

Ellerston Australian Micro Cap Fund

Performance Report | September 19

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year p.a.	Since Inception (p.a.)
Net [^]	5.53%	12.11%	23.05%	17.49%	15.82%	21.99%
Benchmark*	2.61%	3.11%	6.98%	3.95%	11.83%	11.62%
Alpha	2.92%	9.00%	16.07%	13.54%	3.99%	10.37%

Source: Ellerston Capital

[^] 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

COMMENTARY

For the month of September the Ellerston Micro Cap Fund delivered 5.53%, outperforming the Small Ordinaries Accumulation Index by 2.92%. The market was driven higher by Financials with names such as Zip Co, Flexigroup and IOOF all performing strongly. The laggard in the market was the Information Technology sector which returned -3.9%. September saw a number of macro moves with the compression of bond yields unwinding, with the US 10-year yield rising 20bps and a steepening of the 10-year/2-year yield curve on the back of an improving macro in the US.

September was a very busy month for the Fund as we caught up with over 40 different companies throughout the period. While we always constantly re-evaluate our portfolio, we find post the August reporting season we have so many more data points resulting in the portfolio having the preverbal spring clean. This allows us to re-assess our three year view on stocks and to re-adjust our weightings which are determined by our level of conviction as well as any upcoming catalysts (AGM's, capital management, potential acquisitions etc). During September we exited three positions where we felt our original investment thesis no longer existed or our investment had reached fair value. It was not all one way traffic though with four new positions being initiated in the portfolio.

When we look at new investments, there are a number of key criteria which we would like to be met before we start accumulating a position. Nevertheless, what it really boils down to - is a company in charge of its own destiny or does it require external catalysts to ensure it can grow? With the volatility we are seeing in global markets we prefer companies that can drive growth by internal means (working capital improvements, paying down debt with cashflow, changing funding cost etc) or grow market share by innovation. However, given the focus over the last few years on internal improvements by companies, finding these stocks is getting harder. This was re-enforced during reporting season where the market once again was rewarding top line growth which saw PE ratios once again expand. Consequently, the new names we added in September have both strong top line growth as well as the ability to grow margins given scale benefits.

One new position we entered recently is Uniti Group (UWL). UWL is an internet service provider (ISP) which specialises in fixed wireless, fibre and speciality telco services. We have known UWL for a number of years even before it was listed but we were never comfortable with its strategy or management team. However, UWL has had a number of transformations which has repositioned the business. Firstly, a new board and management team was appointed which has extensive experience in the telco industry. The new CEO Michael Simmons, has over 30 years in the sector as both CEO of SP Telemedia and Vocus, while the recently appointed CFO Darryl Inns, is the former CEO of M2 Group. We also note that Vaughan Bowen has recently been appointed to the board who most would know as the founder of M2 Group. In our view the second major transformation for the group was the recent acquisition of LBN Co for \$100m. LBN Co provides fibre infrastructure services to the multi dwelling unit market. We believe that LBN Co has a solid back book of work as well as a very visible development pipeline which should underpin UWL's earnings going forward. We also think UWL has not finished acquiring with a plethora of further acquisitions on the horizon. As such we believe UWL has exceptionally strong growth prospects going forward as it helps consolidate the ISP market.

Regards



David Keelan



Alexandra Clarke

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

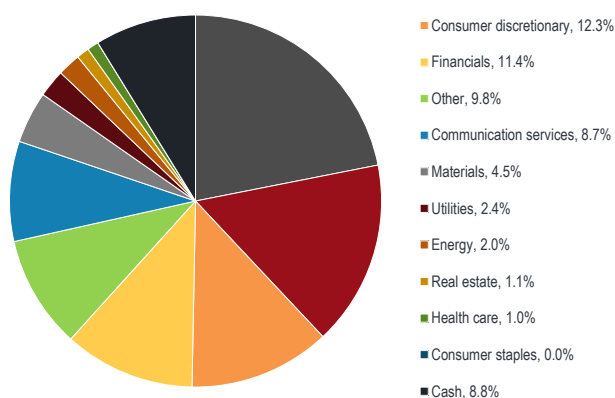
Strategy Inception	1 May 2017
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	\$1.4683
Net Asset Value	\$1.4646
Redemption Price	\$1.4609
Liquidity	Daily
No Stocks	59
Management Fee	1.20%
Performance Fee	20%
Buy/Sell Spread	0.25%/0.25%

PORTFOLIO CHARACTERISTICS

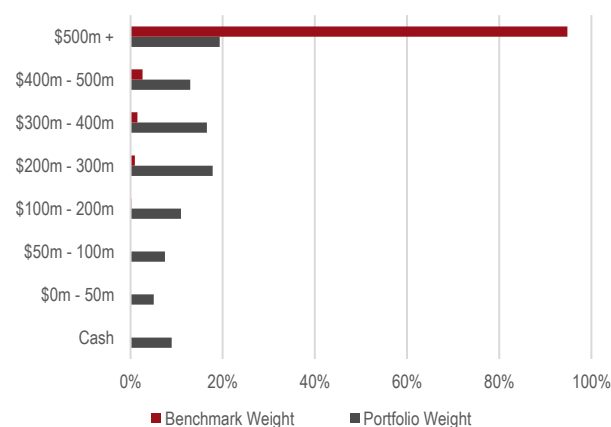
KEY PORTFOLIO METRICS

FY20e	Fund	Benchmark
Price/Earnings	18.0x	18.3x
Dividend Yield	1.3%	3.3%
Net Debt/EBITDA	0.0x	1.3x

SECTOR ALLOCATION



MARKET CAPITALISATION



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

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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