

Ellerston Australian Micro Cap Fund

Performance Report | April 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	Since Inception (p.a.)
Net [^]	24.95%	-16.73%	-9.24%	10.30%	15.01%	15.01%
Benchmark*	14.27%	-19.00%	-15.20%	-13.31%	3.25%	3.25%
Alpha	10.68%	2.27%	5.96%	23.61%	11.76%	11.76%

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 end of April marked the three-year anniversary for the Ellerston Australian Micro Cap Fund. The Fund has returned 15% p.a since inception (net of fees) compared to the index return of 3% as at 30 April 2020. We would like to thank our investors for your support over this period and will continue to look for opportunities that provide a ~50% absolute total return over three years (~15% per annum) on a three to one risk return basis. A key component of our philosophy is that companies at the small and micro-cap end of town receive much less analyst attention, information is harder to come by, and high growth opportunities are often overlooked. This results in mispricing in the market where the most attractive investment opportunities can be found. We believe if investors are prepared to roll up your sleeves and do the work, the reward should be significantly larger.

Moving to the month of April, the Ellerston Australian Micro Cap Fund performed well, gaining 25% during the month and outperforming the Small Ordinaries accumulation index by 11%. Pleasingly, the Fund's outperformance was broadly based on several of our holdings re-rating. Globally, markets rebounded strongly on the back of an unprecedented level of stimulus, as liquidity flooded the market to help support both businesses and households to ensure they remain solvent during this challenging period. Both the Dow Jones Industrial Average and S&P 500 posted their best results since 1987. Consequently, April saw one of the biggest share market rebounds in history, following the sharp selloff in March.

Turning to the domestic market, the Small Ords was propelled higher by Small Resources, which rose 20%, compared to Small Industrials which were up 13%. Given the environment, small gold names were the biggest contributor to the Resource sector while Industrials were driven higher on the back of Consumer Discretionary companies rallying when assumptions around equity raisings were postponed. The Small Ordinaries Index is currently trading on a one year forward PE of 15.5x which is at a 1% discount to its five-year average. We do, however, expect more EPS revisions to come through, and in our view the true market multiple is higher than a 15x headline number. While we see opportunities presenting themselves, we are selective in terms of which stocks we are adding to the portfolio. We continue to look for strong underlying business models with solid balance sheets supported by management teams that can adapt to the environment in front of them.

In April, one of our unlisted investments Atomo Diagnostics (AT1-AU) floated on the ASX, being the first company to perform a virtual bell ringing ceremony. We invested in AT1 in August 2019 via a convertible note. AT1 is an Australian medical device company that makes rapid diagnostic tests. AT1 patents simplify the testing procedure to enable the test to be carried out by both healthcare professionals and self-use. The business has some very well-known backers such as the Global Health Fund (funded by the likes of the Gates Foundation, Canadian Government, etc.) and has built a solid register post IPO of institutional investors. AT1 has built a very solid base in HIV testing, obtaining some excellent partners including Mylan who supplies 40% of the world's HIV medication. The plan is to move onto other areas for testing including blood-based pregnancy and prostate testing. Since our initial investment, AT1 has had their business super charged by COVID-19. This is because its device can be used to help detect antibodies produced in response to COVID-19 in a matter of minutes as it does not require a pathology lab (note: turnaround for tests can be as long as 10 days). In the past few weeks, the company has received an order from one of its customers for 2.5m devices for 2020 and remains in discussions with two US based COVID-19 test manufacturers for supply of original equipment manufacturer (OEM) test devices.

At the end of April our holding in AT1 is up over 200% from our initial investment. Despite the strong share price appreciation, we continue to hold AT1 as we believe there is meaningful upside on the back of further supply announcements from the company over the coming weeks and months which should add share price support.

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

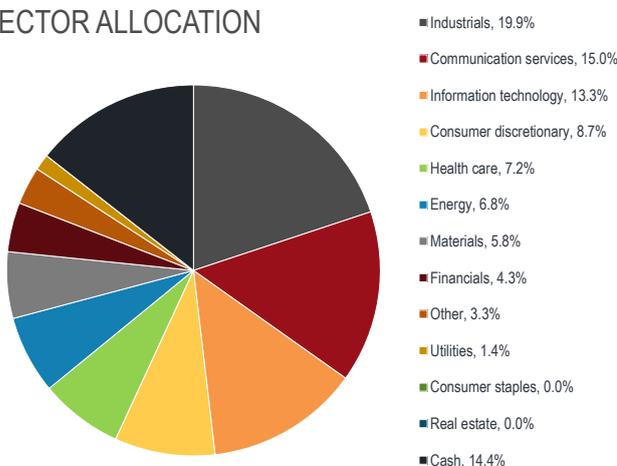
Strategy Inception	1 May 2017
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	\$1.3813
Net Asset Value	\$1.3779
Redemption Price	\$1.3745
Liquidity	Daily
No Stocks	49
Management Fee	1.20%
Performance Fee	20%

PORTFOLIO CHARACTERISTICS

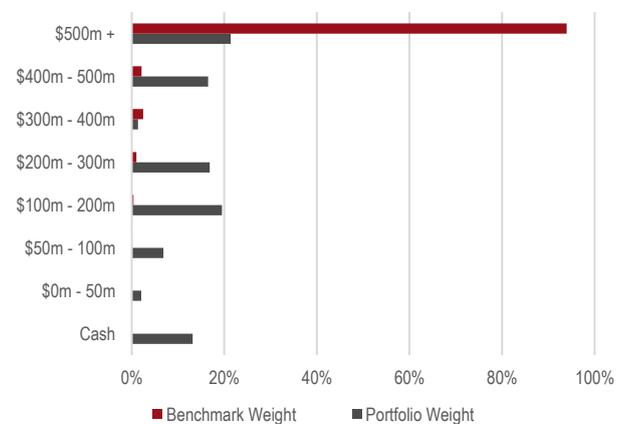
KEY PORTFOLIO METRICS

FY20e	Fund	Benchmark
Price/Earnings	15.1x	15.5x
Dividend Yield	2.1%	3.1%
Net Debt/EBITDA	0.0x	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

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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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