



December 2018 Long-Only Monthly Report

Portfolio performance and attribution analysis

	Month	FYTD	Inception p.a.
Portfolio	0.05%	-8.53%	10.68%
Benchmark	0.27%	-6.31%	6.99%
Out/(under) performance	-0.22%	-2.23%	3.69%

Top 3 and bottom 3 performing stocks

Top 3: Xero Ltd (XRO), Treasury Wine Estates Ltd (TWE), Resmed Inc (RMD)

Bottom 3: QBE Insurance Group Ltd (QBE), Carsales.com Ltd (CAR), NextDC Ltd (NXT)

Portfolio changes

Stocks joined or increased:

Coles Group Ltd (+0.50%): An Australian consumer staples retailer. Positive same store sales growth has given the Company momentum in the lead up to the crucial Christmas trading period.

Treasury Wine Estates Ltd (+0.25%): An Australian based wine company. Management's cost cutting initiatives in the North American market will help achieve the Company's 25% EBITs growth and margin target.

Stocks removed or reduced:

Seek Ltd (-0.25%): An multinational job seeking platform. Heavy reinvestment in the technology platform and a slowing Chinese economy has resulted in consecutive years of flat profits.

ANZ Banking Group Ltd (-0.25%): An Australian bank. The Royal Commission into Banking Misconduct and a slowing Australian housing market have dampened the growth outlook.

Current portfolio: Top ten holdings

Stock	31/12/2018
Commonwealth Bank Ltd	8.53%
Cochlear Ltd	5.91%
National Australia Bank Ltd	5.76%
QBE Insurance Group Ltd	5.35%
Xero Ltd	5.11%
Resmed Inc	4.97%
Treasury Wine Estates Ltd	4.93%
Macquarie Group Ltd	3.82%
OZ Minerals Ltd	3.78%
CSL Ltd	3.63%

Market commentary

World markets fell in December with US markets experiencing intra-month volatility, ultimately falling 9%. The US Fed hiked interest rates by 25bps but lowered projections for future hikes. The US and China paused their trade war for 90 days to allow more time to agree to a new trade deal. Chinese economic data showed slowing industrial production and weaker retail sales. The ECB announced an imminent end to the QE stimulus program. The copper price fell 5% on concerns of a slowing global economy. The volatile oil price fell 10% to US\$45 as OPEC production cuts were not enough to offset falling demand. The AUD fell 2c to US70c. The Australian market outperformed global markets as the big iron ore miners rose, offset by a fall in the big banks. Australian 3rd quarter GDP numbers showed a sharp slowdown from 3.1% annual growth in the prior quarter to 2.8%. The OECD warned Australia to prepare the economy for a possible housing market correction. The monthly NAB business confidence survey showed a continued downward trend to below average levels. The Reserve Bank of NZ expressed a desire for the banks to hold higher levels of capital to protect the economy and depositors from bank failure. BHP announced the successful completion of its US\$5.2bn off-market buy-back. Fortescue announced the maiden shipment of 60.1% iron ore with production ramping up to 40mtpa from Dec 2020 with its new Eliwana mine.

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 86.79% of fund
Ex 100 13.21% of fund

Medibank Private announced that private health insurance premiums will increase by an average 3.30% from April 2019, the lowest increase in 18 years. Carsales.com announced the non-cash impairment of Stratton Finance Group but reaffirmed its FY19 outlook statement. Resmed acquired Propeller Health, an asthma connected health solutions company for US\$225m. QBE announced a new reinsurance program and \$130m cost saving plan to continue its turnaround to sustainable profitability.

Portfolio commentary

Positives:

XRO - The share price stabilised after a period of underperformance.

TWE - The share price recovered after some recent volatility.

RMD - The share price rose on news of the company's further shift into the connected health solutions sector.

Negatives:

QBE - The share price fell on news of slowing interest rate hikes in the US.

CAR - The share price fell on the impairment of its problematic financing unit.

NXT - The share price consolidated after a period of outperformance.

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.