



Ellerston Australian Micro Cap Fund

June 2020

Performance

Outcomes & Portfolio Characteristics

AS AT 31 MAY 2020

Net Performance	3 Months	6 Months	FYTD	1 Year	3 Years p.a.	Since Inception p.a.*
Ellerston Australian Micro Cap Fund	-1.98%	-5.51%	13.58%	15.32%	16.52%	17.36%
S&P/ASX Small Ordinaries Accumulation Index	-1.91%	-7.66%	-3.80%	-2.91%	7.51%	6.58%
Relative performance (post-fee)	-0.07%	2.15%	17.37%	18.23%	9.01%	10.78%

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

*Inception Date: 1 May 2017.

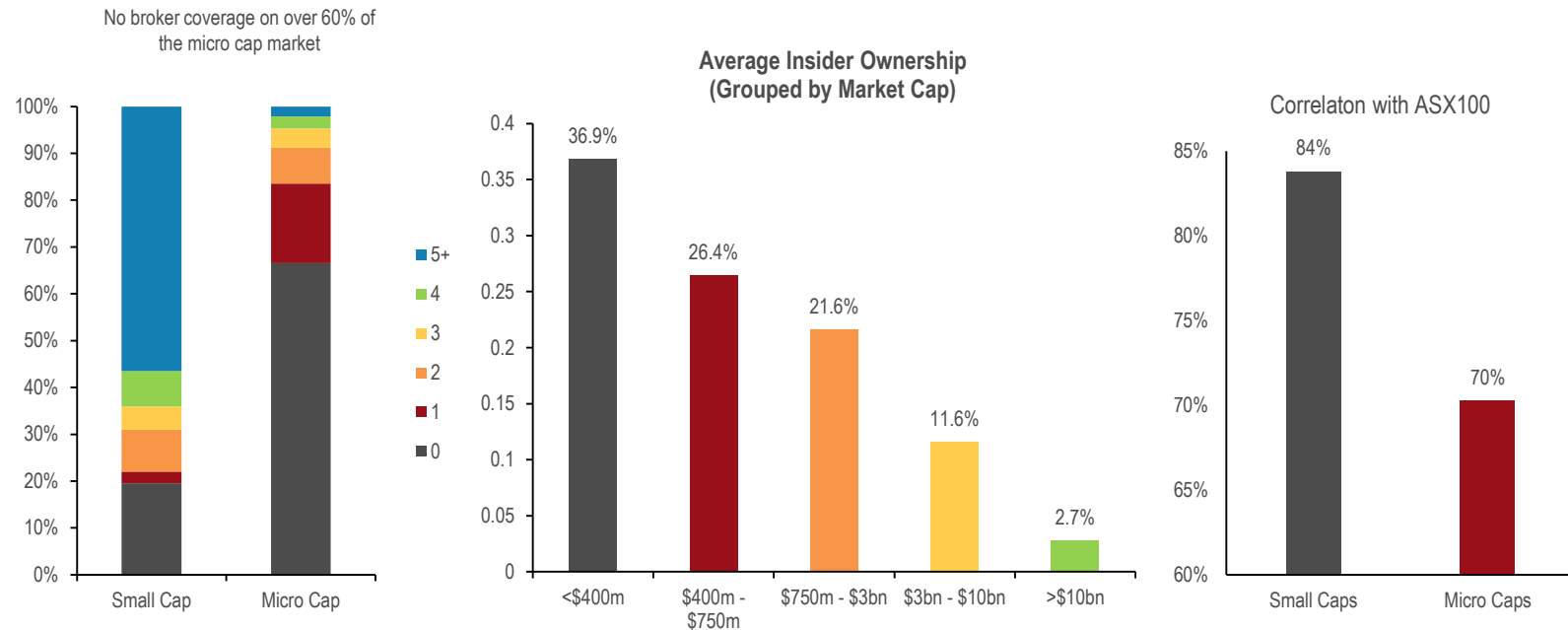
Note: net returns are calculated after fees & expenses. Past performance is not a reliable indication of future performance

