

Ellerston Australian Small Companies Fund (SCF)

Performance Report | June 19

PERFORMANCE SUMMARY

Net %	1 Month	3 Months	6 Months	1 Yr	3 Yr p.a.	5 Yr p.a.	Strategy Since Inception p.a.
SCF	-1.59	-0.74	7.14	-6.29	8.68	8.60	8.37
Benchmark	0.92	3.75	16.81	1.92	10.66	9.26	8.15

Source: Ellerston Capital Limited

MARKET COMMENTARY

The Ellerston Small Companies Fund fell 1.59% in June, underperforming the ASX Small Ordinaries Accumulation Index which rose 0.92%. During the month, the Small Industrials Accumulation Index rose 0.44% whilst the Small Resources Accumulation Index rose 2.89%.

The largest contributors to positive attribution were Ausdrill (ASL), Vocus (VOC), and Resolute Mining (RSG). Ausdrill rose 24% for the month as sentiment turned positive on the back of a new long term contract win. The business is well exposed to the positive sentiment in gold, but this wasn't being reflected in the share price until news of this recent contract win. The business remains cheaply priced versus historical valuations having de-rated post the Barmingo acquisition which improves the quality of the business. The portfolio benefited from not owning VOC. The stock price declined by 29% due to two collapsed takeover attempts made by EQT and AGL. Resolute Mining rose on the back of the rising gold price and more importantly the Syama underground operation hitting commercial rates of production. The success of the underground operation is vitally important to the company achieving the valuation upside potential.

The largest detractors from relative returns were Syrah Resources (SYR), GTN Ltd (GTN), and Ardent Leisure Group (ALG). Syrah undertook a capital raising during the month at a significant discount to the prevailing share price. The company was looking at funding mechanisms through debt and related mechanisms for the last six months, but was unable to put in place a facility that would be adequate to meet any potential funding shortfall should production or pricing fall short of expectations. Post the raising and a potential debt deal with Australian Super the company has significant liquidity in place. GTN Ltd issued a profit warning during the month due to a decline in the Australian operations. The remuneration and performance of the local sales staff continues to be a problem, as it has been for the last 9 months. The company thought the issue was under control, but this latest update shows that there is still work to be done. The overseas operations continue to track in line with expectations. Ardent Leisure Group fell during the month as one of its competitors in the USA issued a profit warning on lower like-for-like sales. They noted increased competition in the market impacting sales.

OUTLOOK

The month of June was a disappointing end to a disappointing year for relative and absolute performance. Typically sideways markets are positive for alpha generation but this was not the case in 2019. Obviously the tech and growth stocks had a relative negative impact, but the good performance of the bigger names in the portfolio was offset by poorer performance of a number of smaller names. Hence, concentrating the portfolio more would seem to have some merit and has been the focus for the last few months. The outlook remains unchanged from previous 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	\$0.9842
Liquidity	Daily
Application Price	\$0.9867
Redemption Price	\$0.9817
No Stocks	57
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	-1.59	-1.52	0.92	-2.51	-2.44
3 Months	-0.74	-0.54	3.75	-4.49	-4.29
Rolling 12 Months	-6.29	-5.59	1.92	-8.21	-7.51
2 Years p.a.	6.00	6.78	12.53	-6.53	-5.75
3 Years p.a.	8.68	9.63	10.66	-1.98	-1.03
5 Years p.a.	8.60	9.80	9.26	-0.66	0.54
Since Inception p.a.	8.37	9.68	8.15	0.22	1.53

Source: Ellerston Capital Limited

ELLERSTON AUSTRALIAN SMALL COMPANIES FUND TOP HOLDINGS

Top 5 holdings as at 30 June 2019	Sector	%
Cooper Energy Limited	Energy	4.05
Ausdrill Limited	Materials	3.73
Cleanaway Waste Management Limited	Industrials	3.04
Tassal Group Limited	Consumer Staples	2.94
Viva Energy Group Limited	Energy	2.91

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.

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	\$0.9867
REDEMPTION PRICE	\$0.9817
NUMBER OF STOCKS	*57
INCEPTION DATE	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.

CONTACT US

Should investors have any questions or queries regarding the fund,
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