

Ellerston Australian Micro Cap Fund

Performance Report | February 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year p.a.	Since Inception (p.a.)
Net [^]	-8.52%	-3.60%	9.07%	28.21%	10.93%	19.87%
Benchmark*	-8.68%	-5.87%	-2.40%	1.64%	2.55%	7.91%
Alpha	0.16%	2.27%	11.47%	26.57%	8.38%	11.96%

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

The Ellerston Australian Micro Cap Fund was down 8.5% in February, outperforming the Small Ordinaries accumulation index which was down 8.7%. Despite this market volatility most of the companies in our portfolio delivered solid earnings results, the share market experienced the sharpest sell-off in over a decade, reflecting concerns around the global spread of the Coronavirus. The temporary shutdown of Chinese manufacturing plants is impacting global supply chains, while travel restrictions are weighing on the tourism and leisure sectors. Energy and utilities were the worst performing sectors declining by 15% and 19% respectively, reflecting the lower oil price, however the selloff was relatively indiscriminate with all sectors finishing the month in the red.

We thought it would be worth putting the performance of the Ellerston Australian Micro Cap Fund in context of the broader micro cap market. Our average market capitalisation of our portfolio is A\$250m verse the Small Ordinaries market capitalisation of A\$1.3bn. However, if we look at the Emerging Companies index which is a good proxy for the micro cap market with an average market cap of A\$204m, it was down 12.3% in February or 3.6% more than the Small Ords.

Despite the tumultuous month in the equity markets we had a couple of standout performers. OptiComm, one of our core positions rose by 26% during the month following a very strong maiden profit result. OptiComm builds, owns and operates fibre-based fixed-line across the telecommunication segment. The most attractive part of the business is its network operations, whereby it allows telco retail service providers with wholesale access to its network and the residents pay a monthly fee. This recurring revenue segment is high margin and very low volatility. The construction segment has a healthy contracted pipeline and we see further growth opportunities as the company signs new additional developers and RSPs. Increasing household data consumption will remain a tailwind for the foreseeable future as the internet of things will drive demand for high speed internet. The balance sheet is in pristine condition with net cash of almost \$20 million, which is likely to grow given the strong free cash flows, giving them optionality to undertake acquisitions.

Money3 another core position performed exceptionally well during the month, increasing by 11%. The company is a non-bank lender specialising in used car loans. The loan book grew by a solid 14% on the prior half, while bad debts were lower than expected. We think this strong operating momentum should continue for the foreseeable future particularly as the banks shy away from this lending category, and the firm increases its funding capacity. We think the company can refinance its debt at a much lower interest rate, which will improve net interest margin, but also allow them to move into higher credit quality categories and remain competitive.

For the most part our strategy remains the same, and we think the selloff has created some attractive buying opportunities but we are cautious of not stepping in too soon. We consistently monitor our portfolio to ensure the positions that we own have balance sheet strength. We have increased our conviction in names which we believe will either benefit from the Coronavirus or are less susceptible to a lower inflationary environment. We are consistently monitoring our liquidity and proactively managing this risk. Overall, while market sell offs are never nice, it is the time where we are able to reposition our portfolio to take advantage of opportunities that we have not seen in a number of years and buy quality names at far more attractive multiples.

Regards

David Keelan & Alexandra Clarke

Investment Objective

To provide investors with long term capital growth by 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

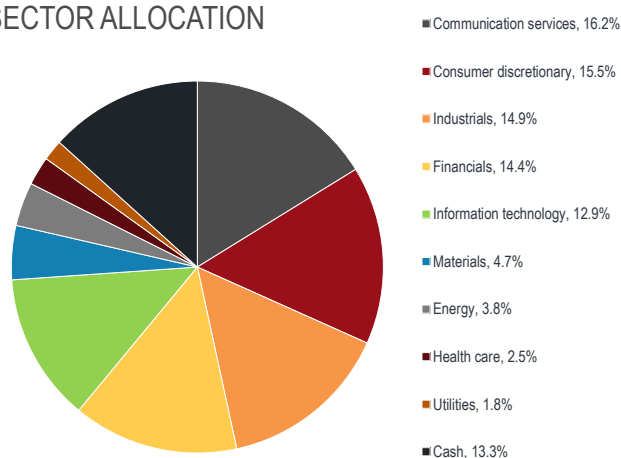
Strategy Inception	1 May 2017
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	\$1.5176
Net Asset Value	\$1.5138
Redemption Price	\$1.5100
Liquidity	Daily
No Stocks	49
Management Fee	1.20%
Performance Fee	20%
Buy/Sell Spread	0.25%/0.25%

PORTFOLIO CHARACTERISTICS

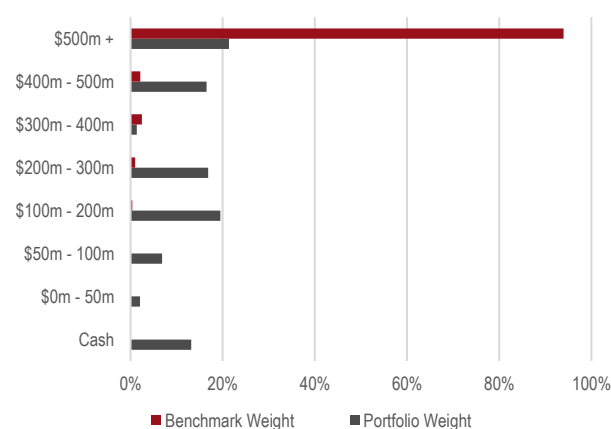
KEY PORTFOLIO METRICS

FY20e	Fund	Benchmark
Price/Earnings	16.4x	17.1x
Dividend Yield	2.1%	3.2%
Net Debt/EBITDA	0.1x	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

Should investors have any questions or queries regarding the Fund, please contact our **Investor Relations team** on **02 9021 7701** or info@ellerstoncapital.com or visit us at <https://ellerstoncapital.com/>

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