

Ellerston Australian Micro Cap Fund

Performance Report, February 2021

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	\$1.9900
Net Asset Value	\$1.9850
Redemption Price	\$1.9800
Liquidity	Daily
No Stocks	52
Management Fee	1.20% p.a.
Performance Fee	20%
Buy/Sell Spread	0.25% On application 0.25% on redemption
Minimum Investment	\$25,000
Minimum Additional Investment	\$5,000
Distribution Frequency	Half Yearly (June & December)

Performance Summary

Performance	1 Month	3 Months	6 Months	1 Year	3 Year p.a.	Since Inception (p.a.)
Net [^]	0.92%	4.12%	13.97%	40.07%	19.90%	24.84%
Benchmark*	1.55%	4.08%	12.05%	17.18%	7.21%	10.26%
Alpha	-0.63%	0.04%	1.92%	22.89%	12.69%	14.58%

[^] 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 Micro Cap Fund delivered 0.92% during the month of February slightly underperforming the Small Ordinary Accumulation Index by -0.63%. The market rallied early in the month before unwinding as global bond yields rose, a key theme in the market of late. This was demonstrated with the Australian 10 year bond yield rising 79bps to 1.88% during the month while the AUD rose 0.7c to \$0.774, while commodity prices also remained elevated. As expected, the sectors which were leveraged to bond yields such as Growth / High PE names underperformed, while deeper value or shorter duration sectors outperformed. Consequently, the Communication Services sector was the best performer up 6.9% (solely driven by the Media sector) followed by Financials up 6.7%. Leading the financials higher were names like Z1P Co (+36%) benefiting from strong 2Q trading update as well as Virgin Money UK (+36%) which benefited from positive outlook commentary on NIM and capital. The worst performing sector was Industrials which was down 8.5% for the month, impacted by the likes of Service Stream (-39%) NRW Holdings (-31%) and Kogan (-24%).

Looking back at reporting season, in January we highlighted three themes which we would be monitoring closely:

- Pull forward of earnings given recent fiscal stimulus or benefits of Covid-19;
- Impacts from higher 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.

For the most part these themes played out. We saw large upgrades from Covid-19 beneficiaries, however, their share price performance was lacklustre. Offshore earners reported better than expected results, which more than offset the FX headwinds. Additionally, the majority of the retailers handed back their Job Keeper payments, given record or near record earnings. Overall, we expect solid earnings growth to continue, however, we think valuations are likely to remain capped given the expectations of rising yields. Despite the ever changing macro backdrop, we remain fundamental stock pickers and look to invest over at least a three year time horizon. Two stocks which provided positive updates during the month were Betmakers and Atomos.

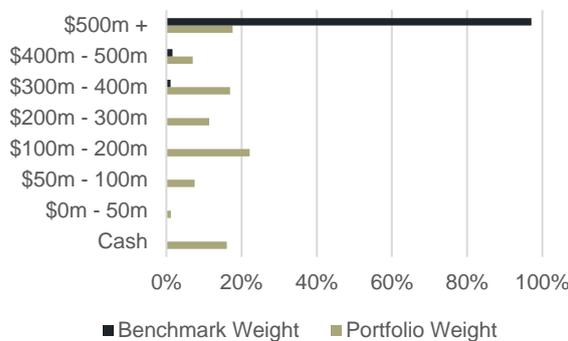
Betmakers, one of our high conviction positions was a standout performer during the month, increasing by 30%. While the interim result was solid, the spotlight was stolen by the news bookmaking legend Matt Tripp had been welcomed into the fold, which drove the share price rally. For context, Matt Trip grew Sportsbet from a small start-up, into Australia’s second largest bookmaker behind Tabcorp, and he is widely known as a pioneer of online sportsbetting. Matt signed an exclusive partnership with Betmakers, with the objective of utilising both his expertise and contacts to accelerate their global B2B wagering strategy. Furthermore, he purchased a \$25m stake in the business, joining Matt Davey and Tom Warehouse in what has become an all-star line-up of strategic shareholders. With the support of these three wagering heavyweights, positive momentum on the regulatory front, and plenty of cash in the bank – the stage has been set. Everything is in place for Betmakers to successfully execute its global expansion.

Atomos had a great month finishing up 20%, driven by a solid 1H21 result. While sales volumes rebounded to pre-COVID levels, it was gross margin expansion, strict cost control, and cash conversion which exceeded market expectations. The company is enjoying structural tailwinds with increasing consumption of video content and increasing prevalence of online streaming platforms accelerating demand for Atomos’ hardware. The outlook is positive and we expect this strong momentum to continue, supported by a healthy pipeline of new product launches, ongoing sales of recent releases, and expansion into new verticals.

Kind Regards,
David Keelan & Alexandra Clarke

PORTFOLIO CHARACTERISTICS

Market Capitalisation

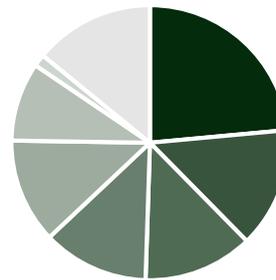


Source: Ellerstion Capital

Key Portfolio Metrics

	FY21e	Fund	Benchmark
Price/Earnings		19.8x	20.6x
Dividend Yield		2.3%	2.8%
Net Debt/EBITDA		0.1x	1.1x

Sector Allocation



- Consumer discretionary, 23.1%
- Information technology, 13.9%
- Industrials, 12.6%
- Health care, 12.2%
- Communication services, 12.1%
- Financials, 9.1%
- Energy, 1.4%
- Cash, 13.8%

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Find out more

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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 ellerstoncapital.com

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