

# Ellerston Australian Micro Cap Fund

Performance Report | October 19

## PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year p.a.	Since Inception (p.a.)
Net <sup>^</sup>	3.65%	9.95%	21.53%	31.97%	14.94%	22.94%
Benchmark*	-0.50%	-1.84%	2.24%	14.41%	8.34%	10.99%
Alpha	4.15%	11.79%	19.29%	17.56%	6.60%	11.95%

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

## COMMENTARY

For the month of October the Ellerston Micro Cap Fund delivered 3.65%, outperforming the Small Ordinaries Accumulation index by 4.15%. The Small Ordinaries was supported by the Information Technology sector which was up 3.8% and the Healthcare sector which also rallied 3.1%. Weighing on the index was the Consumer Staples which was down 6.4% and Telecommunication Services which was down 4.6%.

October was a busy month for the Fund, with the team hitting the road to attend a number of conferences and sites visit to establish a solid view on how the 1Q of FY20 was tracking pre the start of AGM season. As expected this proved helpful with positioning the Fund to benefit from the upcoming catalysts.

Turning to AGM season, we have seen over the last few years it has become a more significant event with companies providing trading updates and announcing new strategies. Several of our positions were no exception and generally provided solid trading updates. AGM season runs into late November, as such we will continue to monitor our stocks and weightings carefully to help ensure we are well positioned for these events.

During the month we also saw a significant level of corporate activity with numerous capital raises to fund either acquisitions or working capital. These events provided us with some opportunities to increase our holdings in our preferred names and also provided liquidity to enter new positions at a discount.

Turning to stocks, one company we have liked is Class Limited (CL1). CL1 is a cloud based software company used by accountants and financial planners to manager SMSF's. It currently has around 30% market share and client retention rate of over 99%. We added this position to the portfolio in September 19 as we felt the market was overlooking its growing market share, strong balance sheet (free cash flow generating) as well as a market leading technology. CL1 has changed its CEO around 8 months ago and at its AGM this month it highlighted the strategy going forward, which includes broadening its product suit into the trust account space. CL1 is currently trading at 12x FY20 EV/EBITDA and has a dividend yield of 2.3%.

Another name we like is Johns Lyng Group (JLG). JLG is an integrated building company which delivers services for insurance companies throughout Australia. JLG's core business is insurance rebuilds and restoration of properties which have been damaged by natural disasters like fires and floods. Unlike other building companies, JLG generally receives its work directly from insurers or insurance panels and the work is normally completed on an attractive cost plus model. Another advantage JLG has is its ability to scale up and down its capacity given its low fixed cost base and panel of over 5,000 subcontractors. This allows for margins to be protected, even when the volume of work is lower. Given JLG's national footprint and its need to win work in more regional locations, we believe the group's strategy of running the business as a partnership model makes sense. The model ensures that individual business units are incentivised through their equity interest to deliver a consistent standard of work throughout Australia. JLG hosted an investor day in September to introduce the market to its new strata strategy and recent acquisition. We believe the

### 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	\$1.5219
Net Asset Value	\$1.5181
Redemption Price	\$1.5143
Liquidity	Daily
No Stocks	55
Management Fee	1.20%
Performance Fee	20%
Buy/Sell Spread	0.25%/0.25%

strata side of JLG's business is a significant opportunity, as it's a highly fragmented market which is ripe for consolidation. We also believe there will be considerable cross-sell opportunities within this new vertical. While JLG isn't traditionally cheap we believe the level of growth that the group can deliver more than justifies its current multiple.

Regards



David Keelan



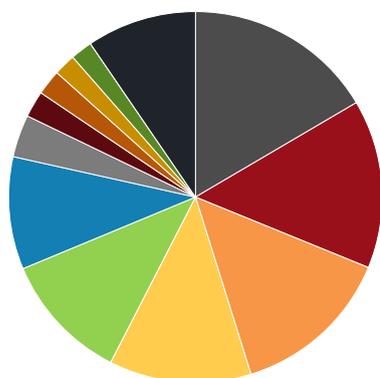
Alexandra Clarke

## PORTFOLIO CHARACTERISTICS

### KEY PORTFOLIO METRICS

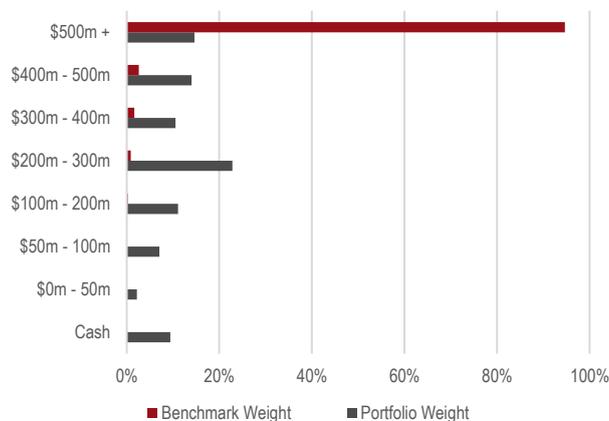
FY20e	Fund	Benchmark
Price/Earnings	19.1x	18.4x
Dividend Yield	1.7%	3.2%
Net Debt/EBITDA	0.2x	1.4x

### SECTOR ALLOCATION



- Information technology, 16.5%
- Consumer discretionary, 14.7%
- Industrials, 14.0%
- Communication services, 12.3%
- Other, 11.2%
- Financials, 9.8%
- Materials, 3.7%
- Health care, 2.3%
- Real estate, 2.2%
- Energy, 1.9%
- Consumer staples, 1.9%
- Utilities, 0.0%
- Cash, 9.5%

### MARKET CAPITALISATION



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

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