



### Does Alleron's Quality Score Measure have Merit?

The Alleron investment approach combines a proprietary measure of stock quality, a valuation edge and a differentiated understanding of what is changing within a company. As such, accurate assessment of stock quality is critical. To this end, Alleron assigns a Quality Score to every top-100 stocks as well as ex-100 stocks of interest. The Quality Score is a bottom-up, qualitatively derived value intended to capture those aspects of company performance that we believe lead to low risk and high return. Quality Scores generally range between 20 and 45, and a value of less than 30 excludes a stock from purchase. Quality Score (QS) ranks stocks into three broad categories:

- Low quality – QS < 30
- Mid quality – QS in the range 30 to 35
- High quality – QS above 35

Does this measure have merit?

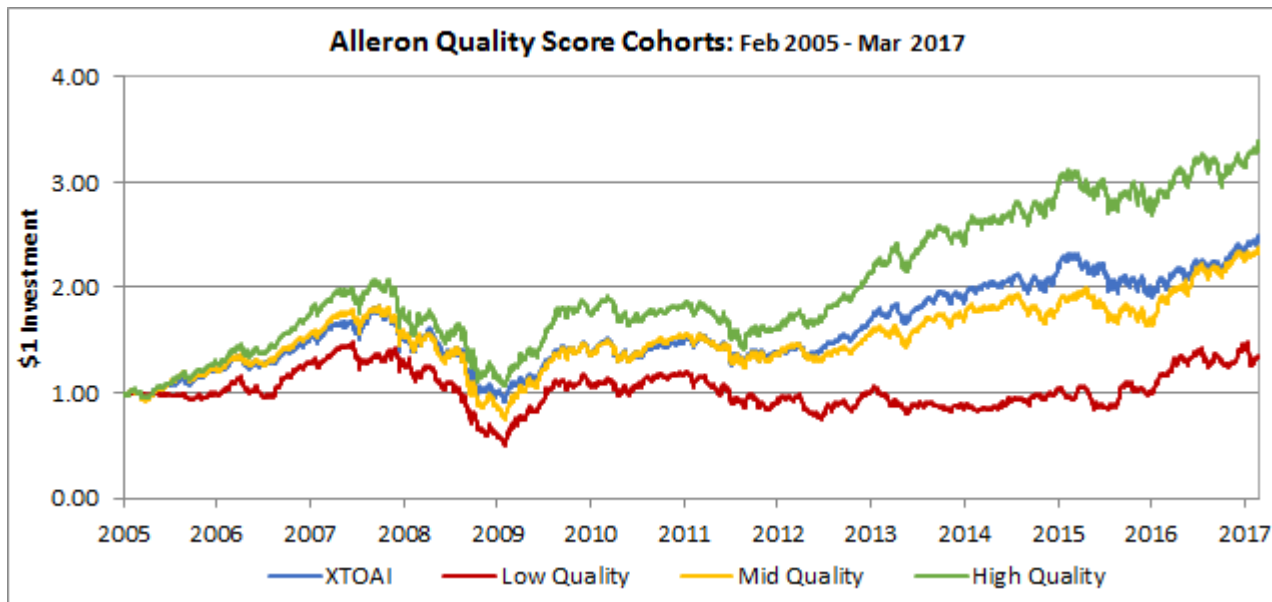


Figure 1: Alleron Quality Score Cohort Performance



To investigate, the Quality Scores for all Alleron research papers (3,500+) are collated and then three evenly-weighted month-end portfolios are separately constructed consisting only of low-quality, mid-quality or high-quality stocks. Figure 1 depicts the rolled-up value of \$1 invested in each of these three portfolios (no costs or fees). The S&P/ASX 100 accumulation index (XTOAI) is included in blue for reference.

Figure 1 demonstrates that the Alleron Quality Score has been a predictor of future performance. Across the 12 year span, the return breakup of the three QS cohorts would have been:

- Low quality: 2.54%
- Mid quality: 7.38% (similar to the ASX 100)
- High quality: 10.51%

Not surprisingly, the Alleron long-short fund tends to purchase higher quality stocks and sell lower quality stocks in an attempt to generate superior returns. In this context, the qualitative approach at the heart of Alleron stock-selection is subject to a quantitative stress-test regime to verify that our investment philosophy is grounded in objective outcomes.



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