

Ellerston Australian Small Companies Fund (SCF)

Performance Report | October 18

PERFORMANCE SUMMARY

Net %	1 Month	3 Months	1 Yr p.a.	3 Yr p.a.	5 Yr p.a.	Strategy Since Inception p.a.
SCF	-8.65	-6.21	8.63	10.23	9.37	9.85
Benchmark	-9.60	-7.67	2.59	10.54	6.00	6.95

Source: Ellerston Capital Limited

MARKET COMMENTARY

The Ellerston Small Companies Fund fell 8.65% (net) in October, outperforming the ASX Small Ordinaries Accumulation Index which fell 9.60%. During the month, the Small Industrials Accumulation Index fell 10.62% whilst the Small Resources Accumulation Index fell 6.11%.

The largest contributors to positive attribution were Worley Parsons (WOR), Afterpay (APT) and Cooper Energy (COE). Worley Parsons undertook a large capital raising for the acquisition of Jacobs Engineering. The stock has since traded below the issue price due to doubts around the timing of the acquisition and participation by their largest shareholder Dar Group. The portfolio does not own the stock. Afterpay fell during the month on concerns that the "Buy now, pay later" firms may be subject to regulation after a proposed senate inquiry into the sector. The portfolio does not own the stock. Cooper Energy rose marginally during the month. The quarterly report demonstrated that the Sole Gas Project is being built on time and budget with first gas production from July next year. This should result in a further re-rating of the share price due to the significant cash flow generation from the project. Also, the prospects for greater gas production from the offshore Otway are possible with an active exploration and development program over the next couple of years.

The largest detractors from relative returns were Berkeley Energia (BKY), Washington H Soul Pattison (SOL) and Syrah Resources (SYR). Berkeley Energia halved during the month on reports that development approval for their prospective uranium mine in Spain would be rejected by the Government body responsible for licensing. This rumour was later denied by the Government, with no decision yet to be made. Berkeley and Paladin are two small uranium plays in the portfolio, based on a positive outlook for the uranium price due to cut backs in production and growth in nuclear reactor builds and restarts. The company is now trading at a 30% discount to cash backing. Washington H Soul Pattison rose 11% for the month in a down market and was a negative contributor to performance as we do not own it due to their exposure to Thermal Coal mining. Syrah Resources fell 30% during the month after a fire at their newly built Balama plant halted production resulting in a loss of production for a month. Share price performance has been disappointing due to slow ramp up in production. They are still yet to turn cash flow positive, but are expected to do so in early CY2019. Upside potential to valuation remains significant and we have added to our position during this period of weakness as it is one of the few world class assets in the small cap resources universe.

OUTLOOK

Although we have remained cautious on the outlook for the market for most of 2018, the 10% fall in the market in a short space of time was still somewhat of a surprise. This tends to indicate the gap between current share prices and the "perceived" level of valuation support. Although we used the market weakness to reduce our cash levels during the month in a bid to stay fully invested, we would not be surprised to see further falls in the market over the next year. Despite what we perceived to be our cautious positioning, the portfolio fell more than expected as the sell-off was quite broad-based and the level of "alpha" achieved was disappointing. Consequently, we will look to make a small number of changes to better position the portfolio for any further volatility.

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

Strategy Inception Date	10 October 2013
Fund Net Asset Value	\$1.0161
Liquidity	Daily
Application Price	\$1.0186
Redemption Price	\$1.0136
No Stocks	58
Management Fee	1.25%
Buy/Sell Spread	0.25%
Performance Fee	20.5%
Firm AUM	Over \$5 Billion

ELLERSTON AUSTRALIAN SMALL COMPANIES FUND PERFORMANCE

Returns (%)	Net [^]	Gross	Benchmark	Net alpha	Gross alpha
1 Month	-8.65	-8.43	-9.60	0.95	1.17
3 Months	-6.21	-5.87	-7.67	1.46	1.80
Rolling 12 Months	8.63	9.59	2.59	6.04	7.00
2 Years p.a.	9.27	10.25	8.42	0.85	1.83
3 Years p.a.	10.23	11.11	10.54	-0.31	0.57
5 Years p.a.	9.37	10.80	6.00	3.37	4.80
Since Inception p.a.	9.85	11.27	6.95	2.90	4.32

Source: Ellerston Capital Limited

ELLERSTON AUSTRALIAN SMALL COMPANIES FUND TOP HOLDINGS

Top 5 holdings as at 31 August 2018	Sector	%
GTN Limited	Communication Services	3.93
Austal Limited	Industrials	3.55
Cooper Energy Limited	Energy	3.49
Tassal Group Limited	Consumer Staples	3.44
OFX Group Limited	Financials	3.40

Source: Ellerston Capital Limited

[^] 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

STRATEGY FUNDS UNDER MANAGEMENT	Over \$700 Million
FUNDS UNDER MANAGEMENT – SCF UNIT TRUST	\$10 Million
APPLICATION PRICE	\$1.0186
REDEMPTION PRICE	\$1.0136
NUMBER OF STOCKS	58
INCEPTION DATE	10 October 2013

For further information, please contact:

INSTITUTIONAL CONTACT

Melinda Carter
 +61 3 9002 2041
mcarter@ellerstoncapital.com

RETAIL CONTACT

Andrew Seddon
 +61 417 249 577
aseddon@ellerstoncapital.com

Simon Glazier
 +61 2 9021 7790
sglazier@ellerstoncapital.com

SYDNEY OFFICE

Level 11, 179 Elizabeth Street,
 Sydney NSW 2000

MELBOURNE OFFICE

Level 4, 75-77 Flinders Lane,
 Melbourne VIC, 3000

Ph: +61 2 9021 7797
 E: info@ellerstoncapital.com

DISCLAIMER

Returns are unaudited estimates and before fees and expenses and assume distributions have been reinvested. Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000 is the trustee of the Ellerston Australian Small Companies Fund. 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.