

Alleron Investment Management Limited

Monthly Report

July 2016

Portfolio performance and attribution analysis

	Since Inception (Annualised)	Month
Portfolio	+10.343%	+9.692%
Benchmark	+7.347%	+6.124%

Top 3 and bottom 3 performing stocks

Top 3: Monadelphous Group Ltd (MND), Fortescue Metals Group Ltd (FMG), Nanosonics Ltd (NAN).

Bottom 3: Woodside Petroleum Ltd (WPL), Carsales.com Ltd (CAR), Medibank Private Ltd (MPL).

Portfolio changes

Stocks joined or increased:

Fortescue Metals Group Ltd (+0.50%): An Australian iron ore miner. The company's Q4 production report foreshadows a further US\$1-2 per tonne reduction in cash costs in FY17 and confirmed a US\$700m reduction in net debt in the quarter.

Xero Ltd (+0.50%): An cloud based accounting software company. The company announced data sharing partnerships with Commonwealth Bank and Wells Fargo, further strengthening the network effect of its accounting package for small business.

Stocks Removed or Reduced:

Rio Tinto Ltd (-1.00%): A large diversified Australian miner. The new CEO's strategy for the company is underwhelming.

Westpac Banking Corporation (-0.75%): An Australian bank. Earnings growth momentum is flagging.

Market commentary

Global markets rose as Japan announced a 28 trillion yen stimulus package and the Bank of England eased monetary policy to cushion the negative sentiment from the vote to leave the EU. The Turkish government survived a military coup attempt. US technology companies reported strong quarterly earnings. Most currencies rose against the USD with the A\$ rising 2 cents to US76 cents. Iron ore rose 11% to US\$60 per tonne and oil fell 10% to US\$43 per barrel due to supply concerns.

The Australian market outperformed in July, led by the big banks and miners. S&P announced that Australia and the big Australian banks were on negative watch for their credit ratings due to the narrow election victory for the Liberals. Oil Search was outbid by their joint venture partner in PNG, ExxonMobil, for InterOil, which secures a potential 2 train LNG project for the company. Woodside acquired interests in Senegalese exploration sites for US\$350m. BHP announced a US\$1.1bn provision for its share of the Samarco business obligations. Mineral Resources announced a 160% increase in estimated lithium resources, a key component for electric car batteries. Resmed's Q4 report showed 15% revenue increase and strong earnings contributions from its

recent Brightree acquisition. Treasury Wine Estates announced the divestment of its non-core US brands at approximately book value and no material impact from the Brexit vote.

Portfolio commentary

Positives:

MND - The company announced the securing of new contracts worth \$140m and the forming of a JV in the renewable energy market.

FMG - The company's Q4 production report showed cash costs decreasing to US\$14 per tonne.

NAN - The company announced record quarterly sales and the second consecutive quarter of positive operating cashflow.

Negatives:

WPL - The share price fell with the oil price.

CAR - The share price pulled back after recent outperformance.

MPL - The market is awaiting an update from the new CEO.

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	31/07/16
Resmed Inc	6.01%
Sydney Airport Holdings Ltd	6.00%
AMP Ltd	5.71%
National Australia Bank Ltd	5.69%
Cochlear Ltd	5.33%
Rio Tinto Ltd	4.75%
Treasury Wine Estates Ltd	4.27%
Western Banking Corporation	4.25%
Suncorp Group Ltd	3.98%
Seek Ltd	3.98%

Sector analysis

Industry Classification	Weight
Consumer Discretionary	7.30%
Consumer Staples	4.27%
Energy	4.00%
Financials	33.12%
Healthcare	16.88%
Industrials	18.66%
Information Technology	1.98%
Materials	11.98%
Telecommunications	0.00%
Cash	1.82%
Total	100.00%

Portfolio analysis:

Top 100	84.56% of fund
Ex 100	13.62% of fund