

# Ellerston Australian Small Companies Fund (SCF)

Performance Report | November 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	-3.84	-11.15	2.60	9.35	8.99	8.86
Benchmark	-0.37	-10.25	-1.63	10.40	7.07	6.76

Source: Ellerston Capital Limited

## MARKET COMMENTARY

The Ellerston Small Companies Fund fell 3.84% Net in November, underperforming the ASX Small Ordinaries Accumulation Index which fell 0.37%. During the month, the Small Industrials Accumulation Index rose 0.81% whilst the Small Resources Accumulation Index fell 4.07%.

The largest contributors to positive attribution were G8 Education (GEM), Worley Parsons (WOR) and Beach Energy (BPT). G8 rallied after management re-affirmed CY18 guidance and outlined their plans to return to occupancy growth at the 2018 Investor Day. After undertaking the acquisition of Jacobs Engineering in October, Worley Parsons share price remained weak in November due to the continued fall of the oil price. The Portfolio does not hold Worley. Like most oil sector stocks, Beach Energy fell in November on the back of the fall in the oil price. The Portfolio does not hold Beach.

The largest detractors from relative returns were RCR Tomlinson (RCR), Australis Oil & Gas (ATS) and OFX Group (OFX). RCR Tomlinson went into a trading halt in early November and then into receivership shortly thereafter. This came after raising \$115m in August 2018 from investors due to cost overruns (totalling \$57m) on two specific projects. At the time we were assured that an audit and review had confirmed the issues were confined to these two projects. Guidance was then reconfirmed at the AGM on the 30th of October. The Chairman and CEO have never explained how the company burnt through \$200m of liquidity in just over 2 months. Australis Oil & Gas was impacted by the fall in the oil price during the month. The drilling program in the TMS has recently commenced with results on costs and flows expected in the first quarter next year. This will then allow the company to commence a program of looking at bringing in a partner or divesting the asset. OFX Group fell during the quarter after announcing a first half result that did not meet market expectations. Management have rationalised the result as further investment to grow the top line, which should result in positive operating leverage being exhibited in the full year result. We retain a positive view on the investment and expect a re-rating once the company demonstrates that it can continue to deliver operating leverage.

## OUTLOOK

Volatility has certainly returned to markets and we expect this to continue, although the pace of decline of markets should abate as valuations start to provide a base, barring a full financial crisis. The movements of the last 2 months have led to us to question the inflation trade thesis that we maintained for most of the year, with deflation now looking the more likely outcome based on the movements in the bond and commodity markets. This makes it harder to pick the likely winners of the next few years as deflation can lead to variable outcomes. The domestic market is not yet "cheap" or "fair value", although a number of lower quality/lower

### 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	\$0.9771
Liquidity	Daily
Application Price	\$0.9795
Redemption Price	\$0.9747
No Stocks	58
Management Fee	1.25%
Buy/Sell Spread	0.25%
Performance Fee	20.5%
Firm AUM	Over \$5 Billion

growth stocks are trading at more attractive levels. We are yet to see those stand out companies you want to own longer term get to attractive valuations. We remain confident that the opportunities to generate “alpha” are increasing, although this never manifests itself in a straight line, as often the most attractive opportunities are generally the most disliked by the market and it takes a while to work through the liquidity issues at times of market displacement.

## ELLERSTON AUSTRALIAN SMALL COMPANIES FUND PERFORMANCE

Returns (%)	Net <sup>^</sup>	Gross	Benchmark	Net alpha	Gross alpha
1 Month	-3.84	-3.95	-0.37	-3.47	-3.58
3 Months	-11.15	-10.99	-10.25	-0.90	-0.74
Rolling 12 Months	2.60	3.33	-1.63	4.23	4.96
2 Years p.a.	7.90	8.79	8.87	-0.97	-0.08
3 Years p.a.	9.35	10.27	10.40	-1.05	-0.13
5 Years p.a.	8.99	10.33	7.07	1.94	3.26
Since Inception p.a.	8.86	10.22	6.76	2.10	3.46

Source: Ellerston Capital Limited

## ELLERSTON AUSTRALIAN SMALL COMPANIES FUND TOP HOLDINGS

Top 5 holdings as at 31 August 2018	Sector	%
Cleanaway Waste Management Limited	Industrials	4.06
GTN Limited	Communication Services	4.04
Austal Limited	Industrials	3.83
Tassal Group Limited	Consumer Staples	3.72
Ausdrill Limited	Materials	3.18

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>	\$10 Million
<b>APPLICATION PRICE</b>	\$0.9795
<b>REDEMPTION PRICE</b>	\$0.9747
<b>NUMBER OF STOCKS</b>	58
<b>INCEPTION DATE</b>	10 October 2013

**For further information, please contact:**

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### **DISCLAIMER**

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