

# Ellerston Australian Micro Cap Fund

Performance Report | June 20

## PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year p.a.	Since Inception (p.a.)
Net <sup>^</sup>	7.22%	44.27%	0.81%	21.79%	16.68%	19.47%
Benchmark*	-1.95%	23.90%	-9.21%	-5.67%	6.10%	5.74%
Alpha	9.17%	20.37%	10.02%	27.46%	10.58%	13.73%

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

In June the Ellerston Australian Micro Cap Fund delivered 7.2% compared to the Small Ordinaries accumulation index which delivered -2.0%, outperforming the index by 9.2%. The best performing sector was Utilities (only has 1 stock in it) which was up 58% on the back of a takeover offer for Infigen by UAC Energy, which subsequently got surpassed by a bid from Iberdrola Renewables. The worst performing sector was Telecommunications which was down 6.3% followed by Industrials which was down 4.7%.

Turning now to FY20, June closed out the financial year which has been a volatile one with the Small Ordinaries closing down 6%. During the first half of the year the market traded sideways, and the major correction occurred in late February where we subsequently saw a 41% fall from top to bottom (late March). As the market started to work its way through the health and economic implications of COVID-19, we saw a partial recovery with Small Ordinaries which is now around 13% off its previous high. Over the same period of time the Ellerston Australian Micro Cap Fund delivered a 27.5% alpha for the year or 13.7% alpha per annum since the Fund's inception. We would like to thank all of our investors for their support throughout this period, and we will continue to search for opportunities which provide a 50% absolute total return over three years (15% per annum) on a three to one risk return basis.

June was a busy month for the team as we continued to hit the "virtual pavement" to assess our holdings before companies go into blackout. July is usually what the market calls confession season as companies rule off their books for the June year end and inform the market if they are going to miss consensus expectations. However, many companies have been frequently updating the market, given the events that have transpired (both globally and domestically) and the consequential economic uncertainty. Accordingly, we have been extremely busy reassessing our investments and stress-testing our assumptions.

A key highlight during the month was the tie-up between two of our core holdings. Uniti Group (UWL) acquired rival OptiComm (OPC), building what will become an even more formidable competitor to NBN Co, as an owner and operator of fibre infrastructure. From our perspective, the strategic merits of the deal stack up, and hence we participated in the UWL capital raise. In addition to the \$10m run rate of flagged synergies (which we think there is considerable upside to), the combined business will benefit from larger scale and diversification. The organic growth pipeline is solid and offers excellent visibility, with approximately 190,000 (and growing) contracted lots to be built over the next 5-10 years. Currently around 70% of the combined revenues are recurring in nature, but this will continue to increase as newly constructed lots are activated, increasing earnings stability. The telco-infrastructure sector is enjoying major structural tailwinds, stemming from rapidly growing demand for high-speed internet, the internet of things, and increasing data consumption. In our view, the COVID-19 outbreak and rising prevalence of working from home accelerates this structural trend as consumers switch to higher speed internet plans, driving revenue per user. With a sharp management team firmly in place, we think Uniti is well placed to capitalise on these tailwinds for many years to come.

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

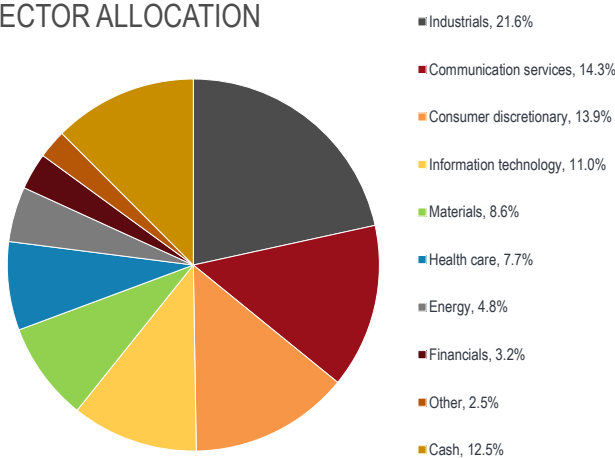
<b>Strategy Inception</b>	1 May 2017
<b>Portfolio Manager</b>	David Keelan & Alexandra Clarke
<b>Application Price</b>	\$1.5950
<b>Net Asset Value</b>	\$1.5910
<b>Redemption Price</b>	\$1.5870
<b>Liquidity</b>	Daily
<b>No Stocks</b>	45
<b>Management Fee</b>	1.20%

## PORTFOLIO CHARACTERISTICS

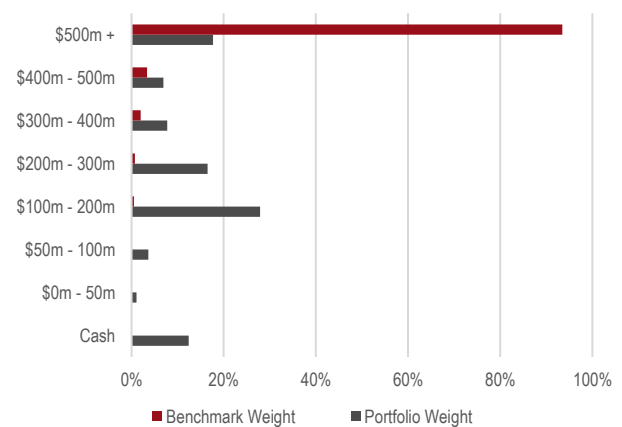
### KEY PORTFOLIO METRICS

FY20e	Fund	Benchmark
Price/Earnings	18.4x	20.0x
Dividend Yield	1.7%	4.5%
Net Debt/EBITDA	0.15x	2.26x

### 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)

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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](mailto:info@ellerstoncapital.com) or visit us at <https://ellerstoncapital.com/>

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