

Ellerston Australian Small Companies Fund

PERFORMANCE REPORT July 2017

The Ellerston Australian Small Companies Fund employs an active research driven investment approach to identify a portfolio of 30 - 60* small company securities which aims to deliver returns superior to the S&P/ASX Small Ordinaries Accumulation Index over time.

Ellerston Australian Small Companies Fund Performance

Return %	Net [^]	Benchmark	Net Alpha	Gross Alpha
1 Month	0.59%	0.34%	0.25%	0.41%
3 Months	3.53%	0.24%	3.29%	4.12%
Rolling 12 Months	6.89%	-1.09%	7.98%	9.30%
2 Years p.a.	11.45%	9.98%	1.47%	2.69%
3 Years p.a.	9.53%	5.56%	3.97%	5.51%
Since Inception p.a.	9.73%	5.92%	3.81%	5.43%

Ellerston Australian Small Companies Fund Top Holdings

Top 5 Stock holdings as at 31 July 2017	Sector	%
Southern Cross Media Group LTD	Consumer Discretionary	3.53%
Cleanaway Waste Management LTD	Industrials	3.38%
Austal LTD	Industrials	3.10%
AUB Group LTD	Financials	3.00%
Tassal Group LTD	Consumer Staples	2.99%

[^] The net return figure is calculated after fees & expenses. The gross return is calculated before fees & expenses. Past performance is not a reliable indication of future performance

The benchmark is the ASX Small Ordinaries Accumulation Index. The Fund commenced on 10 October 2013.

*This is the typical number of stocks in the portfolio. The Information Memorandum does allow for 20 - 60 stocks.

Commentary

The Ellerston Australian Small Companies Fund was up 0.59% in July, outperforming the ASX Small Ordinaries Accumulation Index which rose 0.34%. During the month, the Small Industrials Accumulation Index fell slightly by -0.23% whilst the Small Resources rose by 2.88%.

The largest contributors to positive attribution were Oceania Healthcare, Autosports and Automotive Holdings. Oceania is a New Zealand based Retirement Village and Aged Care operator that listed in May. The listing was done at a substantial discount to the listed peers and confidence in their ability to meet FY18 prospectus forecasts has seen the share price rally 30% over the last 2 months. The company reported FY17 results marginally ahead of prospectus forecasts in July. Automotive Holdings and Autosports recovered from oversold levels following a rebound in national new vehicle sales over May and June. Despite a slowdown for dealerships in the first half of the calendar year, vehicles remain at their most affordable levels in a generation and OEMs have responded with promotional activity and by rebasing dealer bonus hurdles. At c.13x FY18 P/E with ~5% dividend yields we believe both stocks still offer long term value.

The largest detractors from relative returns were Programmed Maintenance, Speedcast, and Australis Oil & Gas. Programmed Maintenance received a takeover offer from Japanese labour hire giant Persol at a surprisingly large premium of 68%. Programmed Maintenance's underlying businesses continue to face domestic cyclical headwinds and pricing pressure, while the Skilled acquisition has failed to deliver earnings uplift and balance sheet de-gearing is progress as a slower pace than expected. Given the large takeover premium, the deal is highly likely to proceed. Speedcast announced the acquisition of UltiSat, a key government satellite service provider. The deal rationale of entry into a new high margin vertical is sound, but Speedcast's balance gearing continues to unnerve the market. Without any obvious recovery in offshore energy sector activity, organic growth remains fairly elusive despite Speedcast's cheap valuation. Australis Oil & Gas' share price has fallen over the last couple of months along with weakness in the crude oil price. As a US based oil producer, this will affect shorter term profitability. However, the US shale producers make acceptable margins at the current oil price and the business retains plenty of leverage to any upward move in the price of oil and further exploration success in its leases.

Outlook

The month of July was typically quiet as the Australian market awaits "reporting season" during the month of August. The most notable price movements were in the commodity complex which continue to drift higher. We retain a positive view on resources and have added some more exposure to this space, however, the lack of "quality" names means our exposure is not as high as we would like. We don't expect any major news out of the upcoming reporting season, but would expect to make several changes to the portfolio as more mature investments are exited and some new ideas are added to the funds.

About the Ellerston Australian Small Companies Fund

The Fund employs an active, research-driven investment approach which seeks to identify a portfolio of smaller company securities with the aim of delivering superior returns to the Benchmark over time.

The Fund will invest in companies that are believed to have the potential to deliver significant upside over the medium term and where there is a reasonable margin of safety to mitigate the downside risk. We will actively manage the positions of the Fund.

Investments will generally be made in companies that have a sound business franchise with an attractive earnings profile, that operate in growth industries and trade at a discount to valuation.

Fund Facts

Strategy Funds Under Management	\$1.00 Billion
Total number of Stocks	52
Application Price (cum)	\$1.0612
Redemption Price (cum)	\$1.0560
Inception Date	10 October 2013

Disclaimer

Returns are unaudited estimates and before fees and expenses and assume distributions have been reinvested. Past performance is not indicative of future performance. This letter does not constitute an offer of any Units in the Fund. This letter does not take into account your investment objectives, financial situation or particular needs. Before making an investment decision about the Fund, persons should read the information memorandum which can be obtained from Ellerston Capital and obtain advice from an appropriate financial adviser. This material has been prepared based on information believed to be accurate at the time of publication. Assumptions and estimates may have been made which may prove not to be accurate. Ellerston Capital undertakes no responsibility to correct any such inaccuracy. Subsequent changes in circumstances may occur at any time and may impact the accuracy of the information. Stock opinions and views expressed in this document are Ellerston Capital's and are not necessarily the views or opinions of the market. To the full extent permitted by law, none of Ellerston Capital, or any member of the Ellerston Capital Limited Group of companies makes any warranty as to the accuracy or completeness of the information in this document and disclaims all liability that may arise due to any information contained in this document being inaccurate, unreliable or incomplete.