

February 2018 Long-Only Monthly Report

Portfolio performance and attribution analysis

	Inception p.a.	FYTD	Month
Portfolio	11.65%	18.39%	1.67%
Benchmark	7.66%	7.52%	0.37%

Top 3 and bottom 3 performing stocks

Top 3: Altium Ltd (ALU), Lovisa Holdings Ltd (LOV), NextDC Ltd (NXT)

Bottom 3: Elders Limited (ELD), Carsales.com Ltd (CAR), Monadelphous Ltd (MND)

Portfolio changes

Stocks joined or increased:

Computershare Limited (+1.00%, Entry): A global share registry and mortgage services business. Cost cutting, cyclical recovery in margin income in addition to its fast growing mortgage services division have laid a strong platform for future organic growth.

SIMS Metal Group Limited (+1.00%, Entry): A scrap metal recycler. A strong US activity outlook along with internal processing enhancements have improved the quality of future earnings.

Stocks removed or reduced:

Downer EDI Limited (-0.75%, Exit): A mining services, infrastructure and engineering company. The share price has reached our valuation target.

Nanosonics Limited (-1.25%, Exit): A manufacturer and distributor of ultrasound probe disinfectors. The company's negative revenue growth has raised doubts over its ability to significantly penetrate markets outside the US.

Market commentary

World markets fell as strong US wage inflation news caused increased volatility, with the VIX index and US bond yields both reaching recent highs. The new Fed Chairman expressed optimism about the US economy, raising prospects of more interest rate hikes. China repealed its presidential term limits, allowing the current president to stay on indefinitely. Iron ore rose 7% to US\$78 after the Chinese New Year break. Oil fell 4% to \$63 per barrel on large increases in US crude inventory. The AUD fell slightly to US78c.

The Australian market fell with global markets intra-month but ended the month slightly positive with healthcare stocks outperforming during reporting season. ASIC expanded its rate rigging case to include CBA. Macquarie Bank upgraded FY18 guidance to profit growth above 10% due to strong annuities style business performance. NAB reaffirmed its focus on technology and automation with the shedding of 6000 full time jobs. Medibank Private announced reduced complaints and customer churn rate as well as a \$20m one off bonus to long term customers. NextDC lifted guidance due to higher customer utilisation levels and record interconnection ecosystem growth. Fortescue announced a reduced dividend due to the recent discounting for lower grade iron ore.

Woodside Petroleum raised \$2.5bn to acquire ExxonMobil's stake in Scarborough gas field. Sydney Airport announced record passenger traffic for FY17 and increased its distribution guidance to 37.5cps. Seek continued its aggressive reinvestment to consolidate its number one position in all divisions. Japara suffered from the recent influenza outbreak but has expressed optimism with 1,120 new places to be delivered by FY20.

Portfolio commentary

Positives:

ALU - The share price rose as its HY18 result showed strong top and bottom line growth towards 2020 targets.

LOV - The share price rose as the company expanded into France whilst maintaining strong comparable store sales growth.

NXT - The share price rose after management upgraded FY18 guidance.

Negatives:

ELD - The share price consolidated after a period of outperformance.

CAR - The share price fell due to slower than expected growth in its overseas divisions.

MND - The share price fell with the oil price.

Current portfolio: Top ten holdings

Stock	28/02/2018
Commonwealth Bank Ltd	7.32%
Cochlear Ltd	6.23%
Seek Ltd	5.93%
National Australia Bank Ltd	5.80%
Treasury Wine Estates Ltd	5.25%
Macquarie Group Ltd	4.03%
Resmed Inc	3.96%
Fortescue Metals Group Ltd	3.74%
Altium Ltd	3.64%
QBE Insurance Group Ltd	3.28%

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 84.61% of fund
Ex 100 15.39% 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.