Ellerston Pre-IPO Fund

Performance Report, December 2020

Investment Objective

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

Investment Strategy

The Manager uses 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(s)	David Keelan & Alexandra Clarke
Application Price	$0.9804
Net Asset Value	$0.9804
Redemption Price	$0.9804
No Stocks	13
Hurdle Return	6% p.a. net of fees
Management Fee	1.50%
Performance Fee	20% of the investment return above the Hurdle Return for each financial year, calculated and accrued quarterly
Distributions	Annually

Performance Summary

Performance	3 Months	6 Months	1 Year	Since Inception (p.a.)*
Ellerston Pre-IPO Fund^	4.89%	16.62%	-	16.04%

^ The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

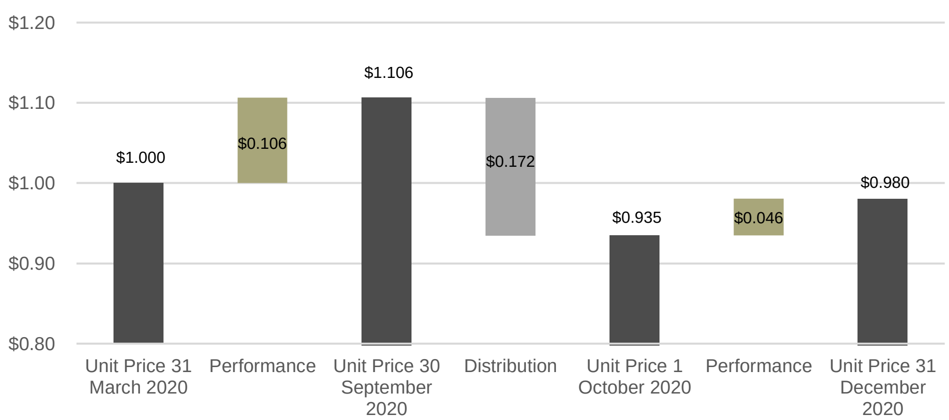
Market Commentary

The December quarter saw the S&P/ASX Small Ordinaries Index (XSO) rally 13.8%. In October we saw the XSO rally over 5% in the first two weeks, on the back of the Federal Budget which contained greater stimulus than the market had anticipated. Renewed COVID-19 concerns, however, saw all these gains wiped out for the market to finish flat. In November, we saw significant market rotation in global equities on positive vaccine news and clarity around the US Election outcome. This wave of positivity resulted in the market rallying 10.2%. December saw the XSO extend its gains by a further 2.5% with the rotation into Financials and Resources (lithium / battery inputs) continuing. Overall, the XSO finished CY20 up 9% or almost 70% from the March 23rd low in what was one of the more unique years we have seen in both the domestic and global markets

Fund News

The Ellerston Pre-IPO Fund generated a return of 4.9% during the December quarter driven by the IPO of Booktopia in November.

Unit Price Since Inception



Source: Ellerston Capital.

As a reminder **Booktopia** sells a wide variety of products including books, eBooks, audio books, DVDs, magazines, specialty stationery and more. Booktopia's success has been driven by its capabilities in e-commerce, Information Technology, logistics, internet marketing and product domain expertise. This has allowed Booktopia to become the only vertically integrated bookseller in Australia. The Company also owns the Angus & Robertson brand (a 130-year-old Australian brand selling a diverse selection of bestsellers) and is developing Booktopia Publisher Services and Booktopia Book Club all of which forms the Booktopia Group. Together, these four lines of business have provided expansion options for Booktopia and movement into new product lines and markets within the book industry. The Group has developed a full-stack e-commerce capability which is ideally suited to the Australian market. Over 13 years of fine tuning its e-commerce engine and maintaining a proprietary, demand-driven stock and pricing system informed by real-time information on over 31 million SKUs has resulted in key e-commerce stats far exceeding that of industry norms. Consequently, with further automation of Booktopia's facilities and greater market share, the group should see both top line growth and margin expansion going forward. We invested in Booktopia via equity with some additional protections at the equivalent of A$1.215 per share or a A$154m valuation. Booktopia IPO'd on November 2nd at $2.30 and closed at the end of December at $2.60 per share.

