

Ellerston Australian Micro Cap Fund

Performance Report | December 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year p.a.	Since Inception (p.a.)
Net [^]	2.04%	13.97%	30.62%	31.68%	18.80%	25.41%
Benchmark*	2.76%	13.83%	20.28%	9.21%	6.57%	10.36%
Alpha	-0.72%	0.14%	10.34%	22.47%	12.23%	15.05%

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

The Ellerston Australian Micro Cap Fund increased by 2.04% during the month of December, marginally trailing the S&P/ASX Small Ordinaries Accumulation Index which rose by 2.76%. December wraps up what was a tumultuous, but overall, incredibly positive year for the Fund. The Fund closed the calendar year up 31.68% (net of fees), 22.47% ahead of the Index, an extremely pleasing result. Resources were the strongest performer during December, with Materials and Energy up 8%, and 7% respectively. Telecommunications and Technology, on the other hand, were the weakest sectors; both slightly in the red. During the month the reopening rally (i.e. travel, leisure, and tourism) lost momentum following the COVID-19 outbreak in the Northern Beaches of NSW, and the discovery of highly contagious strains triggered a resumption of localised lockdowns and a resumption of interstate travel restrictions.

Kelly Partners (KPG) was a solid contributor during December, increasing by 31% and up around 100% for the calendar year to date. The company provides accounting and taxation services to private small and medium enterprises (SMEs) and high net worth individuals. The business is high quality; boasting industry leading EBITDA margins with an extensive pipeline of opportunities (both organic and M&A), and we are attracted to the recurring revenue base. In more recent news, the company announced a partnership with AUB Group, one of Australia's largest insurance broking networks. Under the partnership, KPG will be able to offer accounting and tax services to AUB clients and members, while general and life insurance broking services will be offered to KPG clients. We think the deal will deliver a meaningful earnings uplift from FY22, as it opens a vast network of client opportunities for KPG, while adding value through the broking service offering.

Universal Store (UNI) performed well, growing by 18% during the month, and up over 35% from its recent IPO. The company is an omni-channel clothing retailer, specialising in streetwear, denim, skate clothing and surf wear. Universal is a young, but formidable player in its niche. Its brand awareness is increasing and quickly gaining momentum relative to larger and more mature players like Glue Store and General Pants Co. The growth pipeline is attractive and supported by ongoing store rollouts (we see capacity for the network to almost double in size from here), increasing private label penetration which will support gross margins. Additionally, we see a large opportunity for growth in its online channel, which is still in its infancy, but a high priority given the impact of COVID-19.

Kicking off 2021, our initial priority will be preparation for the 1H21 reporting season. With COVID-19 vaccinations around the corner we think a more normalised trading environment can be expected in the near-to-medium term future. However, the rapid emergence of the Northern Beaches cluster has shown us that we cannot afford to be complacent, and as such we continue to closely monitor any stocks which are susceptible to further restrictions. We are comfortable that our portfolio exposure is balanced heading into the reporting season, and we will also be on the lookout for evidence of sustained improvements in companies that have benefited from the events of the last 12 months. On the deal side, we think the corporate activity of late 2020 is likely to continue for the time being. In keeping with our process, we will heavily scrutinise every proposal that comes across our desk and continue to be wary of opportunistically timed deals. As always, our preference is to find high quality businesses benefiting from long-term structural tailwinds, with solid balance sheets and stronger teams.

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

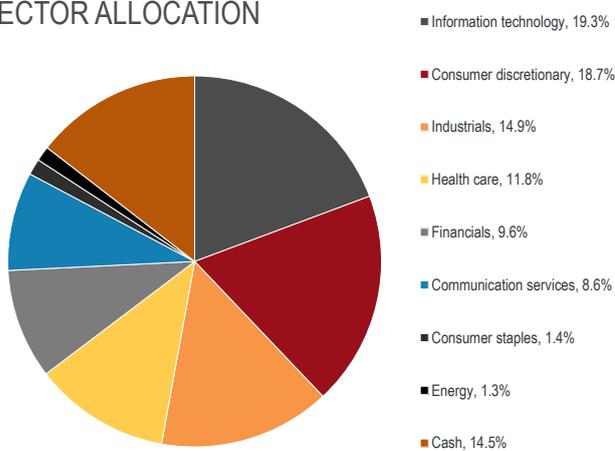
Strategy Inception	1 May 2017
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	\$1.9503
Net Asset Value	\$1.9454
Redemption Price	\$1.9405
Liquidity	Daily
No Stocks	47
Management Fee	1.20%
Performance Fee	20%
Buy/Sell Spread	0.25%/0.25%

PORTFOLIO CHARACTERISTICS

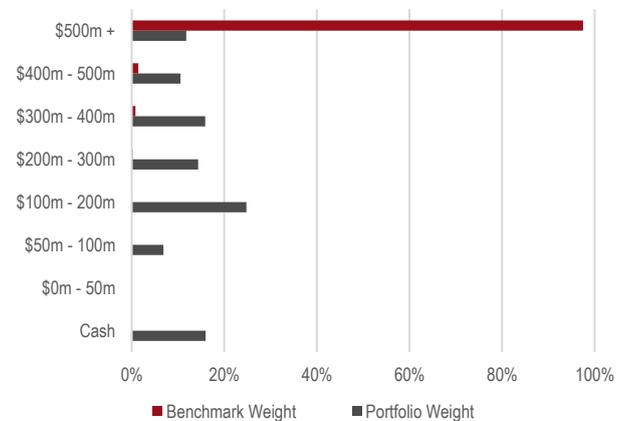
KEY PORTFOLIO METRICS

FY21e	Fund	Benchmark
Price/Earnings	20.2x	20.1x
Dividend Yield	2.1%	2.7%
Net Debt/EBITDA	0.1x	1.09x

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, please contact our **Investor Relations team** on **02 9021 7701** or info@ellerstoncapital.com or visit us at <https://ellerstoncapital.com/>

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

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

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