recommendations were produced by the final Royal Commission report.

Negatives:

COH - The share price fell on slowing unit growth in developed countries.

NXT - The share price fell after management downgraded revenue guidance for FY19.

TWE - The share price fell after the resignation of top level Asia division executives.

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.