

# Ellerston Australian Small Companies Fund (SCF)

Performance Report | February 19

## 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	6.63	5.76	1.73	13.15	9.46	9.56
Benchmark	6.78	8.01	3.48	13.44	7.74	7.96

Source: Ellerston Capital Limited

## MARKET COMMENTARY

The Ellerston Small Companies Fund rose 6.63% in February, underperforming the ASX Small Ordinaries Accumulation Index which rose 6.78%. During the month, the Small Industrials Accumulation Index rose 7.06% whilst the Small Resources Accumulation Index rose 5.80%.

The largest contributors to positive attribution were Ausdrill (ASL), GTN Ltd (GTN) and Cleanaway Waste Management (CWY). Ausdrill recovered significantly in February, completing the retracement of the December quarter sell off. The half year result was in-line with expectations. The company has provided some preliminary guidance for FY20 which will see an uplift in earnings as new projects commence and the financial health of their customers continues to improve with the recovery of the gold price over the last 6 months. GTN Ltd rallied significantly post their half year results which were in line with expectations. The market has subsequently gained a greater level of comfort that the impacts that led to the pre-Christmas downgrade are not permanent in nature and that earnings will improve substantially in FY20 across Australia, Canada and Brazil. The company remains attractively priced on a low PE ratio, good dividend yield and a 10% buy back in place which will commence later this month. Cleanaway produced another solid result and continues to impress on management execution of growth plans and improving financials. The business is supported by a GDP+ growth rate in waste and increasing awareness by government and community about the need to increase recycling and investigate alternatives to landfill disposal. The integration of the Tox Free Solutions acquisition remains on track to achieve the stated \$35m of synergies.

The largest detractors from relative returns were Australis Oil & Gas (ATS), Altium (ALU) and SmartGroup (SIQ). Australis Oil & Gas is having a mixed time with its drilling program in the USA. Two successful wells have been offset by two wells that have encountered down-hole stability issues. Fortunately, the second of these came a week after successfully raising money to extend the drilling program, which will allow the company time to execute a solution to the issues. The stock sold off 17% during the month post the second well failure. Success rates will have to improve from what they have been to prove the financial viability of the TMS play and management believe they have a drilling mud solution to reduce the likelihood of future well failures. Altium rallied after reporting 1H19 results that were ahead of market expectations. We do not own the stock. SmartGroup reported results that were below market expectations resulting in a 17% fall in the share price. This is one of the first times since listing that the company has failed to meet expectations resulting in a PE de-rating of the business. Weak results by other companies in the sector didn't help sentiment. The business continues to grow and has a balance sheet that is capable of making further acquisitions in the sector. The share price rating has reduced to an attractive level and we have built a holding in the company over the last few months.

### 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	\$1.0162
Liquidity	Daily
Application Price	\$1.0187
Redemption Price	\$1.0137
No Stocks	57
Management Fee	1.25%
Buy/Sell Spread	0.25%
Performance Fee	20.5%
Firm AUM	Over \$5 Billion

## OUTLOOK

The rally of the last 2 months has wiped out the sell-off of the December quarter of last year. However, the recent completed reporting season has continued to result in downgrades to earnings of industrial companies in both the small and large cap universe. Consequently we remain cautious on the expected return for the market as the average PE ratio has risen and we have taken profits on a number of our holdings. Typically you would see this type of re-rating coming out of a downturn as expectations for future growth turn upwards. However, most indicators point to a slowing domestic and global environment. We may be seeing the formation of a range trading market where the downside is capped by central bank actions and commentary, whilst upside is limited by the realities of slower economic growth and valuations. Within this, we may see swings of 10-20% either way and may have to be more nimble about trading around our holdings to generate alpha.

## ELLERSTON AUSTRALIAN SMALL COMPANIES FUND PERFORMANCE

Returns (%)	Net <sup>^</sup>	Gross	Benchmark	Net alpha	Gross alpha
1 Month	6.63	6.69	6.78	-0.15	-0.09
3 Months	5.76	5.95	8.01	-2.25	-2.06
Rolling 12 Months	1.73	2.44	3.48	-1.75	-1.04
2 Years p.a.	10.28	11.38	11.81	-1.53	-0.43
3 Years p.a.	13.15	14.13	13.44	-0.29	0.69
5 Years p.a.	9.46	10.86	7.74	1.72	3.12
Since Inception p.a.	9.56	10.90	7.96	1.60	2.94

Source: Ellerston Capital Limited

## ELLERSTON AUSTRALIAN SMALL COMPANIES FUND TOP HOLDINGS

Top 5 holdings as at 28 February 2019	Sector	%
Cleanaway Waste Management Limited	Industrials	4.39
Tassal Group Limited	Consumer Staples	4.18
Ausdrill Limited	Materials	4.13
Cooper Energy Limited	Energy	3.96
Viva Energy Group Limited	Energy	3.68

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>	\$1.0187
<b>REDEMPTION PRICE</b>	\$1.0137
<b>NUMBER OF STOCKS</b>	*57
<b>INCEPTION DATE</b>	10 October 2013

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