Source: Ellerston Capital Limited

The case for Micro Caps

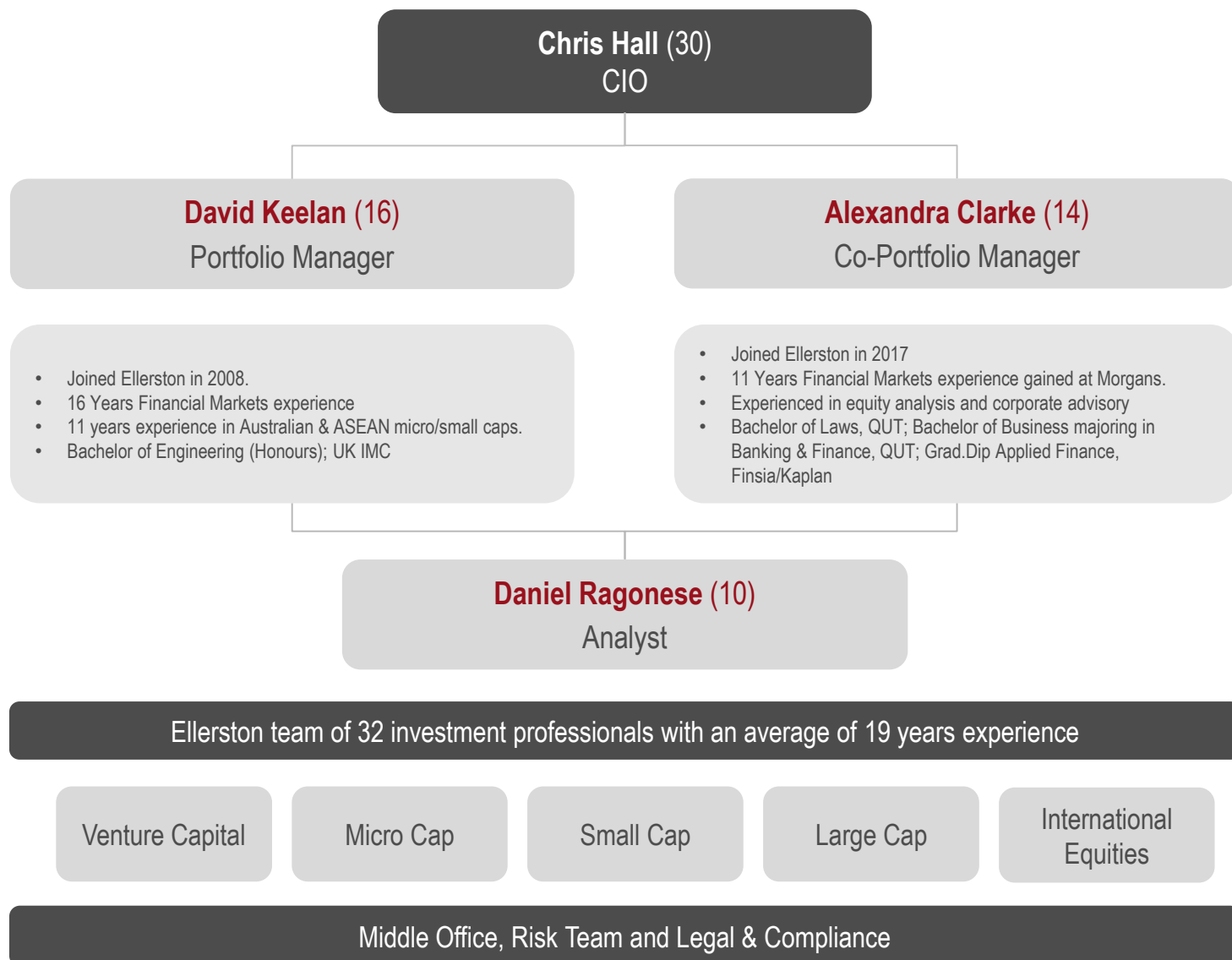
Strong Investment Case & Capability

Australian micro cap stocks are under-researched, have greater alignment to shareholders and are less correlated to the ASX100



Ellerston Capital has a long track record of successful investing in unlisted and listed small and micro cap companies. We operate as the legal insider, assisting businesses get IPO ready, restructuring and making strategic acquisitions

Ellerston Micro Cap team



Investment Process

“Smaller and micro cap companies offer compelling opportunities for investment returns. Businesses get missed for so many reasons. If you do the work you can get rewarded.” David Keelan, Portfolio Manager

Market Inefficiencies

We believe in the inefficiency of markets. Companies in the micro sector are under-followed and under-owned, we believe we can:

- Discover companies earlier in their growth life-cycle
- Identify businesses that are in the middle of a solid and sustainable turnaround or restructure
- Find assets that have a strategic value and are being miss priced

Active Management

Active, research-driven approach to smaller and micro cap companies

- Each stock must pass in-depth analysis, along with competitor and industry benchmarking
- High activity level and company meeting schedule
- Aim to make 50% absolute total return over 3 years (15% per annum) from each position

