



# Ellerston Australian Absolute Return Fund

## Performance Report, May 2021

### Investment Objective

The Fund targets absolute returns with an annualised return objective of 5% above the RBA Cash Rate over rolling five year periods.

### Investment Strategy

The Fund seeks to provide investors with a return profile that has a low correlation with traditional asset classes. The Fund aims to generate positive returns in all market environments by reducing the majority of market risk and focusing on capital preservation and alpha generation.

### Key Information

Fund Inception**	3 June 2013
Application Price	\$1.2068
Net Asset Value	\$1.2038
Redemption Price	\$1.2008
Liquidity	Daily
Management Fee	1.20% p.a.
Performance Fee	20% of outperformance
Buy/Sell Spread	0.25% on application/ 0.25% on redemption

### Performance Summary

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.)**
Net^	1.59%	4.68%	6.64%	28.36%	8.03%	6.22%	8.58%
Benchmark*	0.01%	0.03%	0.05%	0.16%	0.80%	1.09%	1.55%
Alpha	1.58%	4.65%	6.59%	28.20%	7.22%	5.13%	7.04%

^ Net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance  
\* RBA Cash Rate

### Portfolio Characteristics

#### Key Portfolio Metrics

Positive months	69%	Net Equity Exposure	25%
No. Relative Value positions	2	Gross Portfolio Exposure	34.8%
No. Special Situations	53	Correlation Coefficient (vs ASX 200 Accum)	53.07%
Beta Adjusted	32.4%	Net Sharpe Ratio (RFR = RBA Cash)	0.77

#### Sector Allocation

Sector	Long Equity	Short Equity	Net Equity
Financials	5.7%	-0.2%	5.5%
Industrials	21.6%	-2.8%	18.8%
Resources	2.5%	-1.7%	0.8%
Index	0.0%	0.0%	0.0%
Total	29.8%	-4.8%	25.0%

### Activity

Please be advised that a Significant Event Notice (SEN) for the fund was released to all unit holders on 31/05/2021 to advise of a change to the investment strategy and offer documents for the Fund. For further details of these changes the SEN can be sourced on the Ellerston [website](#).

## Betmakers Technology Group (BET AU)

A surprise for the month was Betmakers Technology Group (BET AU) bidding for Tabcorp Holdings (TAH AU) wagering business. While we had hoped that a managed service agreement may be reached by the pair at some point, a full takeover offer was unexpected. BET has been a core position in our portfolio for over two years and has been a fantastic example of a special situation position growing into a micro-cap and then becoming a mainstream small cap name. We have been slowing exiting the position over the last few months due to valuation discipline. We always aim to manage the volatility in our portfolio and our discipline helped us weather the recent correction we saw in the BET stock price.

## Propel Funeral Partners (PFP AU)

In May we had one of our positions Propel Funeral Partners (PFP AU) have a fundamental change in its management structure. Propel was a strong contributor during the month delivering a 17% return. The company is the second largest operator, and a key consolidator in the funeral, cemetery and crematory space. We like the defensiveness of the industry, consistent pricing growth, and steady volume growth (with the exception of the recent abnormally mild flu season). Ageing demographics will remain a tailwind for years to come, and we think Propel is well placed to capitalise. More recently, the company struck a deal to terminate the management agreement with Propel Investments, and internalise the key senior management functions within the company. We think this benefits the company in multiple ways. It removes the potential payment of performance fees, management fees, and replaces this complex structure with a standard management structure which should closely resemble peers. We think this more simplified model will attract investors which were previously deterred by the complexity, eliminates any potential overhang, and as we've seen has already resulted in a multiple re-rating. This cleaner structure is likely to accelerate the consolidation story, and see it emerge a sizeable player in an attractive industry.

## Monadelphous Group (MND AU)

Despite the continued commodity strength, mining services names can't seem to catch a break with ongoing wage inflation impacting margins and a number of downgrades seen across the space. As such Monadelphous was dragged lower on expectations of margin compression as it too struggled to find labour with its own job ads increasing significantly in recent weeks. While the company did not provide a trading update in May, we think negative sentiment towards this name may continue in coming weeks.

## Contribution

### Relative Value Gross Contribution -0.04%

Positive	Negative
	KAROON GAS AUSTRALIA LTD (AU) – SANTOS
	-0.04%

### Special Situations Gross Contribution +2.13%

Positive		Negative	
IMPEDIMED LTD (AU)	1.65%	CARBON REVOLUTION LTD (AT*)	-0.15%
DGL GROUP LTD/AU (AT*)	0.29%	COSTA GROUP HOLDINGS LTD (AT*)	-0.14%
PALADIN ENERGY LIMITED (AU)	0.16%	DAMSTRA HOLDINGS LTD (AT*)	-0.11%
PROPEL FUNERAL PARTNERS LTD (AT*)	0.13%	MONADELPHOUS GROUP LIMITED (AU)	-0.06%
FISHER & PAYKEL HEALTHCARE C (AT)	0.13%	REGIS HEALTHCARE LTD (AT*)	-0.05%

## Positions

### Top 10 Relative Value Positions

KAROON GAS AUSTRALIA LTD - SANTOS

### Top 10 Special Situation Positions

IMPEDIMED LTD (AU)	Calls on APT AU
BLUESCOPE STEEL LTD (AU)	AIRTASKER LTD (AT*)
DGL GROUP LTD/AU (AT*)	PRIMEWEST GROUP LTD (AT*)
PROPEL FUNERAL PARTNERS LTD (AT*)	KINA SECURITIES LTD (AT*)
ATOMOS LTD (AT*)	PALADIN ENERGY LIMITED (AU)

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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](mailto:info@ellerstoncapital.com) or visit us at [ellerstoncapital.com](http://ellerstoncapital.com)

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

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