

Ellerston Australian Micro Cap Fund

Performance Report | June 19

FUND PERFORMANCE

	1 Month	3 Months	6 Months	1 Year	2 Year (p.a.)	Since Inception (p.a.)
NET	1.53%	9.76%	19.85%	5.09%	14.21%	18.41%
BENCHMARK*	0.92%	3.75%	16.81%	1.92%	12.53%	11.46%
EXCESS	0.61%	6.01%	3.04%	3.17%	1.68%	6.95%

*S&P/ASX Small Ordinaries Accumulation Index

COMMENTARY

The Ellerston Micro Cap Fund finished June up 1.53%, outperforming the Small Ordinaries Accumulation Index by 0.61%. Like May, once again the Small Ordinaries underperformed the ASX100 by 3.05%. Large caps were driven higher by the bond proxies as well as Gold, as investors sort to hedge against geopolitical risks that were anticipated from central bank easing. Moving to Small Caps, the index was supported by strong performance from the Healthcare sector which was up 6.8% with names like Polynovo and Nanosonics putting on 20% plus to their respective share prices over the month.

June was a busy month for the team as we continued to hit the pavement to assess our holdings before companies go into blackout. July is usually what the market calls confession season as companies rule off their books for the June year end and then inform the market if they are going to miss consensus earnings expectations. However, this year it appears to have come early with a number of early downgrades in names like Adairs, Wesfarmers, Aveo and Caltex to name a few. Some themes have already emerged such as the dry weather impacting rural stocks; overly exuberant expectations from analysts; the consumer not bouncing back as fast as anticipated and companies with geared balance sheets running into trouble.

Looking forward the Small Ords is currently trading on a one-year forward PE of 18.0x which is at a 7% premium to its five year average. We continue to believe there is inherent value in our portfolio which is demonstrated in the fact that our portfolio is trading on a PE of 14.3x which is a 21% discount to market.

Turning to stocks, Pacific Energy (PEA) has been a core portfolio position. PEA is a power generation project developer and owner to the resource sector for production assets only, with approximately 70% of contracted power to the gold sector. We entered the position in April 2018 at c\$0.50, the stock had come under short term pressure as PEA announced the acquisition of Contact Power. Due to the size of the deal the Board suspended dividends, which we felt was prudent capital management at the time. PEA business continues to strengthen and just before the end of the financial year management released a profit upgrade which was their second for this year. PEA is benefiting from the strength in the A\$ Gold price which has rallied c10% over the last quarter or 20% for the financial year. As the A\$ Gold price rallies, gold miners are incentivised to increase production which consequently results in higher power usage and therefore higher earnings for PEA. Given the fact that we are more industrial focused fund, PEA provides us with a great way to play the rising gold price. Combined with a sound operational execution PEA is well placed to give our portfolio a defensive return over the next 12 months.

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

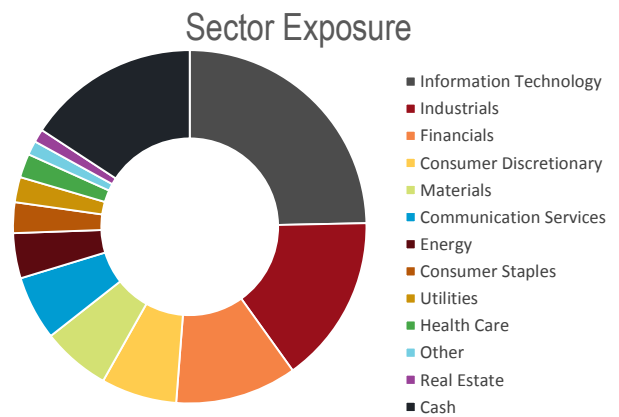
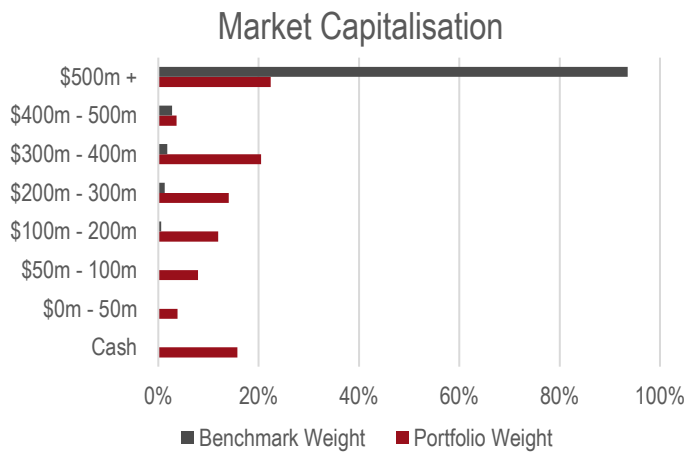
Strategy Inception Date	1 May 2017
Liquidity	Daily
Co-Portfolio Managers	David Keelan & Alexandra Clarke
Investment Style	Growth at Reasonable Prices
Number of Stocks	58
Management Fee	1.20%
Buy/Sell Spread	0.25% / 0.25%
Performance Fee	20%
Application Price	1.3097
Redemption Price	1.3031
Fund Net Asset Value	\$101.1M
Firm AUM	Over \$5B

Pacific Energy and Gold price correlation



Source: Ellerston Capital & Bloomberg

PORTFOLIO CHARACTERISTICS



FY19	FUND	BENCHMARK
PRICE/EARNINGS	14.3x	18.0x
DIVIDEND YIELD	2.5%	3.3%
NET DEBT/EBITDA	0.00x	1.26x

Source: Ellerston Capital

Regards

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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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