

# Ellerston Australian Small Companies Fund (SCF)

Performance Report | May 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	-0.99	-1.58	-3.32	8.97	8.80	8.81
Benchmark	-1.25	2.69	2.06	9.84	8.82	8.10

Source: Ellerston Capital Limited

## MARKET COMMENTARY

The Ellerston Small Companies Fund fell 0.99% in May, outperforming the ASX Small Ordinaries Accumulation Index which fell 1.25%. During the month, the Small Industrials Accumulation Index fell 1.32% whilst the Small Resources Accumulation Index fell 0.95%.

The largest contributors to positive attribution were AP Eagers (APE), Syrah Resources (SYR) and QMS Media (QMS). AP Eagers continued to rise following the merger proposal for Automotive Holdings Group, made in April. Notably, the independent expert's report concluded that APE's offer for AHG was reasonable and the AHG board moved to unanimously recommend the offer. Syrah Resources rose around AGM commentary concerning production being in line to meet expectations for the quarter. The share price has seen substantial intra-month moves up and down this year on outlook commentaries and this will likely continue for a few months more until the business turns cash flow positive and production becomes more consistent. QMS Media held their AGM during the month and reconfirmed EBITDA guidance for 2019. The Mediaworks NZ deal and the sale of a property will conclude soon, which will see a reduction in debt which has been higher than what the market is comfortable with. Delivering on guidance and deleveraging the balance sheet should see the business re-rate to where it has traded previously over the next year.

The largest detractors from relative returns were Reliance Worldwide Corp (RWC), Lynas Corp (LYC) and Nufarm (NUF). Reliance Worldwide Corp fell following a trading update in which the company downgraded EBITDA guidance by approximately 7%. The company cited several contributing factors including weather, US retailer destocking and the Australian residential market slowdown. The market had still been trying to digest a 10% sell down by the Munz family that occurred in February, so the news was received poorly by the market and the fall in the stock price far outweighed the downgrade. Lynas Corp rallied following news that China may restrict the export of rare earths. We do not own the stock. Nufarm fell as several court cases in the US ruled against Monsanto and its production and sale of Glyphosate. Although Nufarm does not manufacture Glyphosate, it does purchase the product and uses it in formulations that are then on sold. Regulators have consistently verified the safety of Glyphosate when used as guided. The potential impact on Nufarm is currently unknown as there have been no court proceedings outside those against Monsanto and therefore we currently intend to maintain the position.

## OUTLOOK

After the recovery in the March quarter, the Small Cap market has been in a sideways trading pattern. Macro factors such as Brexit, Trump, Trade Wars and elections continue to buffer the market resulting in no clear direction for the market. As we have discussed previously, this may be the circumstances we are stuck in for a while. The surprise re-election of the Coalition provided a positive boost to domestic equity markets, but there are signs that this boost is fading already. Volatility will create opportunities and we will look to add new positions and add to existing in times of share price weakness.

### 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	\$1.0026
Redemption Price	\$0.9976
No Stocks	55
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 <sup>^</sup>	Gross	Benchmark	Net alpha	Gross alpha
1 Month	-0.99	-0.93	-1.25	0.26	0.32
3 Months	-1.58	-1.40	2.69	-4.27	-4.09
Rolling 12 Months	-3.32	-2.60	2.06	-5.38	-4.66
2 Years p.a.	8.07	8.90	13.13	-5.06	-4.23
3 Years p.a.	8.97	9.91	9.84	-0.87	0.07
5 Years p.a.	8.80	10.03	8.82	-0.02	1.21
Since Inception p.a.	8.81	10.12	8.10	0.71	2.02

Source: Ellerston Capital Limited

## ELLERSTON AUSTRALIAN SMALL COMPANIES FUND TOP HOLDINGS

Top 5 holdings as at 31 May 2019	Sector	%
Cleanaway Waste Management Limited	Industrials	4.31
Cooper Energy Limited	Energy	4.13
Ausdrill Limited	Materials	3.30
Tassal Group Limited	Consumer Staples	3.16
Ardent Leisure Limited	Consumer Discretionary	2.93

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.

## 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>	\$1.0026
<b>REDEMPTION PRICE</b>	\$0.9976
<b>NUMBER OF STOCKS</b>	*58
<b>INCEPTION DATE</b>	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.

## SIGNIFICANT EVENT NOTICE

### ELLERSTON CORPORATE UPDATE

In other Ellerston news, Chris Hall has been appointed to the position of Chief Investment Officer of Ellerston Capital Limited, reporting to the Executive Chairman, Ashok Jacob. Chris joined Ellerston in September 2018 as Senior Investment Officer. Over his 28 years in investment management, Chris has built a wealth of experience in risk oversight, investment process improvement and business expansion – including Asia – alongside producing an impressive track record of investing in equity markets.

Prior to joining Ellerston, Chris was Managing Director and Senior Portfolio Manager and Co-Head of Research for BlackRock’s Alpha strategies Group in Hong Kong, where he was the lead Co-PM on the BlackRock Asia Pacific Equity Income fund, BGF Pacific Equity fund and BGF Asean Leaders fund, as well as being a member of the Management Committee overseeing the Asian Fundamental Equities Team with A\$35 billion in assets.

Ashok Jacob remains the Executive Chairman of Ellerston Capital Limited and continues to provide guidance and investment insight to the Ellerston team.

## CONTACT US

Should investors have any questions or queries regarding the fund, please contact our **Investor Relations team** on **02 9021 7797** or **info@ellerstoncapital.com** or visit us at **<https://ellerstoncapital.com/>**

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