During the quarter the team has been busy completing due diligence on a number of opportunities. Compared to the September quarter we are starting to see more traditional pre-IPO investments coming through, which require a longer holding period than the two round IPO's (12-24 months).The team has completed extensive due diligence on a number of investments in the quarter and has funded or is in the process of funding these.

Below we outline a number of new investments which we have funded during the quarter:

Design Crowd is made up of two businesses; DesignCrowd, which is the world's number one market place for logo designs, and BrandDesign which is a SaaS based model where businesses have all their branding needs met for print, social media and online. We invested via a convertible note with a pre money valuation cap of A$80m. We believe this is an attractive entry price given the fact that in FY20 the company produced A$18.7m of revenue (54% yoy growth) and $12.5m of net revenue (24% yoy growth). In FY21 the company has forecasted strong double digit growth which we think is highly achievable. The company will look to IPO within the next 18 months.

Low6 Group is a digital sports betting company which has developed an innovative alternative to the traditional sports betting applications. The format is a mobile-based pool betting app, aimed towards a younger audience which will compete against each other rather, than against the house. The app is designed to be an engaging, and more social experience, replacing complex odds system with an easy-to-top play high score leader board, and interactive games. Think of it as a modern twist on the pari-mutuel style betting which is mainly used in racing. The company has partnerships with professional sports teams/franchises across the globe, and the Low6 games are integrated directly into the official team apps. In addition to the direct team partnerships, the company has a 3-year exclusive contract with Yinzcam, which gets them access to around 200 professional sporting teams. Broadly speaking, the company will operate two models, a B2B integration, whereby the software is embedded into the partner apps, powered by Low6, or the B2B stand-alone app whereby apps are launched and branded by the partners as standalone apps like UFC Picks or BSBBET. We think partnering with sporting teams is extremely clever, and is a win-win for all parties. The teams are aiming to maximise engagement of their fan bases, and the inclusion of the Low6 betting applications should help doing so. The sporting teams will also share in the revenue Low6 generates on the betting (once the paid model is activated), further aligning their interests. In return, Low6 gains instant access to the enormous user bases and the sporting teams will do a lot of the heavy lifting on the marketing and promotion side. We think the US is a large untapped opportunity and the strategy makes sense. The company will be able to rollout its application across the US under the free-to-play model, and commence acquiring users before sports betting is even legal in many states. Then once sports betting is legalised and the appropriate licences are secured they can switch on the real money betting and begin monetising the user bases they've already acquired. This is similar to the hugely successful strategy Draftkings and Fanduel used in the US, acquiring fantasy customers which are subsequently converted to sports betting upon legalisation. We have invested in Low6 via a convertible note with a pre-money valuation of A$35m which equates to a 4x FY21 exit revenue run rate or c2x FY22 which is a very attractive valuation given the market opportunity.

Phocas Group is a leading cloud-based SaaS BI software specializing in Business Intelligence and Data Analytics for mid-market customers in the Distribution, Manufacturing and Retail sectors. Their core product allows customers to access data via dashboards, to improve business analytics and reporting capabilities. They have strong customer reviews and higher internal adoption rate within teams (+35% higher competitor platforms). Phocas' key competitive advantages are its ease of use allowing frontline employees to make business decisions without going to the IT department and offering an "out of the box" personalised solution. The company operates in a large Total Addressable Market (TAM) of A$3.4bn and growing (10% CAGR) market of Business Intelligence. Phocas has market penetration of 2.4% and competes against Generic, 'one-size-fits-all approach' firms (Tableau, PowerBI, Qlik and Looker) and Vertical industry specific players (Phocas, Dimensional Insight & Mits). Phocus is well positioned to deliver continued growth; new products, expanding partnerships and existing international footprint in US and UK (+70% of revenue) and management is forecasting +30% growth in its base case, which we view as achievable. We have invested in Phocus via a preference share and our entry price implies a pre money valuation of A$250m, reflecting an EV/Forward Revenue multiple of 4.8x on FY21. Given the nature of Phocus business and the significant addressable market we anticipate our holding period to be longer then our typical investments.