Risk Management

Solve for the downside as volatility is embedded in the micro cap universe

- 3:1 return to risk requirement
- Liquidity is a major consideration

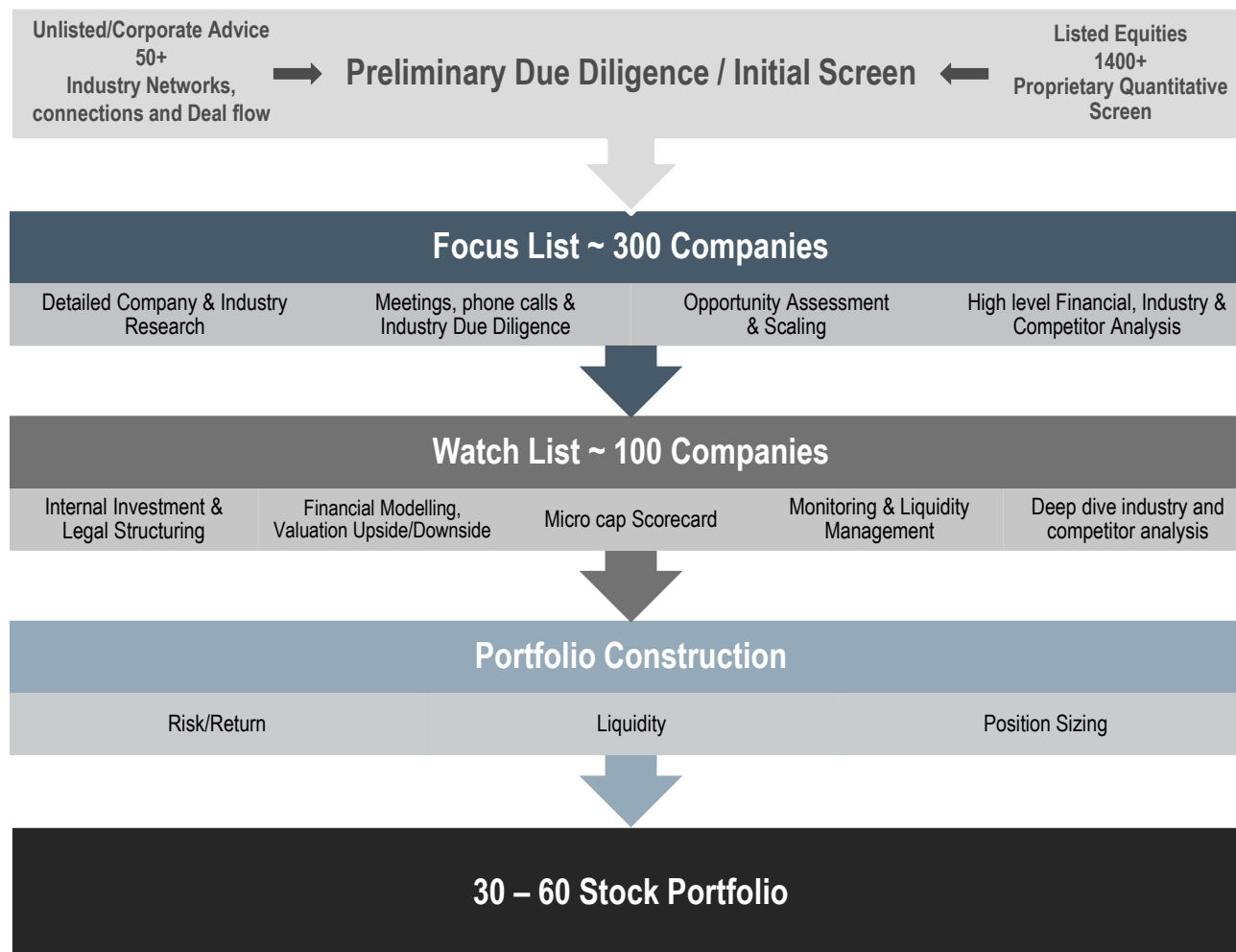
Outcomes Focused

Create a GARP portfolio, which is mispriced

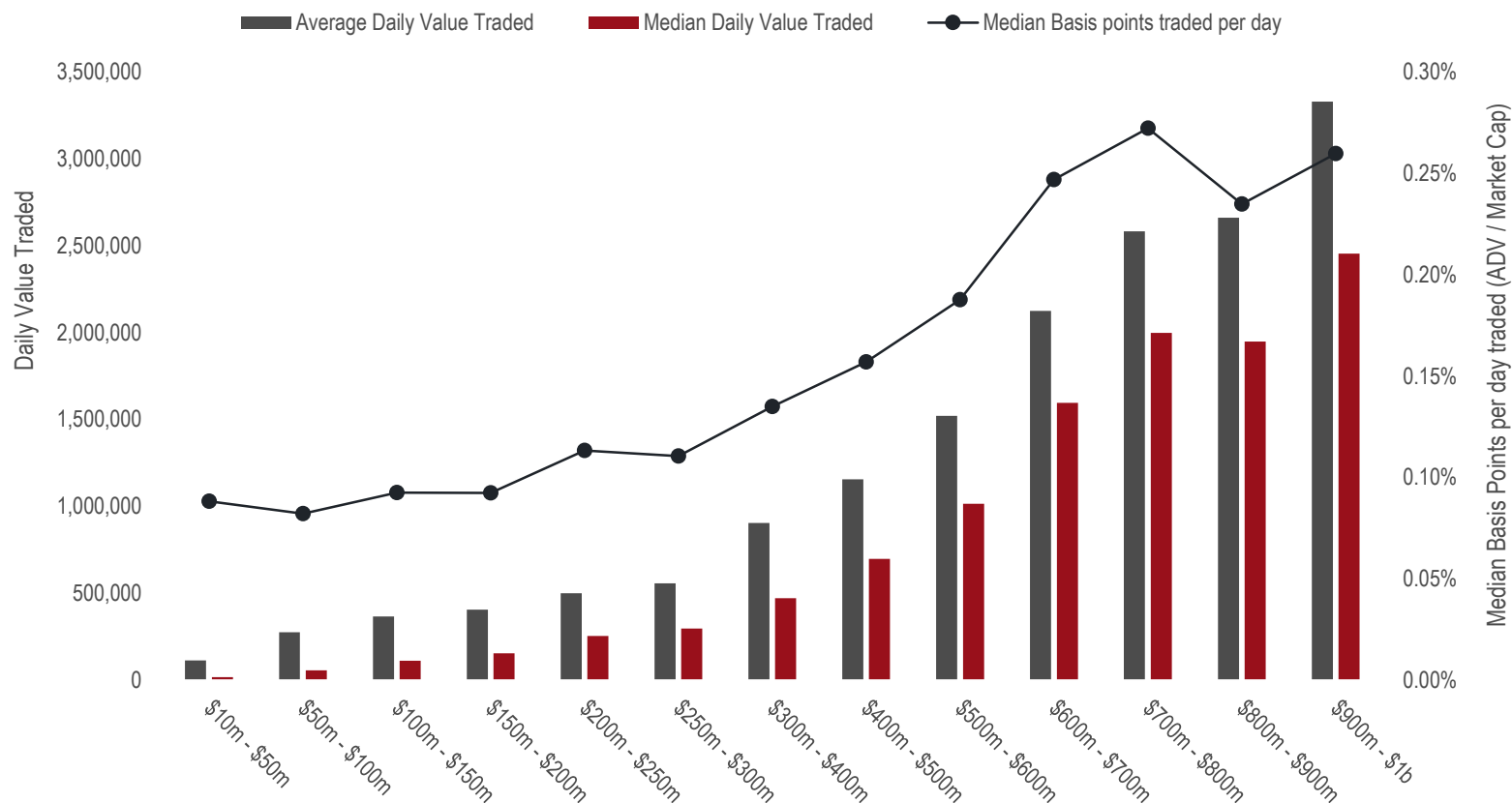
- Low levels of gearing
- High level of optionality with minimal risk
- Alpha will be generated through: stock picking, risk management, understanding liquidity & expertise with private businesses

Investment Process

The process combines quantitative & qualitative analysis and is disciplined, repeatable and tested

