

Ellerston Australian Small Companies Fund (SCF)

Performance Report | April 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	1.88	5.99	1.10	10.57	9.58	9.14
Benchmark	4.11	11.04	7.18	11.79	9.11	8.47

Source: Ellerston Capital Limited

MARKET COMMENTARY

The Ellerston Small Companies Fund rose 1.88% in April, underperforming the ASX Small Ordinaries Accumulation Index which rose 4.11%. During the month, the Small Industrials Accumulation Index rose 6.30% whilst the Small Resources Accumulation Index fell 4.16%.

The largest contributors to positive attribution were Automotive Holdings Group (AHG), Austal Ltd (ASB), and Australis Oil & Gas Ltd (ATS). Automotive Holdings rose for the month, driven by the rise in their bidder, AP Eagers. The logic of bringing the two companies together means that the likelihood of the deal progressing is high. Consequently, the synergies over time should benefit both shareholders, although to a greater extent AP Eagers existing shareholders due to the ratio of the share deal being significantly different to the profit contribution of AHG shareholders. Austal rose on the back of a broker initiation report and increasing confidence by the market around the achievability of target margins in both the USA and Asia/Pacific businesses. The business has now undergone a deserved re-rating as management have delivered in terms of profitability out of the USA and increased order book in the commercial ferry market. Potential risks to the outlook are the ramp up of new operations in the Philippines and Vietnam and whether or not Austal are successful in winning the FFG(X) project for the US Navy. Winning the later would allow a successful transition from LCS when the current program is completed. Australis Oil & Gas rallied during the month as the successful wells drilled to date continue to produce oil at above the type curve. Some US majors are also showing increased interest in the Tuscaloosa and Austin Chalk plays in which Australis is located. Success in the next few wells is now imperative to prove the viability of the play as results to date have been mixed.

The largest detractors from relative returns were McMahon Holdings (MAH), Afterpay Touch Group (APT), and West African Resources (WAF). McMahon Holdings fell during the month on no new news. The share price fall may be explained by some selling from a transitional manager and a lack of buying following concerns around a remuneration structure that was poorly explained at the first half result back in February. Afterpay rose during the month and is not held in the portfolio. West African Resources fell for the month in line with some weakness in the gold price.

OUTLOOK

It was another strong month for the Small Ordinaries, with the index now up over 17% for the calendar year and in positive territory for the financial year. Our view on the market remains unchanged from recent commentary. We are finding an increased number of opportunities in the materials and domestic cyclical space where share prices have suffered the most damage over the last year and are increasing our exposure where valuations merit new inclusions to the portfolio.

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	\$1.0101
Liquidity	Daily
Application Price	\$1.0126
Redemption Price	\$1.0076
No Stocks	58
Management Fee	1.25% p.a.
Buy/Sell Spread	0.25%
Performance Fee	20.5% p.a.
Firm AUM	Over \$5 Billion

ELLERSTON AUSTRALIAN SMALL COMPANIES FUND PERFORMANCE

Returns (%)	Net [^]	Gross	Benchmark	Net alpha	Gross alpha
1 Month	1.88	1.94	4.11	-2.23	-2.17
3 Months	5.99	6.19	11.04	-5.05	-4.85
Rolling 12 Months	1.10	1.85	7.18	-6.08	-5.33
2 Years p.a.	8.94	10.02	12.67	-3.73	-2.65
3 Years p.a.	10.57	11.53	11.79	-1.22	-0.26
5 Years p.a.	9.58	10.92	9.11	0.47	1.81
Since Inception p.a.	9.14	10.46	8.47	0.67	1.99

Source: Ellerston Capital Limited

ELLERSTON AUSTRALIAN SMALL COMPANIES FUND TOP HOLDINGS

Top 5 holdings as at 30 April 2019	Sector	%
Cleanaway Waste Management Limited	Industrials	4.30
Cooper Energy Limited	Energy	4.13
Ausdrill Limited	Materials	3.66
Tassal Group Limited	Consumer Staples	3.41
Austral Limited	Industrials	3.15

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	\$1.0126
REDEMPTION PRICE	\$1.0076
NUMBER OF STOCKS	*58
INCEPTION DATE	10 October 2013

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