Tally Group is a cloud-based billing, CRM and analytics solution purposely built for utility providers. The company has grown from nothing to having secured over 20 clients including some major energy providers in just a few years. The addressable market within Australia is estimated at A$2b (A$114b globally) and is highly fragmented. Most utility providers typically use multiple legacy providers across, billing, CRM, digital engagement, analytics, operations etc. Tally is consolidating this service offering with a purpose built solution, simplifying operations for the utility providers. In addition to making life easier for the utilities, the consolidated offering by Tally delivers meaningful cost savings, which is an attractive opportunity given the competitiveness of that industry. Customer contracts are around 5 years on average and churn is virtually non-existent, especially as customers take on additional components of the platform. The land and expand model is working well, and Tally will normally get a foot in the door with the one-off consulting project, which is followed by the recurring subscription revenue, and ideally cross/upsell into the full suite. We entered this investment via a convertible note with the implied A$48m pre-money valuation cap representing 5x FY21 revenue, and ~4x the FY21 exit run-rate. We think this valuation is attractive as listed SAAS peers currently trade between 8-10x sales and anticipated a liquidity event in CY21.

VALD Performance is a Brisbane based, high growth player which provides health and performance professionals with technology to make better decisions for athletes, clients and personnel. VALD started out in the sports market with the 'Nordbord', which measures hamstring strength and stability. This quickly became the gold-standard in hamstring testing, and the technology is used by 600 of the world's most elite sporting teams, universities, hospitals, and defence departments. The company cleverly identified that the same principals could be applied across other muscle groups and subsequently developed the 'Forceframe' hip-strength testing system, integrated the 'Forcedecks' which detects muscle fatigue, and introduced the 'Humantrak' movement analysis system – rounding out a very comprehensive offering. The revenue model is very simple, sporting clubs pay a SaaS fee and get a piece of hardware to measure and the software to link (API) into their own systems The initial focus has been the performance and elite sport market, which has an addressable market of over $200m. However, the company is expanding beyond sports and growing strongly in other industries including military, airlines and government. This year VALD has been pushing into the allied heath market with some lite versions of their products that are showing some early signs of success. Whilst still early days, the allied health opportunity is enormous, with an addressable market estimated to be around $7bn. The company already has dedicated sales team in each geographic region and 80% sales are direct. Part of the capital raising has see them beef up their sales capability across the USA and UK, while pushing into new and attractive verticals. We invested in VALD via a convertible note which implies a valuation of $64m on a fully diluted basis with the group delivering over A$10m of ARR. We would anticipate for VALD for the have a liquidity event overt the coming 12 months.

We are currently in late stage due diligence on three further investments. These investments range across a number of segments including, Financials, Data Analytics and Digitisation.

Holdings Summary – Top 5

SECURITY	PORTFOLIO WEIGHT
BOOKTOPIA GROUP	10.87%
PHOCAS GROUP	6.01%
MARKETPLACER	5.25%
LUMOS DIAGNOSTICS	3.99%
DESIGNCROWD	2.99%
OTHER CAPITAL DEPLOYED*	9.14%
CASH	61.76%
TOTAL	**100.00%**

*Source: Ellerston Capital. *Other capital deployed includes additional 8 holdings.*

Outlook

Total funds under management for the Ellerston Pre IPO Fund were A$50.2m at 31 December 2020. The Fund held A$31m of cash at the end of December which is available for investments, alongside the current listed investments of SRJ Holdings (2.6% of portfolio) and Booktopia (10.9% of portfolio).

Our philosophy around pre IPOs 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.

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Find out more

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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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