

# Ellerston Australian Small Companies Fund (SCF)

Performance Report | August 18

## PERFORMANCE SUMMARY

Net %	1 Month	3 Months	1 Yr p.a.	3 Yr p.a.	Strategy Since Inception p.a.
SCF	1.50	4.54	23.06	16.54	11.99
Benchmark	2.49	2.53	22.32	16.90	9.50

Source: Ellerston Capital Limited

## MARKET COMMENTARY

The Ellerston Small Companies Fund rose 1.50% in August, underperforming the ASX Small Ordinaries Accumulation Index which rose 2.49%. During the month, the Small Industrials Accumulation Index rose 4.38% whilst the Small Resources Accumulation Index fell 4.10%.

The largest contributors to positive attribution were Infomedia (IFM), Baby Bunting (BBN) and Sims Metal Management (SGM). Infomedia reported results slightly ahead of expectations that resulted in a substantial share price rise, as has been typical of stocks in the tech sector during the recently finished reporting season. After a period of reinvestment and refocus under new management, the business is now starting to show some operating leverage, which bodes well for the outlook over the next few years. Baby Bunting rallied following stronger than expected guidance for FY19. Over the last few months, several competitors fell into administration due to challenging trading conditions, leading to clearance activity and gross margin pressure. However, with these headwinds now removed, the company is looking forward to improved market share and earnings, which has driven a re-rating in the stock. Sims Metal Management fell on concerns around global trade and tariffs. We do not own the business.

The largest detractors from relative returns were Australis Oil & Gas (ATS), RCR Tomlinson (RCR) and GTN Ltd (GTN). Australia Oil & Gas fell during the month as commodity prices came under pressure due to concerns around global growth with potential trade wars and slumping emerging market currencies. RCR Tomlinson fell substantially after announcing a substantial cost over-run at the construction of a solar project in Queensland. This has resulted in the company having to undertake a capital raising at a substantial discount to the prevailing share price. We had only recently commenced establishing a position in the business after previously exiting in 2017 after a successful 2 year investment. We will now build a substantially larger position post the recapitalisation as this has generally been the best time to invest in contracting businesses. GTN reported a result marginally below market expectations, but probably not surprising considering the distraction the loss making US business had on management focus over the last year. With that now out of the way, we look to the management team to drive higher pricing out of the Canadian market and continue the strong growth profile that is available in the Brazilian market. The business is a strong cash generator and is back to being attractively priced again and we will use the current weakness to build a larger position.

## OUTLOOK

The recently finished reporting period generally met investor expectations for FY18 results. However, the outlook for FY19 growth has been reduced from overly optimistic levels. The market still remains at an elevated level in terms of valuations so we remain cautious on the potential downside, particularly as the macroeconomic and geopolitical risks remain high. This has seen us exit a number of positions that had become fully valued and cash remains at a level higher than we would normally expect to carry. We expect that opportunities will present themselves over the coming months, which will result in us heading back towards a more "fully invested" position.

### Investment Objective

The Investment objective for the Ellerston Australian Small Companies Fund is to outperform the S&P/ASX Small Ordinaries Accumulation Index (Benchmark).

### Investment Strategy

The Fund's active, research-driven approach seeks to identify a concentrated portfolio of smaller companies with sound businesses, attractive earnings profiles and supportive industries, which are trading at a discount.

### Key Information

<b>Strategy Inception Date</b>	10 October 2013
<b>Fund Net Asset Value</b>	\$1.0997
<b>Liquidity</b>	Daily
<b>Application Price</b>	\$1.1024
<b>Redemption Price</b>	\$1.0970
<b>No Stocks</b>	58
<b>Management Fee</b>	1.25%
<b>Buy/Sell Spread</b>	0.25%
<b>Performance Fee</b>	20.5%
<b>Firm AUM</b>	Over \$5 Billion

## ELLERSTON AUSTRALIAN SMALL COMPANIES FUND PERFORMANCE

Returns (%)	Net <sup>^</sup>	Gross	Benchmark	Net alpha	Gross alpha
1 Month	1.50	1.57	2.49	-0.99	-0.92
3 Months	4.54	4.74	2.53	2.01	2.21
Rolling 12 Months	23.06	23.94	22.32	0.74	1.62
2 Years p.a.	12.61	13.66	12.35	0.26	1.31
3 Years p.a.	16.54	17.54	16.90	-0.36	0.64
Since Inception p.a.	11.99	13.42	9.50	2.49	3.92

Source: Ellerston Capital Limited

## ELLERSTON AUSTRALIAN SMALL COMPANIES FUND TOP HOLDINGS

Top 5 holdings as at 31 August 2018	Sector	%
Austal Limited	Industrials	3.49
Tassal Group Limited	Consumer Staples	3.43
Australis Oil & Gas Ltd	Energy	3.35
Cleanaway Waste Management Ltd	Industrials	3.33
Southern Cross Media Group Limited	Consumer Discretionary	3.24

Source: Ellerston Capital Limited

<sup>^</sup> 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.

Past performance is not a reliable indicator of future performance.

## 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

<b>STRATEGY FUNDS UNDER MANAGEMENT</b>	Over \$700 Million
<b>FUNDS UNDER MANAGEMENT – SCF UNIT TRUST</b>	\$11 Million
<b>APPLICATION PRICE</b>	\$1.1024
<b>REDEMPTION PRICE</b>	\$1.0970
<b>NUMBER OF STOCKS</b>	58
<b>INCEPTION DATE</b>	10 October 2013

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