Ellerston Capital

Ellerston Australian Micro Cap Fund

Performance Report | September 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year p.a.	Since Inception (p.a.)
Net^	-1.99%	14.61%	65.35%	24.50%	18.64%	22.72%
Benchmark*	-2.82%	5.67%	30.93%	-3.33%	6.53%	7.02%
Alpha	0.83%	8.94%	34.42%	27.83%	12.11%	15.70%

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

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	$1.7113
Net Asset Value	$1.7070
Redemption Price	$1.7027
Liquidity	Daily
No Stocks	45
Management Fee	1.20%

COMMENTARY

In September, the Ellerston Australian Micro Cap Fund outperformed the Small Ordinaries accumulation index by 0.8%. September was a volatile month for the market, with the index up c3.4% in the first week of trading before giving up all its gains and finishing in the red. The volatility was driven by a broader market selloff offshore (particularly around Tech and US stimulus concerns) along with changing views on the likelihood of COVID-19 restrictions easing globally (2nd/3rd waves). Consumer Discretionary was the standout sector for the month, as investors continued to seek out exposure to resurgent retail spending and re-opening trades including tourism, outdoor media and the like.

September was a busy month for the Fund as we met with over 45 different companies throughout the period. While we continuously review our portfolio, we find post the August reporting season we have additional data points, which results in the portfolio undergoing a preverbal spring clean. This allows us to reassess our three-year view on stocks and readjust the weightings in accordance with our level of conviction, along with any upcoming catalysts (AGM's, capital management, potential acquisitions etc). When we consider new investments, there are several key criteria which need to be met before we start accumulating a position. But ultimately it boils down to a key question -- is the company in charge of its own destiny, or does it require external catalysts to ensure it can grow? Given the volatility we are experiencing in global markets, we'd much rather invest in companies which can drive growth by internal means (working capital improvements, paying down debt with strong cashflow, changing funding cost etc) or grow market share via innovation and/or disruption.

Two stocks which were added to the portfolio during September were Bid Energy (BID AU) and SRJ Technologies (SRJ AU).

Bid Energy (BID AU) has developed a SaaS based platform which allows enterprises to easily monitor real-time energy use, while ensuring that energy bills are accurate. BID's platform outsources the workflow that relates to energy spend, from bill collection through to payment, using automation technology which becomes more efficient as the group builds scale. Over the last few years, BID has continued to build out its platform, and its model is slowly progressing from a 'dollars per meter per month' structure to one where BID's modular service offering becomes part of a variety of ecosystems which will help drive scale and accelerate revenue growth. BID continues to sign high profile customers both in Australia and the UK, which in our view demonstrates its value and effectiveness. As well as building out its reputation in Commercial, it has recently been added to the Xero Connect platform which could provide a sizeable new revenue stream for the group from the SME market. We believe BID is on track to deliver an EBITDA breakeven result at the end of FY21 which will be a crucial inflection point for the stock.

SRJ Technologies (SRJ AU) was established in 2011 and is a weld free solution (permanent & temporary) for pipes. The best way to think about it is the "Shark Bite" for the industrial market. The technology is currently protected in 26 countries and has a further 7 under application. The main advantage of the product is the 90% reduction in labour, which also leads to 80% reduction in cost of installation. SRJ has spent years building agreements with large multi nationals to fit it into their opex and capex programs. COVID-19 has been a great accelerator for SRJ as it has seen numerous companies looking for a solution to reduce the number of staff on site. We have been in active discussion with the company for nearly 2 years and always believed its product was a game changer for the industry. However, first we wanted to see management put several more runs on the boards and sign up a more diversified client list. Following several conversations with management, we are confident in their ability to execute on this global play. As such when the opportunity presented to invest at the IPO we were more than pleased to participate. We entered our position at the IPO price of

A$0.50 and pleasingly, the stock closed the end of September at A$0.70. Late in September, SRJ signed a strategic alliance with Mitsui who has a global portfolio of infrastructure assets valued at more than US$100bn. This is a meaningful alliance for SRJ and should support strong growth in the years to come.

Moving forward to the final quarter of CY20, we believe markets are likely to remain volatile as we approach the US Presidential election. Closer to home we think the Federal Budget is likely to continue supporting the consumer, and the tax breaks should continue to stimulate broader Australian economy. As such we are maintaining conviction in the portfolio and believe AGM season (Oct/Nov) is likely to include a plethora of interesting trading updates, especially given the current environment. While on face value the market looks expensive, with the small ordinaries index currently trading on a one year forward PE of 19.7x (which is on a 23.6% premium to its five year average) we believe consensus earnings in some sectors are likely to see some upgrades come through. It's also worth noting that interest rates are at historical lows which should see markets more willing to pay a higher multiple for earnings. As such, we continue to believe that the 4Q will be a stock pickers market which is just the sort of market we like to participate in.

Regards

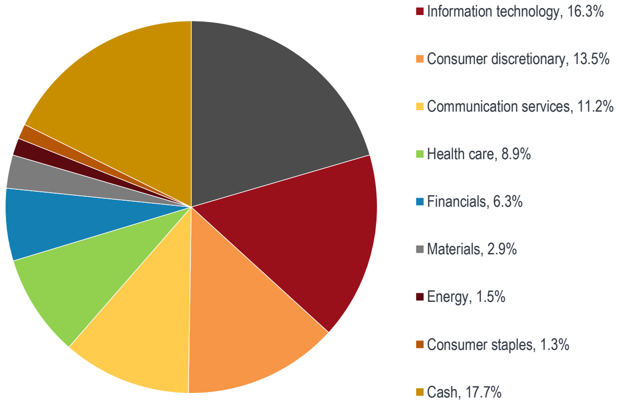
David Keelan & Alexandra Clarke

PORTFOLIO CHARACTERISTICS

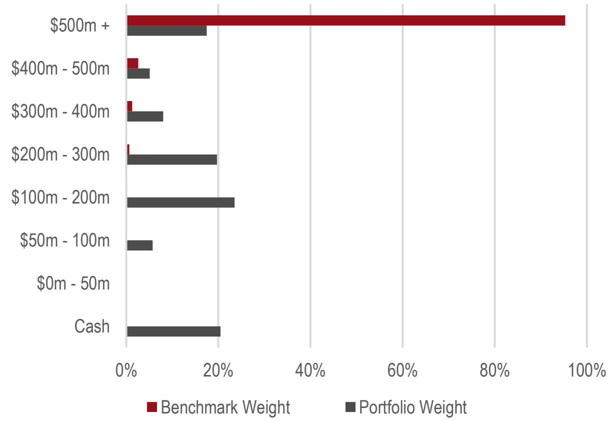
KEY PORTFOLIO METRICS

FY20e	Fund	Benchmark
Price/Earnings	19.0x	21.4x
Dividend Yield	1.5%	2.7%
Net Debt/EBITDA	0.0x	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

Should investors have any questions or queries regarding the Fund,
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