

Ellerston Australian Pre-IPO Fund

Performance Report | June 20

COMMENTARY

The June quarter saw the Small Ordinaries (XSO) cap off a strong run, rallying 43.06% after hitting the low on March 23rd. The XSO remains 14.81% below the February high. The rally off the lows was driven by central bank liquidity, coupled with fiscal stimulus and a recovery in activity as more of the country slowly opened up from its hibernation. The Ellerston Australian Pre-IPO Fund generated a return of -0.50% during the June quarter.

NEW INVESTMENTS

During the quarter we invested into two separate companies i.e. Aroa Biosurgery and SRJ Technologies.

In our March newsletter we discussed how market volatility had created some opportunities to invest in businesses which were nearly ready to IPO before the market meltdown. One case in point was **Aroa Biosurgery (Aroa)**.

Aroa is a New Zealand (NZ) based soft tissue regeneration company founded in 2008. They currently have five key approved products for sale in the US targeting chronic wounds, hernia, soft tissue and breast reconstruction. Aroa currently has regulatory approval in 35 countries, however, the main focus is rolling out in the US. Their distribution partner Tela Bio has established sales into 500 hospitals and is expanding their sales team from 30 to 60 over the next 12 months.

We liked Aroa's technology and its path to market through an established player. As such when the IPO got pulled we saw a fantastic opportunity to gain access to this business in the unlisted world. Consequently, we invested via a convertible preference share which has a 20% discount to an IPO enterprise cap of A\$200m (a substantial discount to the proposed IPO valuation in April).

Aroa officially joined the ASX on July 24th after a \$45 million initial public offering (IPO). The company offered 40 million shares at 75 cents a pop (verse our entry price of 60 cents), valuing the company at A\$225 million. This is a great outcome and shows that having available capital and a Management team that is willing to adapt to the circumstances in front of them can result in a win-win for all involved. After the first day of trading Aroa's shares closed at \$1.35 which is a 125% return from our pre IPO investment and 80% up from the IPO price. Over the coming months we will look to start realising some of these paper gains.

Another investment we made this quarter was in a business called **SRJ Technologies (SRJ)**. SRJ was established in 2011 and is a weld free solution (permanent & temporary) for pipes. The best way to think about it is the "Shark Bite" for the industrial market. The technology is currently protected in 26 countries and has a further seven under application.

The main advantage of the product is the 90% reduction in labour, which also leads to 80% reduction in cost of installation. SRJ has spent years building agreements with large multi nationals to fit it into their opex and capex programs. COVID-19 has been a great accelerator for SRJ as it has meant numerous companies are looking for a solution to reduce number of staff on site. SRJ is currently in negotiations with two large companies that would supercharge their growth.

We have been speaking to the company for nearly two years and always thought their product was a game changer for the industry. However, we wanted to see management put several more runs on the boards and sign up a more diversified client list. Following several discussions with management, we are confident in their ability to execute on this global play. As such, in June we invested via a convertible note that has a valuation cap of A\$42m (pre-money).

Since our investment SRJ has appointed a lead manager to its IPO and is currently working through the ASX listing requirements. On current timing we would expect SRJ to float at the end of September/early October.

EXISTING HOLDINGS

Security	Position	Net MV (Base)	Portfolio Weight
Aroa Biosurgery Limited	25,000	1,500,000	7.40%
SRJ Technologies Group PLC - Convertible Note	970,000	970,000	4.80%
CASH		18,999,025	87.80%
TOTAL		21,469,025	100.00%

Investment Objective

The investment objective of the Fund over time is to generate a positive return above a Hurdle Return of 6% p.a. net of Fees.

Investment Strategy

The Manager will invest using a fundamental, research driven investment strategy to provide returns above the Hurdle Return that are not correlated to listed equity markets. The Manager undertakes fundamental research to selectively identify and invest in quality companies focus on investments in Pre-IPO, IPO, Unlisted Expansion Capital and Listed Microcap Companies, predominantly in Australia but also covering OECD and developed countries.

Key Information

Inception Date	31 March 2020
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	\$0.9950
Net Asset Value	\$0.9950
Redemption Price	\$0.9950
No Stocks	2
Management Fee	1.50%
Performance Fee	20% Net return above hurdle

FUND HOLDINGS / OUTLOOK

Total funds under management (FUM) for the Ellerston Pre IPO Fund were A\$20,154,372 at 30 June 2020. The Fund is currently holding A\$18,999,025 of cash available for investments, alongside our two current investments of Aroa Biosurgery (7.4% of portfolio) and SRJ Holdings (4.8% of portfolio).

Our philosophy around pre IPO's is very simple. We are looking for high quality businesses that have clear pathways to IPO, offering opportunities to achieve superior returns with minimal correlation to the market. We are looking to achieve a 20% IRR and given the current state of the market we believe we are well placed to deliver on this target.

Regards

David Keelan & Alexandra Clarke

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, as trustee of the Ellerston Australian Pre-IPO Fund 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 Information Memorandum 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.