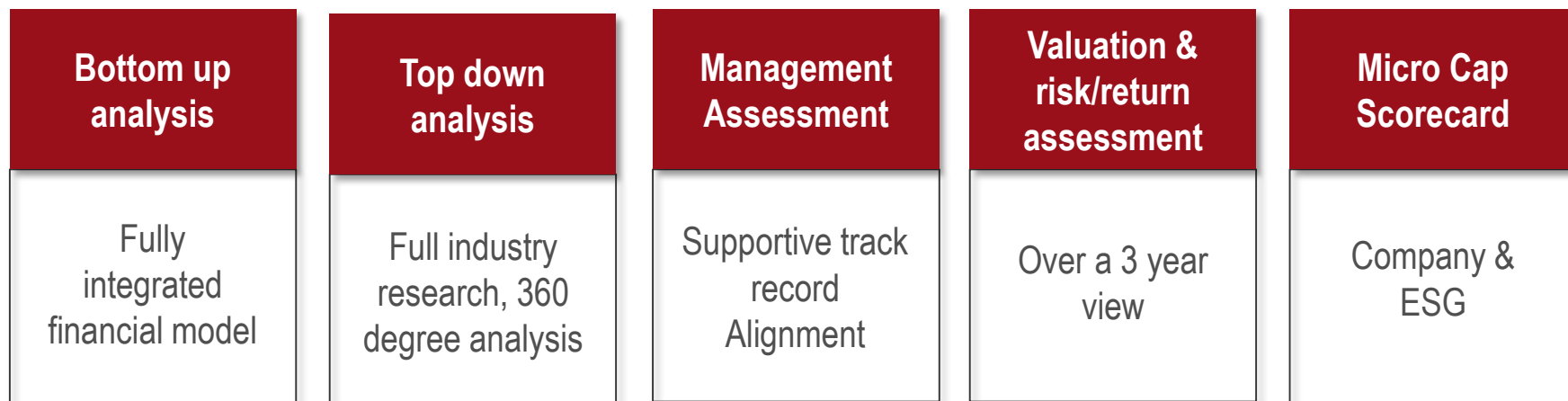


Liquidity in Micro Caps is very different



True supply and demand can be found in off market transactions.
Volume leads price action & price action creates liquidity.

Once a company progresses through to the watch list, a deep dive analysis is completed



Deep Dive Analysis

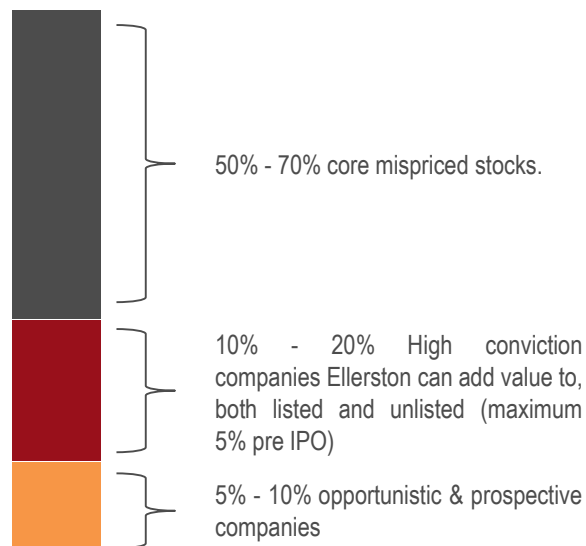
- The companies that make it through to the watch list are put through rigorous fundamental analysis and ranked based on the opportunity and risk/return. This forms the basis for regular review and re-visiting
- Activity levels on watch list companies is high with ongoing 360 analysis on the industry, competitors and company
- Valuation and risk/reward changes regularly and create opportunities for portfolio inclusion

Investment Process - Portfolio Construction

Stock Entry

- Companies that provide an asymmetrical 3:1 risk/return payoff
- Fit within the current portfolio will look to be added
- Risk return, liquidity and the current portfolio will determine the position size
- Target position sizing
- High Conviction; 3 – 6%
- Core; 2 – 2.5%
- Prospective; 0.5 – 1%

Portfolio Characteristics



- Up to 20% New Zealand companies.
- Will look to hold around 10% - 20% cash.
- Resources will be opportunistic.

