Ellerston Australian MicroCap Fund

Investment Update – November 2017

Fund Facts

Investment Objective: To provide investors with long term capital growth via investing in a portfolio of quality Australian & New Zealand Microcap companies. The fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term.

Benchmark: S&P/ASX Small Ordinaries
Inception Date: 1st of May 2017
Fund Size: $71mil
No. of Stocks: 61
APIR Code: ECL0984AU
Management Cost: 1.20% pa
Performance Fee: 20%
Investment Style: Growth at Reasonable Prices
Portfolio Manager: **David Keelan**
Senior Analyst: **Alexandra Clarke**
Suggested investment timeframe: At least seven years

Net Performance – For the period ending 30 November 2017

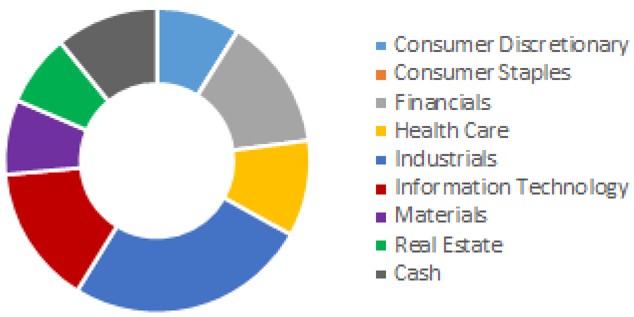
	Fund	Benchmark	Excess
1 Month	3.37%	3.91%	-0.53%
3 Months	10.22%	11.60%	-1.38%
6 Months	26.64%	17.31%	9.33%
FYTD	18.60%	15.02%	3.59%
Since Inception	31.14%	14.90%	16.24%

Past performance is not indicative of future performance.

Portfolio Characteristics

FY18	Fund	Benchmark
Price/Earnings	13.67	19.54
Dividend Yield	2.49%	3.20%
Net Debt/EBITDA	0.01x	1.20x

Sector Allocation



Commentary

The Ellerston Micro Cap fund increased 3.37% net of all fees in November verse the small ordinaries accumulation index which was up 3.91%. November did not buck October's trend with the rally in the small ordinaries continuing to be led by concept and momentum stocks. As such over the last three months the small ordinaries has been up over 11.60%.

As we discussed last month, October and November is AGM season and we continued to have key catalysts play out. Our hard work at positioning and weighting the portfolio for the AGM's has paid off with trading updates being generally positive. With our catalysts playing out largely as expected, we continue to reassess the market for new opportunities.

With Christmas now just around the corner and the year coming to an end we are using the last few weeks of the year to hit the road and catch up with some of our investments and new names. We have just arrived back from Western Australia (WA) where we tested our thesis on mining services and WA leveraged stocks. We caught up with over a dozen companies ranging from traditional WA companies that service the resource and oil & gas markets, to agriculture, technology and aquaculture players. While we are lucky enough to have numerous companies through our door on a daily basis, hitting the road and kicking the proverbial tyre in our view provides greater insight into our investment and gives us the opportunity to look at the depth of the management teams and to see for ourselves the quality of the assets.

Two stocks which we like at the moment are Megaport and Clover.

Clover (CLV) refines and sells omega-3 oils and encapsulates bioactive ingredients for things like infant formula, children's foods, supplements and medical food. CLV listed on the ASX back in 1999 and over the years have had many false starts. While we are always cautious of saying this time is different, we do believe we are closer to key catalysts particularly European regulations which mandate DHA in infant formula by 2020. Why CLV is so well placed is due to the fact that their product is tasteless which is vitally important given the products which DHA has to go into. With its leverage to the strong thematic around infant formula, food safety and health & wellbeing and trading below peers like A2 Milk, Bellamy's, BWX limited and Trilogy in FY18, we do believe CLV is well placed for both earnings growth and a multiple re-rating.

Megaport (MP1) is a global business which provides 'elastic networking' to customers inside datacentres. What this simply means is MP1 customers have the ability to increase or reduce its bandwidth requirements instantaneously on highly flexible terms across different datacentre providers and geographies. This allows customers with the opportunity to connect from one-cloud based operator like Microsoft Azure to another operator like Amazon Web Services. Consequently, MP1 basically is providing a "virtual cross connect" without the astronomical capex requirement. We recently attended a MP1 investor day where we got to see firsthand how easy it was to procure a "port" and ramp up and down users requirements. We also got to hear from MP1's CEO Vincent English about his recent trip to the US where he presented to a number of datacentre operators including Equinix, Digital Realty, Informart and Coresite to name a few. The feedback was highly positive and we can see how MP1 will grow its network from 179 data centres across 37 countries currently. Consequently, with its first mover advantage, highly scalable business model, very high incremental gross margin and relatively low capex rollout, we believe MP1 is exceptionally well placed to own this space globally.

Contact

Andrew Seddon	Simon Glazier
aseddon@ellerstoncapital.com	sglazier@ellerstoncapital.com
0417 249 577	0410 452 949