



October 2018 Long-Only Monthly Report

Portfolio performance and attribution analysis

	Month	FYTD	Inception p.a.
Portfolio	-7.91%	-7.48%	10.91%
Benchmark	-5.72%	-4.26%	7.25%
Out/(under) performance	-2.19%	-3.22%	3.66%

Top 3 and bottom 3 performing stocks

Top 3: QBE Insurance Group Ltd (QBE), Elders Ltd (ELD), Fortescue Metals Group Ltd (FMG)
Bottom 3: Xero Ltd (XRO), Altium Ltd (ALU), Treasury Wine Estates Ltd (TWE)

Portfolio changes

Stocks joined or increased:

Fortescue Metals Group Ltd (+1.00%): An Australian iron ore miner. In addition to a on-market share buyback, the company will commence higher grade shipments in December this year.

Wesfarmers Ltd (+0.50%): An Australian conglomerate. The company is preparing the spin off of its capital intensive Coles division whilst retaining its fast growing Bunnings and Kmart brands.

Stocks removed or reduced:

Lovisa Ltd (-1.50%, Exit): A fast fashion jewellery retailer. The company's mature core Australia division is slowing in the tough retail environment.

Seek Ltd (-0.50%): An online job advertiser and platform provider. Significant capital expenditure in the company's intellectual property has resulted in three consecutive years of flat profit.

Market commentary

US markets fell sharply in October as bond yields rose to 7-year highs of 3.25% coupled with some modestly weaker outlook statements from key stocks during the reporting season. Europe fell on concerns of slowing economic growth and a complicated Brexit path. Italian bond yields rose after the EU raised concerns over the larger than expected budget deficit. The Yuan fell against the USD after weaker China Q3 GDP of 6.5%. The iron ore price increased with lower grade rising 13% as falling steel margins led to higher use of lower grades. Oil fell 11% to US\$65 due to a larger than forecast US inventory build. The AUD fell 2% to just below US71c. The Australian market fell across the board as healthcare and technology stocks continued to underperform. AGM season commenced with retailers reporting a slowdown due to tough economic conditions. The major banks announced increases in expenses due to customer remediation costs and legal fees in the lead up to their FY18 results. Fortescue announced a 12.5% increase in average realised price for the Sep quarter as well as a A\$500m share buyback. ANZ reported their FY18 result with cash profit falling from higher remediation and restructuring costs. Commonwealth Bank sold Colonial First State to Mitsubishi UFJ for \$4.13bn. Resmed announced its 1Q19 result with strong growth in flow generator sales and software as a service revenue. NextDC announced that Asia Pacific Data Centres accepted their

\$261m takeover offer. Sydney Airport announced an increase in passenger growth for Sep 18 with strong contribution from US, Japanese and Indian nationals. Lovisa announced that sales continued to trade below their targeted 3-5% growth range before the crucial period leading into Christmas. WiseTech Global announced 3 bolt on acquisitions and upgraded FY19 guidance for revenue growth of over 40% and EBITDA growth over 30%. Treasury Wine Estates reaffirmed its 25% profit growth for FY19.

Portfolio commentary

Positives:

QBE - The share price rose as US bond yields rose.

ELD - The share price recovered after a period of weakness.

FMG - The share price recovered as the lower grade iron ore price discount narrowed.

Negatives:

XRO - The share price fell following the US technology stock correction.

ALU - The share price fell as US bond yields rose from concerns of higher interest rates.

TWE - The share price consolidated after reports surfaced regarding slowing imports of Australian wine into the US.

Current portfolio: Top ten holdings

Stock	31/10/2018
Commonwealth Bank Ltd	8.06%
Cochlear Ltd	5.98%
National Australia Bank Ltd	5.96%
QBE Insurance Group Ltd	5.52%
Xero Ltd	4.78%
Resmed Inc	4.56%
Treasury Wine Estates Ltd	4.35%
Macquarie Group Ltd	4.08%
OZ Minerals Ltd	3.84%
BHP Biliton Ltd	3.74%

Portfolio Exposures

Major portfolio exposures were medical devices & services and technology stocks with less portfolio weight in major banks and retailers.

Portfolio Analysis

Top 100 85.11% of fund
Ex 100 14.89% 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.