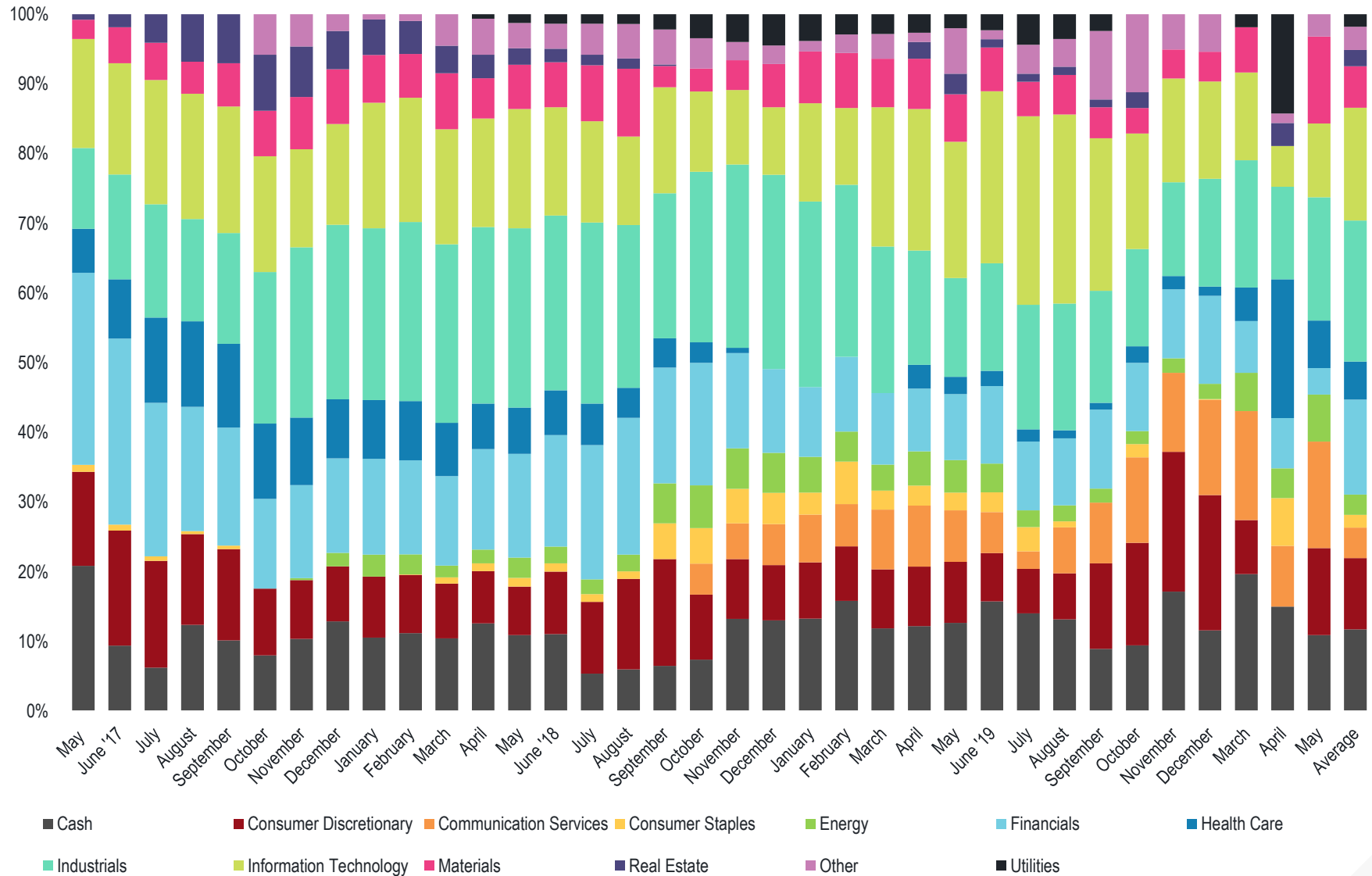
Portfolio Aim

- To create a GARP portfolio, which is mispriced.
- Low level of gearing
- High level of optionality with minimal risk.

Alpha will be generated through; stock picking, risk management, understanding liquidity & expertise with private businesses.

