

Alleron Investment Management Limited

Monthly Report

February 2016

Portfolio performance and attribution analysis

	Since Inception (Annualised)	Month
Portfolio	+8.979%	-0.182%
Benchmark	+6.257%	-1.983%

Top 3 and bottom 3 performing stocks

Top 3: Cochlear Ltd (COH), The Reject Shop Ltd (TRS), Treasury Wine Estates Ltd (TWE).

Bottom 3: Fairfax Media Holdings Ltd (FXJ), Macquarie Group Ltd (MQG), Woodside Petroleum Limited (WPL).

Portfolio changes

Stocks joined or increased:

Mineral Resources Ltd (+0.25%, New): A diversified miner and mining services company. The company's resilient balance sheet and stable margins have set a solid platform for organic growth.

Monadelphous Group Ltd (+0.50%, New): A mining services and engineering company. The company's strong balance sheet and ability to win new contracts during the mining downturn has set a strong foundation for future growth.

Fortescue Metals Group Ltd (+0.75%): An iron ore miner. The company repaid \$1.1bn debt early and is targeting cash costs of US\$13/t.

Stocks Removed or Reduced:

Caltex Australia Ltd (-1.25%): An Australian supplier and seller of transport fuels. The company announced decreasing sales volumes and lower diesel demand.

BHP Billiton Ltd (-1.00%): A diversified global mining company. The company's core iron ore and oil earnings have suffered in the recent commodity price downturn.

Current portfolio Top ten holdings

Stock	29/02/16
Cochlear Ltd	6.46%
Rio Tinto Ltd	6.31%
Resmed Inc	6.08%
Sydney Airport Holdings Ltd	5.90%
Suncorp Bank Ltd	5.78%
AMP Ltd	5.77%
Westpac Banking Corporation	5.67%
National Australia Bank Ltd	5.22%
Caltex Australia Ltd	4.21%
Woodside Petroleum Ltd	4.06%

Market commentary

Global markets fell on growing concerns of Chinese economic slowdown and signs of cooling US consumer confidence. Asia underperformed as negative Japanese interest rates failed to stimulate markets. The oil price stabilised at US\$36 with the world's main producers organising a meeting to freeze production levels. Iron ore rose 20% to US\$49 as Chinese mills ramped up production after the Lunar New Year break. The AUD was steady at US71c.

The Australian market fell with banks underperforming as ANZ reported flat third quarter earnings and rising bad debts. Unemployment rose from 5.8% to 6%. Seek's strong HY result showed international profits were larger than domestic for the first time. Sydney Airport announced strong international passenger growth of 4.3% for FY15, mainly attributable to Chinese tourists. Rio Tinto lost its A credit rating after releasing FY15 results despite stopping its progressive dividend policy and reducing capital expenditure. Flight Centre announced strong international growth and major contract wins in the Australian corporate segment for HY16. Resmed acquired a clinical software applications company for \$800m to add to its global leading position in remote patient monitoring.

Sector analysis

Industry Classification	Weight
Consumer Discretionary	10.13%
Consumer Staples	5.36%
Energy	8.28%
Financials	37.16%
Healthcare	16.76%
Industrials	11.70%
Information Technology	0.83%
Materials	7.55%
Telecommunications	0.00%
Cash	2.23%
Total	100.00%

Portfolio commentary

Positives:

COH - The company announced 30% revenue growth for HY16 and up-graded FY16 profit to \$180-190m.

TRS - The company announced same store sales of 4.4% for HY16 due to a new product mix and marketing campaign.

TWE - The company's HY16 profit increased 42% mainly due to cost optimisation and strong Asian business growth.

Negatives:

FXJ - The share price fell due to concerns about the deteriorating revenues and margins of its core newspaper businesses.

MQG - The share price underperformed due to a downgrade of commodities division earnings.

WPL - The company is expecting flat production in 2016 and has written down a recent acquisition by \$865m.

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 92.41% of fund

Ex 100 5.36% of fund

Tracking error: 4.1%

Breach report: No Breaches to report

Portfolio Return Dispersion

Notable Differences: No notable differences.