

Ellerston Australian Micro Cap Fund

Performance Report | August 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year p.a.	Since Inception (p.a.)
Net [^]	8.78%	25.39%	22.90%	34.05%	19.96%	24.10%
Benchmark*	7.24%	6.61%	4.58%	2.07%	8.02%	8.13%
Alpha	1.54%	18.78%	18.32%	31.98%	11.94%	15.97%

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 August, the Ellerston Micro Cap Fund delivered 8.8%, compared to the Small Ordinaries Accumulation Index which delivered 7.2%, outperforming the Index by 1.5%. The market had an incredibly strong month supported by Consumer Discretionary which was up nearly 16.0%, Industrials were up 10.0%, and Telecommunication Services were up 8.3%. Weighing on the market was Materials which was down 1.1%. Consequently, the Small Industrials Index performed even stronger than the Small Ordinaries, rising by 9.6% during the month.

Turning to reporting season, the August results were generally better than the market had expected, particularly those leveraged to a domestic recovery. Consequently, the Retailers and Travel stocks surprised on the upside, supported by generous job keeper payments, rental holidays and early super withdrawals. Additionally, companies which demonstrated structural cost reductions, and resilience business models were applauded by the market. In our view, many of these companies are likely to continue to surprise on the upside, as the positive operating jaws deliver earnings growth.

As expected, very few companies provided earnings guidance during reporting season. As such, additional emphasis will be placed on the trading updates and outlook commentary during the upcoming AGMs. Overall, consensus forecasts for the ASX200 have factored in a c20-25% decline in EPS for CY20 before rebounding back towards 2019 levels by 2022. At this stage we think consensus forecasts are achievable, but we will be closely watching the impact of the stimulus runoff and any re-escalation of the current health crisis.

Looking forward we are keeping a close eye on the AUD/USD which rose 3% in August and is now up over 10% over the last year. The strong AUD will weigh on companies with significant US dollar revenues and may present a headwind as they cycle the previous period. Subsequently, we are looking at companies' currency exposure, natural hedges, and hedging policies closely. Over the next six months we expect to see companies with strong balance sheets stepping up M&A activity as weaker competitors struggle in the current environment.

Two stocks which provided solid trading updates in August were Money3 (MNY AU) and Bigtincan (BTH AU). Both stocks are very different businesses, one providing funding for used cars and the other an international SaaS business. However, both were able to excel in the current difficult environment.

Bigtincan (BTH AU) was one of the strongest performing stocks in the portfolio, rising by 40% during August. The company provides sales enablement software to large multinationals across a plethora of industries including telco, retail, financial services, life sciences, government and technology, to name a few. The software is a compelling, highly disruptive offering in an immature, but rapidly growing global market. We are encouraged by the strong revenue retention rate (exceeding 120%), which reflects the increasing utilisation across the existing customer base, along with upsell to higher-tiered solutions – both of which attest to its value. BTH reported a solid FY20 result, and this momentum is showing no signs of slowing with management guiding to approximately 40% growth in ARR in FY21. With over \$70m cash in the bank, the company is well funded, with a healthy pipeline of accretive acquisitions which will likely add to its organically growing recurring revenue base while bolstering its tech platform.

Money3 (MNY AU), one of our core holdings and its share price increased by a solid 27% during the month. The company is a non-bank lender focusing primarily on used car finance. While COVID-19 disrupted originations, the company's biggest challenge was the spike in cash collections, on the back of the early superannuation access scheme. Whilst this weighed on the closing loan balance, we prefer this scenario over the alternative which is customers unable to pay. Despite higher quality loan book the company bumped up its provisioning (reflecting the higher unemployment outlook), a prudent measure in our view. Management guided to an FY21 closing loan balance of over \$500m, a \$66m increase on FY20, and highlighted July originations had returned to record levels. The balance sheet is conservatively geared, and pleasingly management have resumed discussions about securing improved funding terms for FY21. This is a meaningful catalyst, which would boost net interest margins, but also allow the firm to move higher up the credit curve.

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

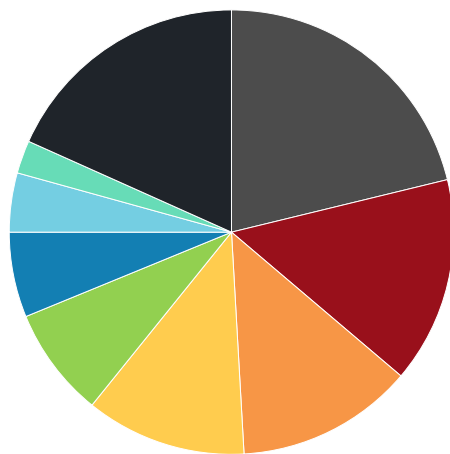
Strategy Inception	1 May 2017
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	\$1.7461
Net Asset Value	\$1.7417
Redemption Price	\$1.7373
Liquidity	Daily
No Stocks	47
Management Fee	1.20%

PORTFOLIO CHARACTERISTICS

KEY PORTFOLIO METRICS

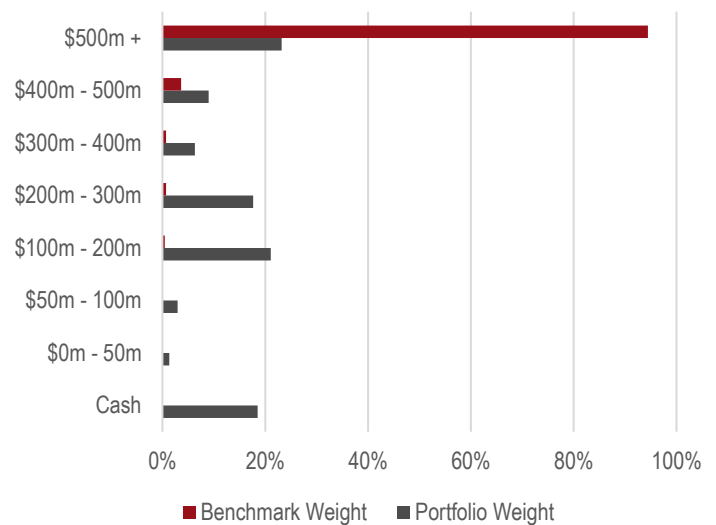
FY21e	Fund	Benchmark
Price/Earnings	20.0x	18.7x
Dividend Yield	1.8%	3.0%
Net Debt/EBITDA	0.2x	1.4x

SECTOR ALLOCATION



- Industrials, 21.2%
- Consumer discretionary, 15.0%
- Information technology, 12.9%
- Communication services, 11.7%
- Health care, 8.0%
- Materials, 6.2%
- Financials, 4.3%
- Energy, 2.4%
- Cash, 18.3%

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, 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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