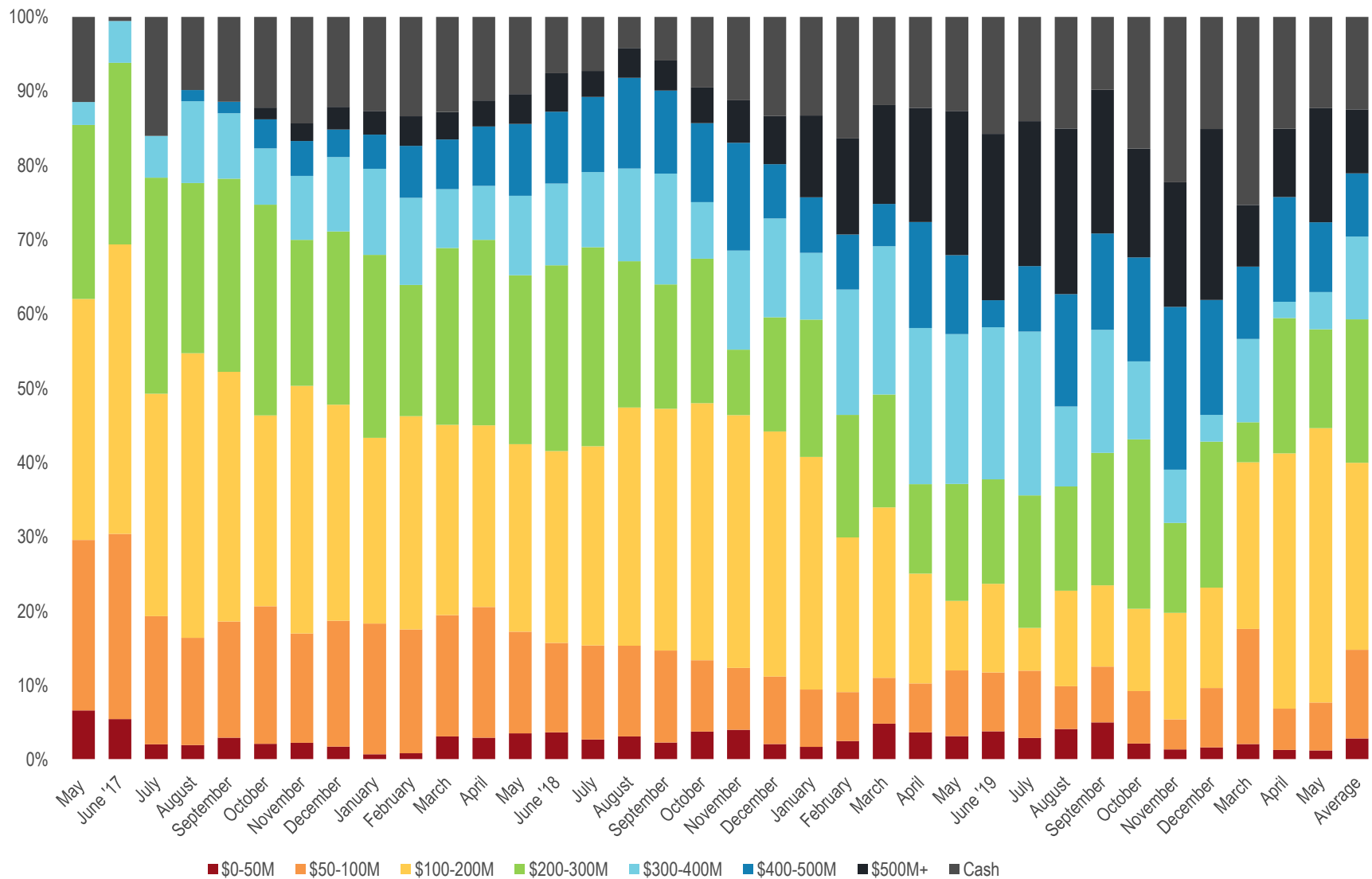
Portfolio Positioning

Sector Allocation



Source: Ellerston Capital
Inception Date: 1st of May 2017

Market Capitalisation*



Atomo Diagnostics – AT1 AU



- Atomo Diagnostics (AT1) is an Australian medical device company that makes rapid diagnostic tests.
- AT1 patents simplifies 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; Global Health Fund, Lang Walker; Allan Moss as well as a respectable Australian domestic institutions.
- Solid base in HIV testing obtaining some excellent partners including Mylan who supplies 40% of the worlds HIV medication. The plan is to move onto other areas for their test including blood based pregnancy, prostate testing.
- AT1 business charged by COVID-19 as their device does not require pathology labs and provide answers within minutes. In the past 4 weeks the company has received an order from one of their customers for 2.5m devices for 2020 and remain in discussions with two US based COVID-19 test manufactures for supply of OEM test devices.
- Since IPO, share price has performed strongly and we believe there is still further upside from here in AT1's core HIV business as well as the emerging COVID-19 markets.

AT1 AU	
Entry Price	\$0.16
Valuation	\$0.63
Current Price	\$0.34
Return p.a	14.0%

Screen	Score	Notes
Valuation TR	2	DCF on current contracts
Downside TR	0	DCF on 30% less current contracts
Industry Structure	1	Strong demand for product
Management & Board	2	Board owns <10%
Funding Ability	1	Recently raised IPO fund
ESG Score	0	ESG disclosure is low
Total	6	

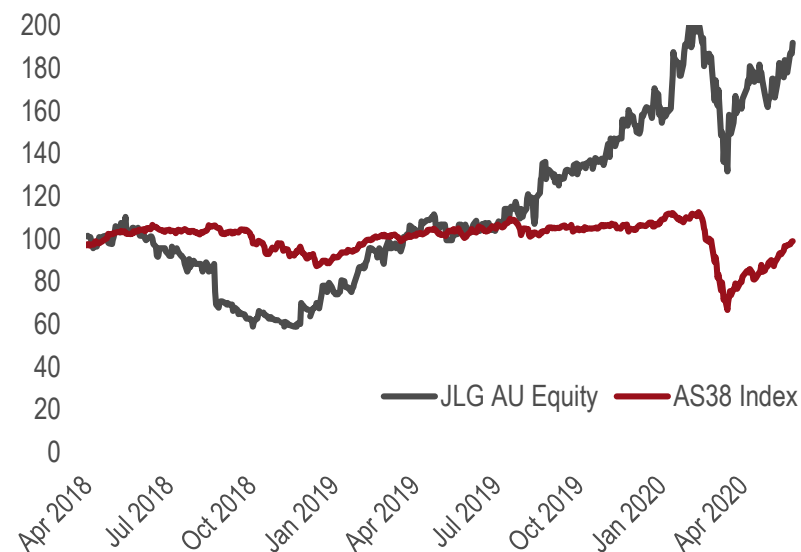
Johns Lyng Group – JLG AU

- JLG is an integrated building services company focused on the insurance and restoration market across Australia.
- The company continues to grow their BAU (business as usual) segment organically; large number of CAT events (catastrophic weather events) that have increased the companies higher margin order book for the next 2+ years.
- JLG's Restorx (which offers commercial and industrial cleaning services) recently launched a COVID-19 Rapid Response service.
- We will continue to hold JLG in FY20 as we expect consistent earnings from the BAU segment as well as strong growth from the CAT side of JLG. However, given the strong share price run we will be trimming where appropriate.

