

Ellerston Australian Micro Cap Fund

Performance Report | November 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year p.a.	Since Inception (p.a.)
Net [^]	9.10%	9.46%	37.25%	29.68%	19.68%	25.37%
Benchmark*	10.27%	7.66%	14.78%	5.98%	6.73%	9.78%
Alpha	-1.17%	1.80%	22.47%	23.70%	12.95%	15.59%

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

November was a solid month for the Ellerston Australian Micro Cap Fund, which increased by 9.1%, marginally behind the Small Ordinaries Accumulation Index which rose by 10.3%. Global equity markets soared during the month, initially sparked by the US election outcome, and boosted by positive COVID-19 vaccine announcements from Pfizer, Moderna and AstraZeneca. With each of these vaccines looking promising, the markets experienced a violent rotation out of growth, technology and COVID-19 beneficiaries – into value stocks, cyclicals, and re-opening trades. Energy and financials were the strongest sectors increasing by 19% and 16% respectively, whereas information technology was the weakest sector and rose by a modest 3%. Generally, the portfolio has a slight tilt towards growth and technology, however it was well balanced heading into November. We had already taken profits on several of the COVID-19 beneficiaries and added exposure to more value and re-opening names.

Atomos was a standout performer, rising by 60% in November on the back of solid trading momentum. Management highlighted October sales were up 200%, compared to the 2H20 run-rate sales. This marked a return to pre-COVID levels, and 3 months earlier than expected. The first units of the NEON 17" were shipped in November and the early feedback from customers was glowing. Further units of the NEON 17" and 24" will be shipped in December, and the company has a solid pipeline of new product releases for 2H21. The company has also been cutting costs, and pleasingly the fixed cost base remains well below pre-COVID levels and the business is cash flow positive.

Betmakers was one of our strongest performers, rising by 65% during November. This rally reflects some positive movement on the regulatory front, whereby a Bill authorising fixed odds wagering on horse races, through a fixed odds wagering system, was introduced to New Jersey Legislature. While there are still a couple of steps remaining before the Bill is made law, it is encouraging that it passed through the senate with flying colours. A favourable regulatory outcome has the potential to materially accelerate Betmakers' North American expansion plans. We think the proposed model is much more appealing (to all stakeholders) and should create a sense of urgency for both the racetracks and bookmakers to align themselves with Betmakers. The company will essentially act as a conduit, connecting hundreds of racetracks to wagering operators across the globe. As seen in Australia, a modern and digital fixed-odds offering has the potential to rapidly enhance the racing industry. Betmakers is at the forefront, and we think is best placed to capitalise on this rare and exciting opportunity.

Early in December Betmakers launched a \$50m capital raise to acquire the tote and digital businesses from online sportsbetting company Sportech. We think the strategic merits of the deal really stack up, as it will accelerate their entry into the US racing market, establishing a meaningful presence in 36 states and over 200 venues. The cross-sell opportunities are enormous, and Betmakers will be able to offer its customers a more comprehensive solution, including pari-mutual betting, fixed odds, and Managed Trading Services.

As the year draws to a close, the equity markets are as busy as ever, with a seemingly never-ending pipeline of IPOs and capital raises. In keeping with our strict investment process, we remain disciplined, and extremely selective about which transactions we participate in. We heavily scrutinise every proposal that comes across our desk and are wary of opportunistically timed deals. As always, our preference is to find high quality businesses, with long-term structural tailwinds, savvy management teams, and a clear path to improving profitability. We prefer businesses that can thrive in a variety of economic environments rather than getting too caught up with the latest craze.

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

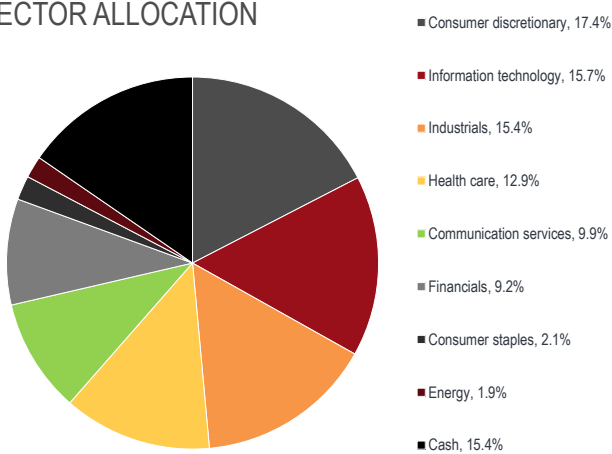
Strategy Inception	1 May 2017
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	\$1.9113
Net Asset Value	\$1.9065
Redemption Price	\$1.9017
Liquidity	Daily
No Stocks	48
Management Fee	1.20%
Performance Fee	20%
Buy/Sell Spread	0.25%/0.25%

PORTFOLIO CHARACTERISTICS

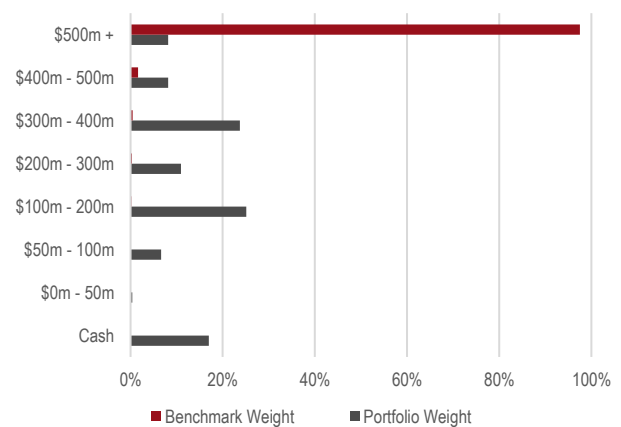
KEY PORTFOLIO METRICS

FY21e	Fund	Benchmark
Price/Earnings	20.3x	20.2x
Dividend Yield	2.1%	2.7%
Net Debt/EBITDA	0.1x	1.13x

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

SYDNEY OFFICE
Level 11, 179 Elizabeth Street,
Sydney NSW 2000

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/>

MELBOURNE OFFICE
Level 4, 75-77 Flinders Lane,
Melbourne VIC, 3000

DISCLAIMER

This report has been prepared by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, responsible entity of the Ellerston Australian Micro Cap Fund (ARSN 619 727 356) without taking account the objectives, financial situation or needs of individuals. Before making an investment decision about the Fund persons should read the Fund's Product Disclosure Statement which can be obtained by contacting info@ellerstoncapital.com and obtain advice from an appropriate financial adviser. Units in the Fund are issued by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000. This information is current as at the date on the first page.

This material has been prepared based on information believed to be accurate at the time of publication. Assumptions and estimates may have been made which may prove not to be accurate. Ellerston Capital undertakes no responsibility to correct any such inaccuracy. Subsequent changes in circumstances may occur at any time and may impact the accuracy of the information. To the full extent permitted by law, none of Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, or any member of the Ellerston Capital Limited Group of companies makes any warranty as to the accuracy or completeness of the information in this newsletter and disclaims all liability that may arise due to any information contained in this newsletter being inaccurate, unreliable or incomplete. Past performance is not a reliable indicator of future performance.