

July 2017 Long-Only Monthly Report

Portfolio performance and attribution analysis

	Inception p.a.	FYTD	Month
Portfolio	10.66%	-0.54%	-0.54%
Benchmark	7.40%	-0.02%	-0.02%

Top 3 and bottom 3 performing stocks

Top 3: Oz Minerals Ltd (OZL), Lovisa Holdings Ltd (LOV), Monadelphous Group Ltd (MND)

Bottom 3: Cochlear Ltd (COH), Treasury Wine Estates Ltd (TWE), Sydney Airport Holdings Ltd (SYD)

Portfolio changes

Stocks joined or increased:

Iluka Resources Limited (+1.00%, Entry): An Australian mineral sands company. The company generated strong free cash flow in the latest quarter, supported by rising mineral sands prices.

Stocks removed or reduced:

Perpetual Limited (-1.00%): A financial services company and fund manager. The company's core funds management business has experienced difficulty in attracting inflows.

Cleanaway Waste Management Ltd (-0.50%): A waste management company. The share price is approaching our valuation target.

Market commentary

World markets rose with US markets reaching all time highs as leading indicators improved in Europe and China. The US Federal Reserve was more pessimistic on the need to raise interest rates quickly leading to the euro hitting 2 year highs. Copper rose to a 2 year high following better than expected Chinese leading indicators. Iron ore rose 13% to US\$70 per tonne. Oil rose 8% to \$50 as US oil output slowed and OPEC considered cutting production further. The AUD increased 4% to just below US80c as RBA minutes suggested "neutral interest rates" were 2% higher at 3.50%.

The Australian market was flat for the month as the large caps outperformed other stocks. The miners were buoyed by commodity prices and the banks recovered as APRA's increase in capital requirements was relatively modest and the South Australian bank levy was blocked. Downer EDI acquired over 80% of Spotless shares, accelerating delisting plans. Cochlear's CEO resigned for personal reasons after finalising plans to start manufacturing in China that would expand global capacity by 50%. NextDC launched a takeover bid for the property trust owner of 3 of its data centres. Macquarie Bank provided FY18 guidance of flat profits growth at its AGM.

Fortescue reported record low cash costs of US\$12.16 per tonne and it expects to continue cutting costs next year. BHP's quarterly report showed strong iron ore volume offset by reduced copper volumes from industrial action in Escondida.

Portfolio commentary

Positives:

OZL - The company's share price rose after a solid Q2 production report which highlighted rising production numbers and free cash flow generation.

LOV - The company's share price rose in anticipation of a stronger full year report.

MND - The company announced it had won multiple contracts for mining services as well as its renewable energy business.

Negatives:

COH - The share price pulled back after recent outperformance.

TWE - The share price fell as the market awaits more news on progress in its high margin Asian business.

SYD - The share price fell after a period of outperformance.

Current portfolio: Top ten holdings

Stock	31/07/2017
Commonwealth Bank Ltd	7.07%
National Australia Bank Ltd	5.98%
Seek Ltd	5.89%
Cochlear Ltd	5.70%
Sydney Airport Holdings Ltd	5.34%
Treasury Wine Estates Ltd	4.84%
Resmed Inc	4.24%
Fortescue Metals Group Ltd	3.67%
BHP Billiton Ltd	3.49%
Rio Tinto Ltd	3.27%

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 80.94% of fund
Ex 100 17.63% 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.