Screen	Score	Notes
Valuation TR	1	12x EV/EBITDA FY2022
Downside TR	0	80% EBITDA and 80% multiple
Industry Structure	1	Strong recurring type revenue
Management & Board	1	<30% ownership
Funding Ability	1	Net cash balance sheet
ESG Score	1	Impact low
Total	5	

JLG AU	
Entry Price	\$1.00
Valuation	\$3.14
Current Price	\$2.42
Return p.a	12.0%

JLG vs ASX Small Ords



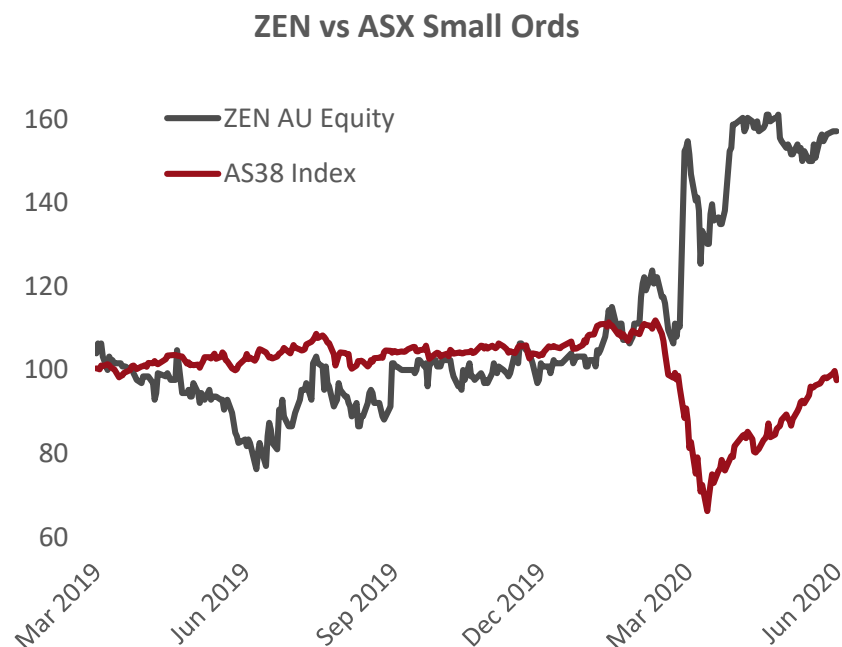
Zenith Energy – ZEN AU



- Zenith Energy (ZEN) is an emerging player in the provision of remote power supply to the rapidly growing and evolving 'off grid' and 'fringe of grid' markets in Australia and abroad.
- Given ZEN's balance sheet, the company would either come back to the market or look at off balance sheet solutions. Either situation, would have resulted in a significant re-rating and broader investor appeal.
- Given historical acquisition prices paid for both Energy Developments and Pacific Energy we believed ZEN should be valued around A\$1.02 which was significant upside from our purchase price.
- In March, ZEN received a takeover bid from Pacific Equity Partners for a A\$1.01 per share.

ZEN AU	
Entry Price	\$0.58
Valuation	\$1.02
Current Price	\$0.95

Screen	Score	Notes
Valuation TR	3	6.5x EV/EBITDA 3 year valuation
Downside TR	0	5.85x EV/EBITDA 3 year valuation
Industry Structure	1	Stable revenue linked to gold
Management & Board	2	Board owns <10%
Funding Ability	-1	Recently raised
ESG Score	0	ESG disclosure is low
Total	5	



As at 31 May 2020

Source: Ellerston Capital/Bloomberg



Q & A

Why Ellerston Micro Cap?



Established experience in the Micro Cap space

Understand liquidity; access to multiple sources of liquidity

Strong stock picking ability combined with Corporate Advisory expertise

Strong risk management focus



Highly experienced in the unlisted space

One of the largest balance sheet to deploy capital to pre IPO's

Experience with volatility management

We see a lot



Compliments our existing established strategies

VC/PE, Pre IPO, Small Caps, Mid Caps

Leverage off the broader Ellerston team

Ellerston Distribution & Investor Relations Team ELLERSTON CAPITAL

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Thank you

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