

Alleron Investment Management Limited

Yearly Report

June 2016

Portfolio performance and attribution analysis

	Since Inception (Annualised)	Year to date
Portfolio	+9.531%	+7.559%
Benchmark	+6.844%	-0.353%

Top 3 and bottom 3 performing stocks

Top 3: Treasury Wine Estates Ltd (TWE), Cochlear Ltd (COH), Fortescue Metals Group Ltd (FMG).

Bottom 3: AMP Ltd (AMP), Rio Tinto Ltd (RIO), Downer EDI Ltd (DOW).

Portfolio changes

Stocks joined or increased:

Medibank Private Ltd (+2.50%; New): A private health insurance provider. The company's focus on shareholder value post-privatisation is delivering earnings growth.

Monadelphous Group Ltd (+2.50%; New): A mining services and engineering company. The strong balance sheet and new infrastructure revenue stream provide a solid platform for future organic growth.

Stocks Removed or Reduced:

Caltex Australia Ltd (-4.00%; Exit): A convenience store retailer and transport fuel refiner and marketer. The company has completed its transformation to a fuel retailer and the share price has reached our valuation.

Coca Cola Amatil Ltd (-2.50%; Exit): A carbonated beverages producer and distributor. The company's position as a market leader is under pressure in an increasingly challenging environment.

Primary Health Care Ltd (-2.50%; Exit): A medical centre operator. High debt levels and margin pressure is reducing the company's long term outlook.

Current portfolio Top ten holdings

Stock	30/6/16
Resmed Inc	6.31%
Sydney Airport Holdings Ltd	6.04%
National Australia Bank Ltd	5.64%
Cochlear Ltd	5.34%
AMP Ltd	5.19%
Rio Tinto Ltd	5.08%
Treasury Wine Estates Ltd	4.27%
Western Banking Corporation	4.21%
Seek Ltd	3.97%
Suncorp Group Ltd	3.96%

Market commentary

Global equity markets mostly fell due to a slowing Chinese economy and the exit of the UK from the EU. The US outperformed due to its stronger economy. Greece agreed to a tough bailout package with the EU to avoid default. The Chinese government intervened after markets fell sharply by banning short selling. Oil prices fell 19% to US\$48 as OPEC countries failed to agree to an output ceiling. Iron ore fell 6% to US\$54 amid a global supply glut. The US dollar rose against most currencies.

The Australian market fell 4% but outperformed global equity markets. Prime Minister Tony Abbott was ousted by Malcolm Turnbull in a September 2015 party vote. The Australian dollar fell to US74 cents as the Reserve Bank cut cash rates by 0.25% to 1.75%. Mid-cap, high yield, off-shore earners and growth stocks outperformed. The big banks experienced slowing earnings with increased bad debt provisions and were forced to raise equity to comply with new capital rules. Miners suspended or cut dividends as commodity prices fell with many undergoing aggressive cost cutting in order to survive the cyclical downturn.

Sector analysis

Industry Classification	Weight
Consumer Discretionary	7.43%
Consumer Staples	4.27%
Energy	6.05%
Financials	32.46%
Healthcare	16.21%
Industrials	17.80%
Information Technology	2.01%
Materials	10.74%
Telecommunications	0.00%
Cash	3.04%
Total	100.00%

Portfolio commentary

Positives:

TWE: The CEO's brand management strategy has seen strong earnings growth in the Asian business.

COH: The company's innovative products have seen significant increase in earnings and market share in the Americas and Asia Pacific.

FMG: The company has actively repaid US\$2.9bn of debt and reduced the break even cost of production to be approximately US\$28 per tonne.

Negatives:

AMP: The company issued a profit downgrade due to claims volatility in wealth protection.

RIO: The share price fell due to volatility in the iron ore price in addition to a reduction in dividend.

DOW: The commodity price downturn has affected earnings with the loss of a large mining services contract.

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.

Portfolio analysis:

Top 100 85.52% of fund

Ex 100 11.45% of fund

Tracking error: 4.1%

Breach report: No Breaches to report

Portfolio Return Dispersion

Notable Differences: No notable differences

