

Alleron Investment Management Limited

Monthly Report

October 2016

Portfolio performance and attribution analysis

	Since Inception (Annualised)	Month
Portfolio	+10.031%	-2.680%
Benchmark	+6.904%	-1.878%

Top 3 and bottom 3 performing stocks

Top 3: OZ Minerals Ltd (OZL), Fortescue Metals Group Ltd (FMG), Downer EDI Ltd (DOW).

Bottom 3: Sydney Airport Ltd (SYD), The Reject Shop Ltd (TRS), Cochlear Ltd (COH).

Portfolio changes

Stocks joined or increased:

Japara Healthcare Ltd (+1.00%; New): An Australian aged care facility operator. The company's strong balance sheet and upcoming expansion projects will drive the company's next phase of growth.

Stocks Removed or Reduced:

AMP Ltd (-0.75%): An Australian wealth manager and financial institution. The company's wealth protection business has experienced deteriorating conditions, with management forecasting further losses in wealth protection for 2H16 and FY17.

Resmed Inc (-1.00%): A medical device company. Organic growth has slowed as customers await the launch of new masks and debt has gone up due to recent acquisitions.

The Reject Shop Ltd (-0.75%): A discount variety goods retailer. The company is encountering supply chain problems during a period of weak consumer sentiment.

Market commentary

Global markets were mixed due to the US election. The Chinese trade balance was at a 6 month low with 10% drops in trade to the UK and EU. The Chinese government started its crack-down on gambling with the arrest of 18 Crown Casino employees in China. The British pound fell 6% on concerns about a disorderly exit from the EU. Iron ore rose 13% to US\$64 per tonne while oil was flat at US\$48 per barrel.

The Australian market underperformed global markets as income stocks continued to underperform and high PE growth stocks corrected following profit warnings from Blackmores and Healthscope. The Reserve Bank of Australia left interest rates unchanged at 1.50%. National Australia Bank reported 4% growth in cash earnings and higher bad debts due to lending to the dairy sector. Macquarie Bank's first half report showed solid contribution from both the funds management and capital markets businesses and reiterated expectations for FY17 profit to be in line with FY16. ANZ sold its Asian retail & wealth businesses to focus on institutional banking in the region. Xero announced a new flatter organisational structure to drive global growth. Mineral Resources announced a 29% increase in lithium resources at its Mt

Marion project.

Portfolio commentary

Positives:

OZL - The company's quarterly report showed CI costs at the lower end of guidance at US70 cents per pound.

FMG - The company's quarterly report announced it had reduced debt by a further US\$700m while maintaining production and cost guidance for FY17.

DOW - The market gained confidence in Downer's ability to win more infrastructure contracts following a rail contract win in Victoria..

Negatives:

SYD - The share price corrected due to rising bond yields despite continued strong passenger growth.

TRS - Management highlighted slowing comparable stores sales growth in 1Q17 with continued supply chain issues.

COH - The company's share price consolidated after a period of outperformance.

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	31/10/16
Sydney Airport Holdings Ltd	5.85%
National Australia Bank Ltd	5.64%
Resmed Inc	5.17%
Cochlear Ltd	4.87%
Treasury Wine Estates Ltd	4.81%
Seek Ltd	4.71%
Rio Tinto Ltd	4.66%
Fortescue Metals Group Ltd	4.31%
Woodside Petroleum Ltd	4.07%
Suncorp Group Ltd	3.59%

Portfolio Exposures

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

Portfolio analysis:

Top 100	83.38% of fund
Ex 100	14.11% of fund