

# Ellerston Australian Small Companies 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 <sup>^</sup>	2.83%	8.15%	7.36%	-2.69%	9.04%	9.43%
Benchmark*	2.61%	3.11%	6.98%	3.95%	11.83%	8.35%
Alpha	0.22%	5.04%	0.38%	-6.64%	-2.79%	1.08%

Source: Ellerston Capital

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

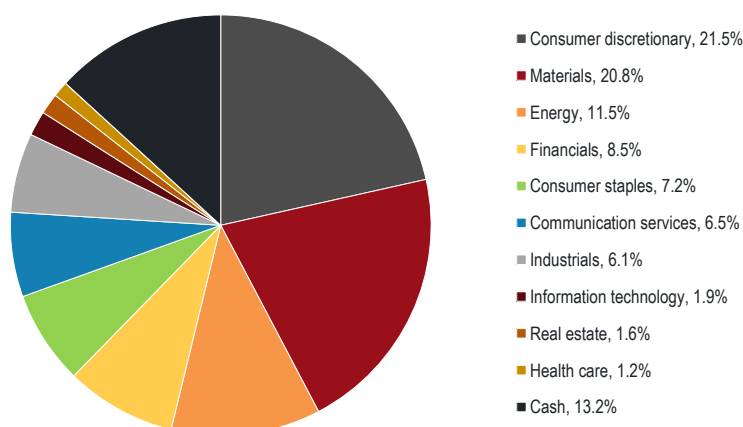
\*S&P/ASX Small Ordinaries Accumulation Index

## PORTFOLIO CHARACTERISTICS

### HOLDINGS

Top 5 holdings	Sector	%
Cooper Energy Limited	Energy	4.2%
A.P. Eagers Limited	Consumer Discretionary	4.1%
Bapcor Ltd	Consumer Discretionary	3.5%
Ausdrill Limited	Materials	3.4%
Western Areas Ltd	Materials	3.1%

### 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	\$0.9643
Net Asset Value	\$0.9619
Redemption Price	\$0.9595
Liquidity	Daily
No Stocks	43
Management Fee	1.25%
Performance Fee	20.5%
Buy/Sell Spread	0.25%/0.25%
Fund FUM	\$6 Million
Strategy FUM	\$817 Million

## COMMENTARY

The Ellerston Small Companies Portfolio rose 2.83% during September, outperforming the 2.61% rise in the ASX Small Ordinaries Index. Resources were virtually flat for the month, only rising 0.03%, whilst all the gains came from the Industrial side of the market which rose 3.27%.

Positive contributors for the month were reasonably well spread with the Top 3 being Western Areas (WSA), QMS Media (QMS), Appen Ltd (APX) and OFX Group (OFX). Western Areas rose 27% for the month despite the Nickel price falling slightly for the month. This follows the strong rise of the Nickel price in August as Indonesia considers reimposing a ban on unprocessed ore from the country. At the current \$A Nickel price, Western Areas generates significant cash flow which will help with the funding of the construction of the Odysseus mine. QMS Media rose a modest 12% for the month on news that it completed the merger of its New Zealand assets with Mediaworks. This results in a cash payment to QMS which will help in reducing debt levels which have risen as the company has made a number of acquisitions in the sports media space over the last year. Appen Ltd fell 18% for the month and is not held in the portfolio. OFX Group rose 16% during the month after it announced a partnership deal with Link Market Services. The deal is for 5 years and will see revenue increase to \$5m in FY22. With currency volatility being historically low and affecting retail transactions, an increase in corporate and partnership deals are currently the best levers in growing transaction volumes in the OFX business.

The three largest negative detractors from performance during the month were Syrah Resources (SYR), Cleanaway (CWY) and Australis Oil & Gas (ATS). Syrah fell 25% after announcing a sharp fall in selling prices for its graphite products. This has led to the company announcing plans to reduce production to tighten up market supply. It will take 3-4 months to see whether the action by Syrah will be successful in improving prices. With a reduction in subsidies by the Chinese government this year for electric vehicles, the slowdown in demand has had impacts throughout the whole value chain with both Lithium and Graphite produces being heavily impacted. Cleanaway fell only 5% for the month, but due to its large weighting in the portfolio this had a large effect on attribution. After reducing our position size earlier this year, we have used the recent share price weakness to increase our position size as we still are attracted to the long term value proposition of the business. Australis Oil & Gas fell 18% for the month impacted by the decline in the oil price and weakness in the sector in general. The company has completed the initial drilling program where results have been mixed between flow rates above expectations and other wells having geological and technical difficulties. Consequently, the value in the play is currently unknown. Have results been sufficient to bring in a larger partner or do another 3-4 wells need to be drilled? We should have some answers in the next couple of months.

## OUTLOOK

The market continues to show an increased level of volatility over the last couple of months, which has created some opportunities to reduce and add to existing positions as well as adding several new positions to the portfolio. There is an increased level of corporate activity in the primary market with a large number of IPO hopefuls hoping to list before the end of the year. Each of these we are reviewing as potential new positions, but we have been very inactive in the IPO market over the last couple of years. Existing listed companies are increasingly looking to acquisitions to drive growth and with elevated trading multiples, most private acquisitions are accretive. Again, if we think there is a reasonable value proposition we will participate in these raisings.

Regards,

Michael Courtney - Portfolio Manager

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

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