

Ellerston Australian Micro Cap Fund

Performance Report | May 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year p.a.	Since Inception (p.a.)
Net [^]	7.69%	-1.98%	-5.51%	15.32%	16.52%	17.36%
Benchmark*	10.59%	-1.91%	-7.66%	-2.91%	7.51%	6.58%
Alpha	-2.90%	-0.07%	2.15%	18.23%	9.01%	10.78%

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

In May the Ellerston Australian Micro Cap Fund delivered 7.7% compared to the Small Ordinaries accumulation index which delivered 10.6%. Driving the index was Consumer Discretionary which was up 15.8% followed by Financials which was up 14.0% and Materials up 13.6%. May's strong performance followed an equally strong rebound in April with the market up 26.4% over this period (vs Ellerston's Australian Micro Cap Fund up 36.2%). We attribute the rally to the unprecedented global stimulus' packages, and the easing of restrictions.

During May several stocks which the market expected to be heavily impacted by COVID-19 shutdowns provided updates which weren't as bad as initially feared. As restrictions started to ease, pent up demand supported retailers. Additionally, with Australia's borders likely to remain closed over the foreseeable future we saw companies leveraged to the automotive sector start to rally on the back of stronger demand for domestic driving holidays, along with consumers wishing to avoid public transport.

Post the strong rally in May, the small ordinaries index is trading on a one year forward PE of 17.8x (up from 15.0x in April) which is at a 13.1% premium to its five-year average. Given the speed of the rebound, we are cautiously optimistic for the coming months as the economy continues to re-open. However, we continue to monitor our companies' balance sheets and market expectations, especially given the winding back of stimulus packages (Job Keeper, Job Seeker etc) and rent relief. We look to the coming reporting season outlook commentaries for a better understanding of how individual companies are faring in the post COVID-19 world. The portfolio remains skewed towards high-quality stocks which can endure a challenging macro environment including the technology sector, with a preference towards companies with sustainable competitive advantages and structural tailwinds.

Two stocks which performed well in May were Betmakers Technology Group (BET-AU) and Alliance Aviation (AQZ-AU).

Despite the disruption from COVID-19 Betmakers Technology was a standout performer, rising by 25% during the month, and continuing its rally thereafter. The company is a wagering service business, which uses its proprietary technology to provide risk management systems, odds management, and content across a variety of sports and racing. The company boasts an exclusive 10-year agreement to manage fixed odds horse racing in New Jersey, and this was recently expanded to include a 5-year agreement to manage fixed odds terminals and kiosks at Monmouth Park racetrack. Fixed odds racing should benefit from a structural migration away from tote betting, a similar narrative to that which has already played out in Australia, and BET is well placed to capitalise on this. The company is on the verge of EBITDA profitability, has an extensive pipeline of opportunities, and we see meaningful upside to the current price.

What some might find surprising, is one of our core holdings Alliance Aviation (AQZ) also had a great month. AQZ is a national air charter operator and we think one of the few profitable and growing airlines in the world. During the month AQZ confirmed a stronger than expected uplift in activity levels. The surge in demand was driven by the resource sector and increased demand for FIFO contracts. This resulted in the group providing guidance of profit before tax of \$40m which was almost 40% above the consensus estimates. The interruption to the aviation sector has provided AQZ with unprecedented opportunities which includes additional routes and new customers, particularly in QLD and WA. In our view, these changes with FIFO contracts will be sustainable post FY20 as customers experience the efficiency of chartered flights. While AQZ does have small exposure to sectors that have been impacted by COVID-19 and the Virgin Administration (wet leasing), the growth in the higher value contracted revenue more than offsets this. AQZ is a stock that has been in the portfolio since the Fund's inception and remains one of our core positions.

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

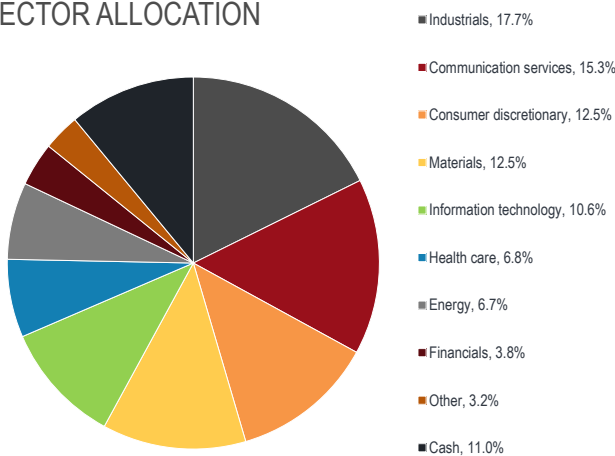
Strategy Inception	1 May 2017
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	\$1.4719
Net Asset Value	\$1.4682
Redemption Price	\$1.4645
Liquidity	Daily
No Stocks	46
Management Fee	1.20%

PORTFOLIO CHARACTERISTICS

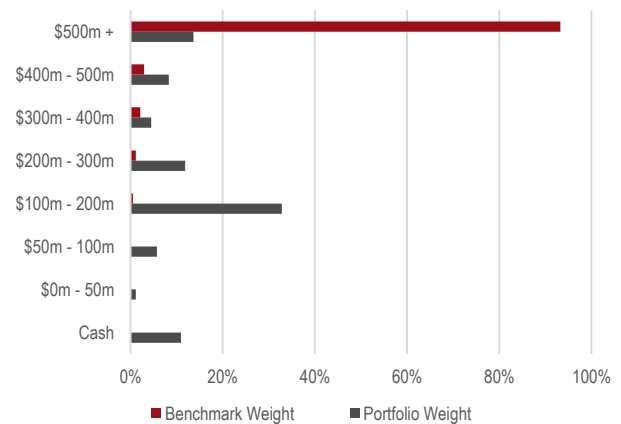
KEY PORTFOLIO METRICS

FY20e	Fund	Benchmark
Price/Earnings	19.1x	17.8x
Dividend Yield	1.8%	2.8%
Net Debt/EBITDA	0.2x	2.02x

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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