

Ellerston Australian Micro Cap Fund

Performance Report | January 21

PERFORMANCE SUMMARY

| Performance | 1 Month | 3 Months | 6 Months | 1 Year | 3 Year p.a. | Since Inception (p.a.) |
|------------------|---------|----------|----------|--------|-------------|------------------------|
| Net [^] | 1.11% | 12.56% | 22.85% | 26.98% | 18.54% | 25.15% |
| Benchmark* | -0.25% | 13.03% | 18.33% | 5.38% | 6.68% | 10.04% |
| Alpha | 1.36% | -0.47% | 4.52% | 21.60% | 11.86% | 15.11% |

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 1.1% during the month of January, outperforming the S&P/ASX Small Ordinaries Accumulation Index by 1.4%. This outperformance was pleasing, as January was a volatile month for the Index with an intra-month high of 3.3% before closing the month in negative territory. During the month we continued to see a rotation from growth stocks into more cyclical value names. We also saw a plethora of trading updates, particularly from the retailers, with stocks like Universal Stores, Super Retail, Accent Group and JB-Hi-Fi providing very robust updates.

Two stocks that provided positive updates during the month were Aussie Broadband (ABB) and Booktopia (BKG).

Aussie Broadband, one of our core positions, was a standout performer during the month of January rising by 24%. Pleasingly, the company released a 1H21 trading update which highlighted both subscriber numbers and EBITDA, tracking comfortably ahead of the prospectus forecasts, and market expectations. The strength in subscriber numbers reflects the superior service offering, extensive marketing efforts, and growing brand equity. Accordingly, we think ABB will continue taking share from larger incumbents for years to come. On the margin side, ABB has started reaping the benefits of operating leverage, and has been able to scale with lower than expected incremental cost. Margin expansion will remain a key theme over the next few years, given the rapidly growing user base, firming ARPU, and the company's dark fibre construction project.

Booktopia shares continued to grind higher, rising by 8% during January. BKG kicked off the year with solid update on the 1H21 trading, highlighting the strongest December in the company's history, and achieving over 80% of the full year's EBITDA target in the first half. The strong top-line reflects solid demand during the busy Christmas period, above-expectation returns on marketing, and the ongoing shift towards online shopping, a trend which Booktopia is best placed to capitalise on. The rapid EBITDA improvement is supported by operating leverage, and the recent investment into automation – both of which will drive margin improvement for the next three years.

Looking forward to February reporting season we will be keeping a close eye on a number of factors including:

- Pull forward of earnings given recent fiscal stimulus or benefits of COVID-19;
- Impacts from higher foreign exchange (FX) – since mid-October the AUD/USD has rallied over 10% which will have an impact on the retail sector and those companies with offshore earnings; and
- Balance sheets being propped up by government support.

The market is trading at a premium to its long run average however, we are currently experiencing a very low interest rate environment which will drive up valuations as the market seeks out asset classes with higher returns. We think capital flowing into equities and the market looking through to FY22 "normalised earnings" is likely to see valuations remain elevated in the near term. As such we remain disciplined in our investment approach and continue to seek out a three to one risk reward investments.

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

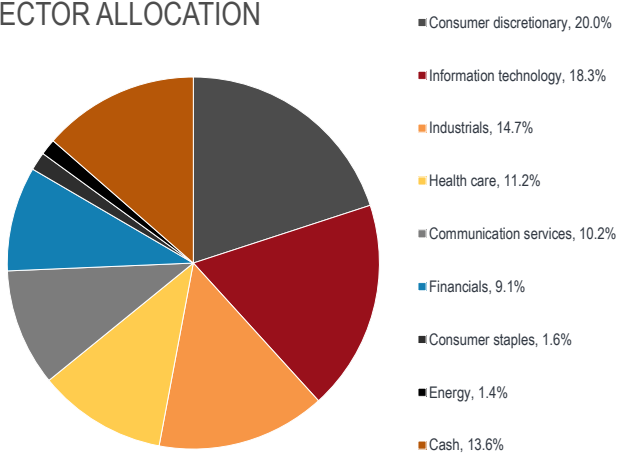
| | |
|---------------------------|---------------------------------|
| Strategy Inception | 1 May 2017 |
| Portfolio Manager | David Keelan & Alexandra Clarke |
| Application Price | \$1.9718 |
| Net Asset Value | \$1.9669 |
| Redemption Price | \$1.9620 |
| Liquidity | Daily |
| No Stocks | 48 |
| Management Fee | 1.20% |
| Performance Fee | 20% |
| Buy/Sell Spread | 0.25%/0.25% |

PORTFOLIO CHARACTERISTICS

KEY PORTFOLIO METRICS

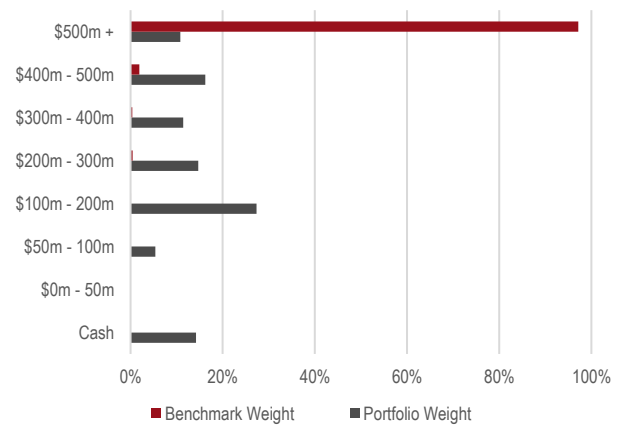
| FY21e | Fund | Benchmark |
|-----------------|-------|-----------|
| Price/Earnings | 20.4x | 20.8x |
| Dividend Yield | 2.0% | 2.7% |
| Net Debt/EBITDA | 0.1x | 1.1x |

SECTOR ALLOCATION



Source: Ellerston Capital

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

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

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