

# Ellerston Australian Small Companies Fund

Performance Report | July 19

## PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year p.a.	Since Inception (p.a.)
Net <sup>^</sup>	6.86%	4.12%	10.36%	-1.29%	9.25%	9.49%
Benchmark*	4.51%	4.15%	15.65%	7.61%	14.85%	8.85%
Alpha	2.35%	-0.03%	-5.29%	-8.90%	-5.60%	0.64%

Source: Ellerston Capital

<sup>^</sup> The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

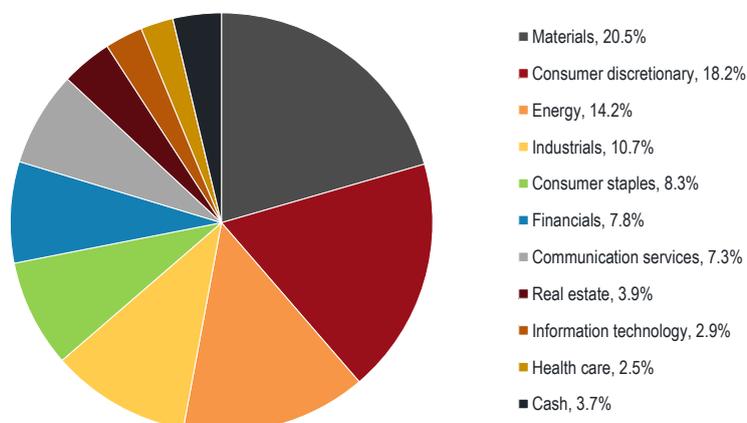
\*S&P/ASX Small Ordinaries Accumulation Index

## PORTFOLIO CHARACTERISTICS

### HOLDINGS

Top 5 holdings	Sector	%
Cooper Energy Limited	Energy	4.5%
Elders Limited	Consumer Staples	3.8%
Viva Energy Group Ltd.	Energy	3.4%
Cleanaway Waste Management Ltd.	Industrials	3.3%
QMS Media Limited	Communication Services	3.2%

### SECTOR ALLOCATION



### 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	10 October 2013
Portfolio Manager	Michael Courtney
Application Price	\$0.9528
Net Asset Value	\$0.9504
Redemption Price	\$0.9480
Liquidity	Daily
No Stocks	55
Management Fee	1.25%
Performance Fee	20.5%
Buy/Sell Spread	0.25%/0.25%
Fund FUM	\$10 Million
Strategy FUM	\$803 Million
Firm FUM	Over \$5 Billion

## COMMENTARY

The Ellerston Australian Small Companies Fund rose 6.86% in July, outperforming the ASX Small Ordinaries Accumulation Index which rose 4.51%. During the month, the Small Industrials Accumulation Index rose 3.70% whilst the Small Resources Accumulation Index rose 7.92%.

The largest contributors to positive attribution were Resolute Mining (RSG), Elders (ELD) and QMS (QMS). Resolute Mining rallied 32% for the month as gold stocks continued to rise following the 10% rally in the gold price over the last 2 months. During the month, the company reported FY19 gold production which came in marginally ahead of guidance and also announced the acquisition of Toro Gold (with a producing mine in Senegal) at the end of the month which will be funded with an equity issue and debt. This will help fast track the company's aspirations of becoming a 500koz producer. Elders announced the acquisition of AIRR Holdings with a subsequent capital raising to fund the cash component of the transaction. The business is primarily a wholesale business with exposure across Australia. The acquisition is marginally EPS accretive. The capital raising and acquisition was received positively by the market with a subsequent increase in the Elders share price. QMS has rallied over the last couple of months after the removal of a stock overhang that had been weighing on the share price. Guidance for the year was also reiterated at the AGM and towards the end of the month the business received foreign ownership approval from the NZ Government to merge its NZ assets with those of Mediaworks NZ. This will result in a cash injection for the business, which will see gearing move to more appropriate levels.

The largest detractors from relative returns were Speedcast International (SDA), Carnarvon Petroleum (CVN) and WiseTech Global (WTC). Speedcast provided a trading update with full-year guided EBITDA to be 12% below previous guidance. The downgrade pushed the gearing ratio close to the upper limit of company's debt covenant and increased the capital raising risk, which caused the stock to be sold off by more than 50% within two days. We exited the position as we had expected the company to be able to generate organic growth, but the downgrade now pushed growth into negative territory. Carnarvon rallied in May this year, following the successful drilling of the Dorado-2 well on the NW Shelf of Western Australia, but the fickle nature of exploration was shown again with the unsuccessful Roc South-1 well, which caused the share price to retreat back below the level seen before the success in May. The company completed a capital raising in July to fund its share of costs for the ongoing appraisal, FEED and equity component for the development of the project with majority owner Santos. We do not own WiseTech in the portfolio, which detracted from performance, as the stock rose 15% during the month.

## OUTLOOK

The market continued to rally in July with interest rates trending lower in Australia and worldwide. As the risk free rate has continued to fall this has seen additional money flow into the stock market. However, the falling bonds and currency in Australia are indicative of a slowing domestic economy and it will be interesting to see how the market responds to what is expected to be a difficult upcoming profit reporting season in August. Also, as we write, the gains of July have been wiped away as international trade tensions take centre stage again. This is probably indicative of valuations that are high worldwide, that require a benign news environment to push higher and are susceptible to sharp sell offs on bad news. The small cap market is now up 22% CYTD and it is difficult to see substantial gains from here.

Regards,

Michael Courtney - Portfolio Manager

All holding enquiries should be directed to our registrar, [Link Market Services](http://LinkMarketServices.com.au) on 1800 992 149 or [ellerston@linkmarketservices.com.au](mailto:ellerston@linkmarketservices.com.au)

SYDNEY OFFICE

Level 11, 179 Elizabeth Street,  
Sydney NSW 2000

Should investors have any questions or queries regarding the fund,

please contact our [Investor Relations team](mailto:InvestorRelations@ellerstoncapital.com) on 02 9021 7797 or [info@ellerstoncapital.com](mailto:info@ellerstoncapital.com)

or visit us at <https://ellerstoncapital.com/>

MELBOURNE OFFICE

Level 4, 75-77 Flinders Lane,  
Melbourne VIC, 3000

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