

Ellerston Australian Micro Cap Fund

Performance Report, March 2021

Investment Objective

To provide investors with long term capital growth by 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

Fund Inception*	1 May 2017
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	\$1.9882
Net Asset Value	\$1.9832
Redemption Price	\$1.9782
Liquidity	Daily
No Stocks	55
Management Fee	1.20%
Performance Fee	20%
Buy/Sell Spread	0.25%/0.25%

Performance Summary

Performance	1 Month	3 Months	6 Months	1 Year	3 Year p.a.	Since Inception* (p.a.)
Net [^]	-0.09%	1.94%	16.18%	92.10%	20.47%	24.22%
Benchmark*	0.79%	2.09%	16.20%	52.15%	8.33%	10.25%
Alpha	-0.88%	-0.15%	-0.02%	39.95%	12.14%	13.97%

[^] 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 returned -0.09% in March versus the S&P/ASX Small Ordinaries Accumulation Index return of 0.79%. The trend of heightened volatility continued into March, with investors focused on the timing of an economic recovery and the potential for acceleration in inflation. We also saw Australian bond yields decline modestly in March, after the spike in February which supported yield sensitive sectors including Utilities, Discretionary and Real Estate. At the larger end of the market we saw merger and acquisition (M&A) activity come roaring back, with, Computershare acquiring Wells Fargo's Corporate Trust business; REA Group acquiring Mortgage Choice and Bank of Queensland acquiring ME Bank, to name a few. Given the current low interest rate environment we believe M&A will be an ongoing theme as corporates use cheap debt/high multiples to make accretive acquisitions.

Moving to the S&P/ASX Small Ordinaries Index for March, we saw the pro-cyclical rotation continue with Consumer Staples up, strongly driven by Agricultural exposures like Select Harvest and Graincorp. Retailers were mixed (Premier and Harvey Norman did well) and BNPL players saw a reversal of the strength witnessed in February. Travel and Leisure stocks continued to perform strongly as the market gained confidence on the vaccine rollout, and increasing likelihood that borders will start opening up.

Moving to the portfolio, two stocks which have performed solidly are RightCrowd (RCW) and RPMGlobal Holdings (RUL)

RPM Global (RUL) had a very positive month, increasing by 22%. The company provides advisory consulting, technology and software solutions to the mining industry. During the past two years the business has been transferring its perpetual licence model over to software as a service (SaaS) based billing. This transition has improved earnings visibility, stability and contributed to a multiple re-rating. During March the company provided two material updates, highlighting a jump in ARR (Annual Recurring Revenue) to A\$19.4m, up from A\$14.5m, as at 22nd February 2021 when they released their half year results. Whilst remaining a quiet achiever, we believe the company has proven itself to be truly global, Australian business.

RightCrowd (RCW) is a business we have known for many years, and we've been a holder of the stock since it listed in 2017. RCW has recently completed a capital raising to fund further global growth as they have expanded their partnership with its channel partners including Honeywell. The company generates approximately 70% of its revenues in North America and is well positioned to capitalise on the rebound of the US economy and numerous opportunities in 'Return to Workplace' programs. Part of the proceeds will be used to invest in local executives, sales, support and implementation resources within the US business. The company has also guided to 40% revenue growth through to FY23, and we think this is achievable given the management's strong track record. As such we participated in the recent capital raise and RCW remains a core position for the Fund and it should deliver for the portfolio over the coming months.

PORTFOLIO CHARACTERISTICS

Market Capitalisation

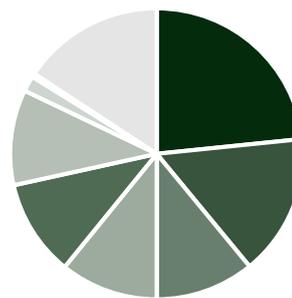


Source: Ellerston Capital.

Key Portfolio Metrics

FY21e	Fund	Benchmark
Price/Earnings	21.6x	22.6x
Dividend Yield	2.2%	2.5%
Net Debt/EBITDA	0.1x	1.1x

Sector Allocation



- Consumer discretionary, 22.9%
- Information technology, 15.4%
- Health care, 10.7%
- Communication services, 10.6%
- Industrials, 10.5%
- Financials, 10.4%
- Energy, 1.7%
- Materials, 0.4%
- Cash, 15.4%

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Find out more

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

All holding enquiries should be directed to our register, Link Market Services on **1800 992 149** or ellerston@linkmarketservices.com.au

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