

# Ellerston Australian Micro Cap Fund

Performance Report | November 19

## PERFORMANCE SUMMARY

| Performance      | 1 Month | 3 Months | 6 Months | 1 Year | 2 Year p.a. | Since Inception (p.a.) |
|------------------|---------|----------|----------|--------|-------------|------------------------|
| Net <sup>^</sup> | 3.45%   | 13.15%   | 22.05%   | 40.58% | 14.98%      | 23.74%                 |
| Benchmark*       | 1.56%   | 3.68%    | 5.14%    | 16.62% | 7.10%       | 11.28%                 |
| Alpha            | 1.89%   | 9.47%    | 16.91%   | 23.96% | 7.88%       | 12.46%                 |

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



The Ellerston Micro Cap Fund delivered 3.45% in November, outperforming the Small Ordinaries Accumulation Index by 1.89%. The Index was supported by the Information Technology sector which was up 9.3% as well as the Energy and Financial sectors which were both up 4.3%.

As we discussed last month, we continued to see news flow from AGMs roll through. Management commentary was mixed and clearly highlighted industries and sectors which were experiencing weakening conditions. We remain focused on finding businesses which have tailwinds, strong management teams and robust balance sheets. The market was busy in November, with numerous capital raises to fund acquisitions. We do not think this theme is over and anticipate M&A activity to remain high for the remainder of the calendar year.

We note that calendar year-to-date, the Small Ordinaries Accumulation Index is up 21.71%. This has been an exceptionally strong rally primarily driven by multiple expansion, rather than upward earnings revisions. Consequently, the small cap index is currently trading on a forward PE multiple of over 18x which is now at a significant premium to its five year average. If we look at the ASX ex-Resources the forward PE is closer to 19x which is nearing the highs of the 1960's. We believe in the near term this trend will continue, given where global bond yields are currently sitting. Nevertheless, we continue monitoring our positions relative to our view on their intrinsic value and adjusting our holdings to reflect our level of conviction.

In our June newsletter we discussed our holding in Pacific Energy (PEA) which is a remote power operator, predominately for gold companies. PEA was recently acquired. Given the fact that we are a more industrial focused fund, names like PEA provided us with a great way to play the rising gold price. Consequently, as we like the space, we have looked for other ways to play the thematic through names such as Zenith Energy (ZEN). ZEN is a remote power operator which has long term contracts with tier one clients. The group focuses on tailored, reliable, cost effective solutions utilising gas, diesel, solar and hybrid generation. Currently, under a build, own, operate model, ZEN has 219MW and has total generation capacity in excess of 403MW under control. We believe with a further 400MW in the group's near term pipeline of future projects, ZEN will become a key player in this space. While ZEN's balance sheet is leveraged, we remain comfortable given its infrastructure assets, and improving cash flow generation which we believe should lead to a multiple re-rate.

Uniti Group (UWL AU) is a full-service telecommunications company, which delivers fixed line and fixed wireless broadband internet to residential and business customers. Since its IPO in February this year, the firm's market capitalisation has grown more than tenfold to almost \$500 million. A key component of this growth can be attributed to the transformational acquisition of LBNCo, one of Australia's leading private fibre operators, which builds fibre-to-the-premise (FTTP) as an alternative to NBN Co. UWL's board and senior management team are highly credible, and we think this is only the beginning of what is likely to be a multi-year growth story. The main priority will be integrating the recently acquired businesses, while capitalising on the strong pipeline of organic growth opportunities. The firm generates attractive margins, and will most likely leverage its strong cash generation and defensive balance sheet to pursue further value-accretive acquisition opportunities if and when they arise.

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

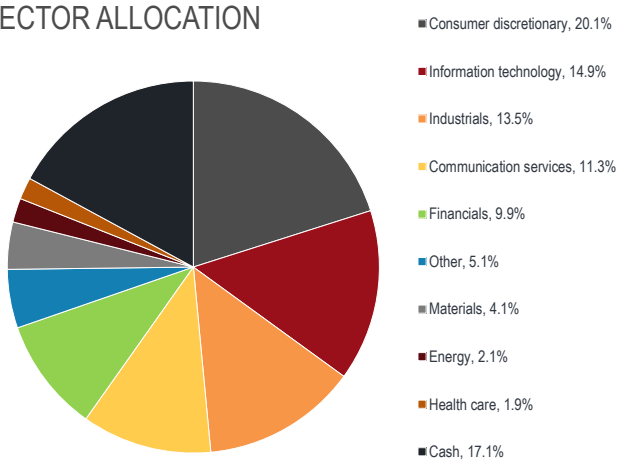
|                    |                                 |
|--------------------|---------------------------------|
| Strategy Inception | 1 May 2017                      |
| Portfolio Manager  | David Keelan & Alexandra Clarke |
| Application Price  | \$1.5743                        |
| Net Asset Value    | \$1.5704                        |
| Redemption Price   | \$1.5665                        |
| Liquidity          | Daily                           |
| No Stocks          | 54                              |
| Management Fee     | 1.20%                           |
| Performance Fee    | 20%                             |
| Buy/Sell Spread    | 0.25%/0.25%                     |

## PORTFOLIO CHARACTERISTICS

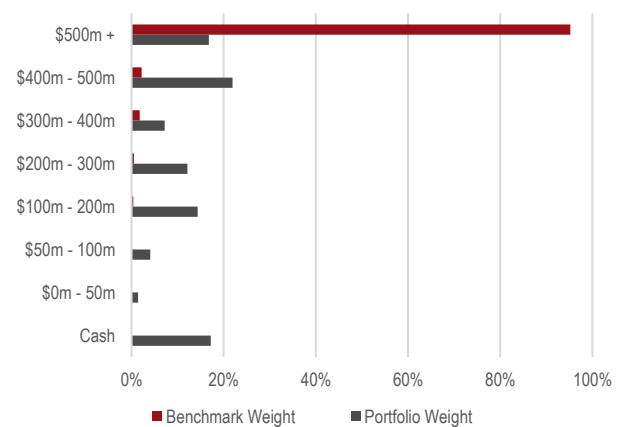
### KEY PORTFOLIO METRICS

| FY20e           | Fund  | Benchmark |
|-----------------|-------|-----------|
| Price/Earnings  | 20.0x | 18.7x     |
| Dividend Yield  | 1.8%  | 3.0%      |
| Net Debt/EBITDA | 0.2x  | 1.4x      |

### 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](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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