

Ellerston Australian Micro Cap Fund

Performance Report | July 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year p.a.	Since Inception (p.a.)
Net [^]	7.50%	24.13%	3.36%	23.87%	17.77%	21.60%
Benchmark*	1.39%	9.94%	-10.95%	-8.49%	6.47%	6.04%
Alpha	6.11%	14.19%	14.31%	32.36%	11.30%	15.56%

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 July, the Ellerston Australian MicroCap Fund delivered 7.5%, compared to the Small Ordinaries accumulation index which delivered 1.4%, outperforming the index by 6.1%. The market was volatile on the back of the looming Job-keeper roll off (which was extended during the month) and the increasing possibility of a second wave of COVID-19 hitting Australia. In July, Materials was the best performing sector, rising by 5.8% driven by the continued strength in the gold price (which hit a record high in USD terms) and strong base metal prices (particularly copper and nickel). The other sector which did well in July was Financials, which was up 2.8% on the back of strong FUM updates from Netwealth and Hub24. The laggards on the market were Healthcare and Energy, down 3.6% and 3.1%, respectively.

July was a busy month for the team with numerous companies in the portfolio either releasing their quarterly results or providing trading updates ahead of the coming reporting season. Pleasingly, the majority of the updates have been either in-line with or exceeded our expectations. Also, in July, Aroa Biosurgery (ARX AU) one of the Fund's Pre-IPO positions, floated on the ASX, in what has thus far been a hugely successful IPO. The company is a NZ based soft tissue regeneration company founded in 2008. ARX has developed and manufactures medical devices for hernia repair, wound healing, soft tissue reinforcement and reconstructive surgery. All of ARX's products feature a proprietary extracellular matrix (ECM) biomaterial derived from ovine (sheep) forestomach. ARX currently has regulatory approval in over 35 countries, however, the main focus is rolling out in the US. The Group's distribution partner is Tela Bio which has established sales into 500 hospitals and is expanding its sales team from 30 to 60 over the next 12 months. We invested in ARX in April at an equivalent of 60 cents, a discount to the 75 cent IPO price, and at the end of July ARX closed at A\$1.48. We look forward to seeing ARX execute on several strategic initiatives, in what we expect to be a catalyst-rich year.

Late in July we participated in the IkeGPS (IKE AU) capital raise, which was primarily to fund working capital for a significant contract which the group recently won. IKE has a technology platform which it uses to collect, analyse and manage networks, which are attached to power poles across North America. We were attracted to IKE's tier 1 customer base including AT&T, Verizon and Crown Castle. In addition, we think the group provides a highly appealing solution, which enables utility providers and telco companies (fibre, 5G, phone) to assess and deploy their networks in a faster, more cost-effective and safer fashion. IKE's business model is highly attractive given a high proportion of its revenue is recurring and attracts gross margins exceeding 70%. We believe there are a number of opportunities for IKE to continue to grow in the US and look forward to these catalyst being met.

As we head into reporting season in August, we will be keeping a close eye on a number of factors including: costs bases which are being supported by fiscal stimulus; working capital requirements; scenarios where we think earnings have been pulled-forward (and may not be sustainable); and ongoing balance sheet health. We will also be playing closer attention to any of our names which have meaningful exposure to Victoria, and could potentially be disrupted by the recently introduced stage-4 restrictions. We do not anticipate companies to provide quantitative guidance for FY21, given the unpredictability of the current economy. However, in many cases we are likely to see trading updates for the first 6-8 weeks of the financial year, which will give a good indication of how the companies are faring. In our view, the companies which exhibit sound capital management and cashflow strength will be rewarded by the market. We believe new opportunities will continue to present themselves and expect numerous companies may be looking to raise capital in August and September. While this reporting season will undoubtedly be different to prior years, we continue to stress-test our positions, and we remain confident our process and portfolio are well positioned to weather the current environment.

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

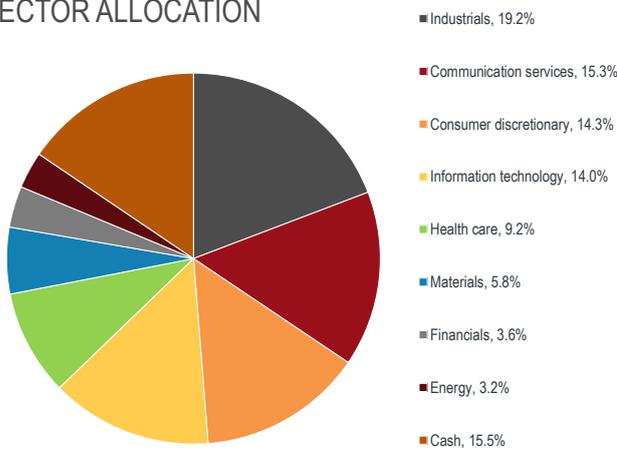
Strategy Inception	1 May 2017
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	\$1.6051
Net Asset Value	\$1.6011
Redemption Price	\$1.5971
Liquidity	Daily
No Stocks	46
Management Fee	1.20%

PORTFOLIO CHARACTERISTICS

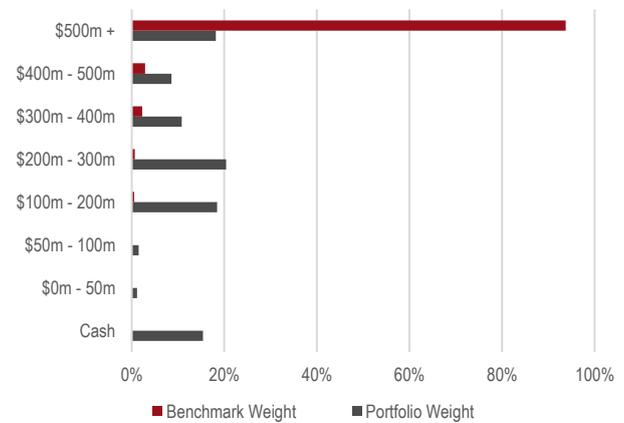
KEY PORTFOLIO METRICS

FY20e	Fund	Benchmark
Price/Earnings	19.1x	19.3x
Dividend Yield	2.2%	4.2%
Net Debt/EBITDA	0.2x	2.3x

SECTOR ALLOCATION



MARKET CAPITALISATION



All holding enquiries should be directed to our registrar, [Link Market Services](http://linkmarketservices.com.au) on 1800 992 149 or ellerston@linkmarketservices.com.au

Should investors have any questions or queries regarding the Fund, please contact our [Investor Relations team](mailto:info@ellerstoncapital.com) on 02 9021 7701 or info@ellerstoncapital.com or visit us at <https://ellerstoncapital.com/>

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