

Ellerston Australian Micro Cap Fund

Performance Report | May 19

FUND PERFORMANCE

	1 Month	3 Months	6 Months	1 Year	2 Year (p.a.)	Since Inception (p.a.)
NET	3.00%	8.98%	15.18%	3.42%	17.12%	18.35%
BENCHMARK*	-1.25%	2.69%	10.91%	2.06%	13.13%	11.46%
EXCESS	4.26%	6.29%	4.27%	1.35%	3.99%	6.89%

*S&P/ASX Small Ordinaries Accumulation Index

COMMENTARY

The old adage of sell in May and go away lived up to its name with the Small Ordinaries Accumulation Index down 1.25%. However, what this data doesn't demonstrate is the great disbursement between smalls and large with the S&P/ASX100 outperforming the smalls by 3.37%. It was the surprise Coalition win that contributed to the outperformance of large caps stocks. However, the Ellerston Micro Cap Fund was able to buck the trend of the index finishing the month up 3.00% absolute, outperforming the index by 4.26%. Our exposure to technology and financial names as well as our cash weighting helped support the outperformance.

In May we had the opportunity to get back on the road and catch up with a number of current and potential new names. By hitting the pavement and wearing down the shoe leather we get to reassess our investment thesis' and cross check a number of thematics. While the market is currently rewarding high growth names, valuations are becoming further extended. Consequently, we remain conscious of not holding too much risk, however, we do not want to sell too early under this scenario. As such we are constantly retesting our investment thesis and the risk/reward on each investment. The Small Ordinaries Accumulation Index is currently trading on a one-year forward PE of 17.0x which is at a 7% premium to its five year average. This compares to our portfolio which is trading on a PE of 14.5x which is a 15% discount to market.

In May post the Federal election we saw a rotation into more cyclical names as the market tried to position for the surprise Coalition government. We also participated in this rotation, cautiously increasing our exposure to retail names. We previously had limited exposure to retail, believing the consumer was weakening and the leverage on a majority of retailers' balance sheets were too high. However, post the election and with the expectation of a RBA rate cut (which occurred in June), a better tax environment under a Coalition government and consumer confidence improving on the back of stabilised house prices, we entered into a new retail position and added to one of our established retail holdings.

Given the fact that May marked the two year anniversary for the Micro Cap Fund we thought it would be good to highlight a stock that we have owned since inception. Centuria Capital (CNI AU) has been a slow and steady investment in the fund since the fund's beginning. The misconception in micro cap land is that in order to receive large returns you need to take on excessive amounts of risk (biotech, mining exploration etc), this is untrue. What we are looking for in an investment is the highest return for the lowest amount of risk. As such it is very powerful for an investor to have a business grow its earnings consistently and get rewarded from the market via multiple expansion. This is exactly what we have seen with our investment in CNI. CNI is a property fund manager of listed and unlisted funds, with a long and established track record. The management and board of CNI have been making very sensible decisions for a long period of time and are now this is starting to be seen by the broader market. CNI is a success story in the micro cap universe and pleasingly is making its way into the small cap universe in a sustainable manner.

Investment Objective

To provide investors with long term capital growth via investing in a portfolio of quality Australian & New Zealand Micro Cap companies. The fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term.

Investment Strategy

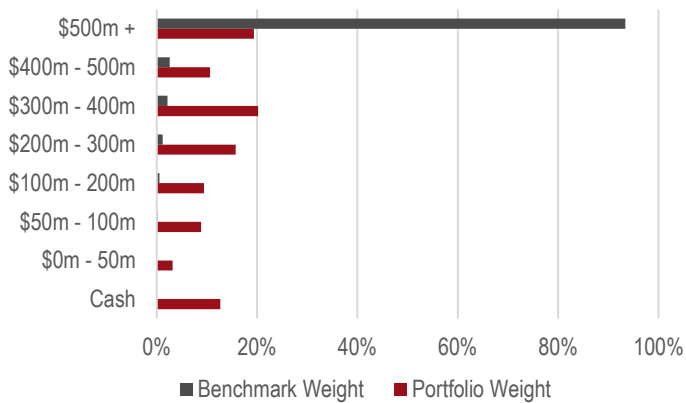
The Fund employs an active, research-driven investment approach which seeks to identify and invest in companies that are believed to have the potential to deliver significant upside over the medium term and where there is a reasonable margin of safety to mitigate downside risk. Positions are actively managed within the Fund.

Key Information

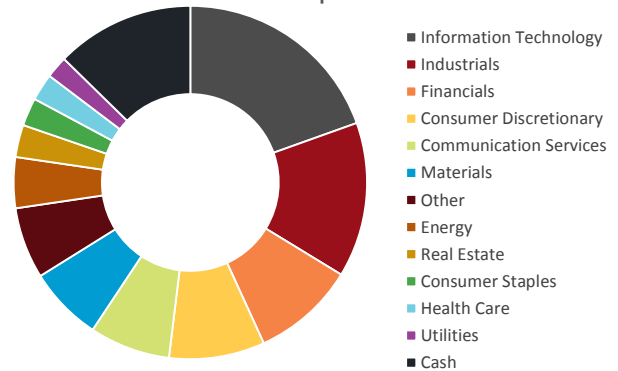
Strategy Inception Date	1 May 2017
Liquidity	Daily
Co-Portfolio Managers	David Keelan & Alexandra Clarke
Investment Style	Growth at Reasonable Prices
Number of Stocks	60
Management Fee	1.20%
Buy/Sell Spread	0.25%/0.25%
Performance Fee	20%
Application Price	1.2899
Redemption Price	1.2835
Fund Net Asset Value	\$99.5M
Firm AUM	Over \$5B

PORTFOLIO CHARACTERISTICS

Market Capitalisation



Sector Exposure



FY19	FUND	BENCHMARK
PRICE/EARNINGS	14.5x	17.0x
DIVIDEND YIELD	2.5%	3.3%
NET DEBT/EBITDA	0.00x	1.21x

Source: Ellerston Capital

Regards



David Keelan



Alexandra Clarke

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/>

All holding enquiries should be directed to our registrar, Link Market Services on 1800 992 149 or ellerston@linkmarketservices.com.au

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