

Alleron Funds Management

Manager profile



Company overview

Alleron Investment Management Limited (Alleron) is a boutique large cap growth manager. It is an Australian equities manager established in 2004, based in Sydney and majority owned and operated by its staff. Alleron had A\$1.73 billion in funds under management as at 31 December 2009.

Alleron aims to offer its clients a high conviction, concentrated and index unconstrained portfolio. Its philosophy is based around investing in companies which operate in favourable market conditions, have a sustainable competitive advantage and a capability and willingness to deliver returns to shareholders.

Investment philosophy and style

Alleron focuses on identifying investment triggers for all portfolio stocks to gain confidence that a company's underlying businesses or stock price will have the energy necessary to deliver outperformance.

Its fundamental research process involves an assessment of stocks against a set of core factors which it believes drive long-term share prices, including short and long-term earnings, industry structure and management strength. Alleron also believes these factors are not always reflected in short-term share prices and therefore subjects stocks which achieve a minimum rating from its qualitative assessment to a formal valuation to identify relative valuation gaps.

Investment process

Before Alleron addresses valuations it focuses on the quality of the overall business. This involves measuring companies against what it calls its dream company qualities which includes the following.

- The industry and its position within that industry.
- Its competitive advantage.
- Financials – specifically whether it has a sound balance sheet and strong cash flow.
- Management's willingness and ability to deliver excess returns for shareholders.

The final key element Alleron looks for is a growth trigger. Even if a stock is good quality and underpriced, it won't invest in it unless it can identify this trigger – a change or development it believes will drive the stock price. Alleron believes that to value a company accurately, sum of the parts valuation methods can be used. These valuation methods (depending on the type of business) include standard valuation metrics such as price to earnings, earnings before interest tax, depreciation and amortisation (EBITDA) multiples, dividend yield and price to net tangible assets.

Alleron measures these indicators over time and against a company's peers with the aim of achieving approximately correct valuations. Once it has a valuation it looks to identify companies with a large gap between its share price and its valuation. Alleron then allocates each stock an investment grade based on its qualitative score, assessment of relative valuation, and identification of an investment trigger. This investment grade is used to select a high conviction portfolio that overweights the best identified investment opportunities and completely excludes all stocks considered to be inferior.

Reason we selected Alleron

Alleron's main differentiating feature is that it actively looks for growth triggers which it identifies as a change or development that may drive the stock price. If it can't identify this trigger, regardless of whether the stock is good value and/or underpriced, it won't invest in it. Alleron has a proven track record of generating superior returns through an innovative investment process and we believe Alleron's unique vision enables it to identify companies with the potential for significant growth and build value for investors.



What to do next

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