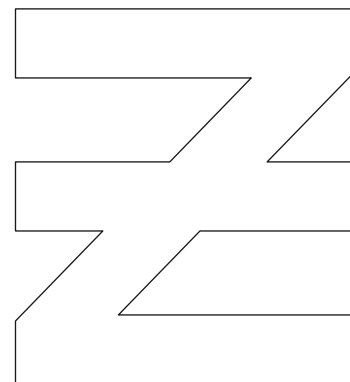


# Ellerston Australian Micro Cap Fund



## Monthly Newsletter, May 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

Strategy Inception ^^	1 May 2017
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	\$2.0768
Net Asset Value	\$2.0716
Redemption Price	\$2.0664
Liquidity	Daily
No Stocks	54
Management Fee	1.20% p.a.
Performance Fee	20%
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.)	Since Inception (p.a.)^^
Net^	-0.25%	4.36%	8.66%	49.14%	21.16%	24.45%
Benchmark*	0.27%	6.09%	10.42%	26.73%	7.89%	11.20%
Alpha	-0.51%	-1.72%	-1.76%	22.41%	13.27%	13.25%

^ 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 -0.25% in May versus the S&P/ASX Small Ordinaries Accumulation Index return of 0.27%. The market was impacted by continued concerns around inflation with the US inflation print coming in at +3% which was much higher than market expectations. These concerns, coupled with continued rotation from tech and high multiple names saw the Small Ords reach an intra month low of 4%. Dragging the market higher from this intra month low were once again the Resource names with seven of the top ten being the largest Index contributors. On the flip side 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.

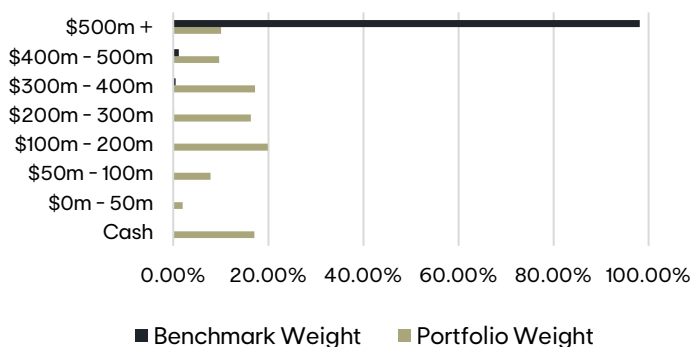
Another big data point for the market in May was the Federal Budget which announced A\$96bn of stimulus. As we discussed briefly last month, stimulus benefited some of our holdings including the likes of Japara Healthcare as more funding was allocated to the Aged Care space. We also had a number of our companies report their 1H21 or FY20 results. Overall, the four stocks that we own that reported in May all had pleasing results. These companies varied from financials to technology plays. We also had a number of our positions provide trading updates which will continue as we approach the end of the financial year as management teams have to reassess guidance and/or consensus estimates.

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 prospect position growing into a high conviction position, and a micro-cap 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.

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.

## PORTFOLIO CHARACTERISTICS

### Market Capitalisation



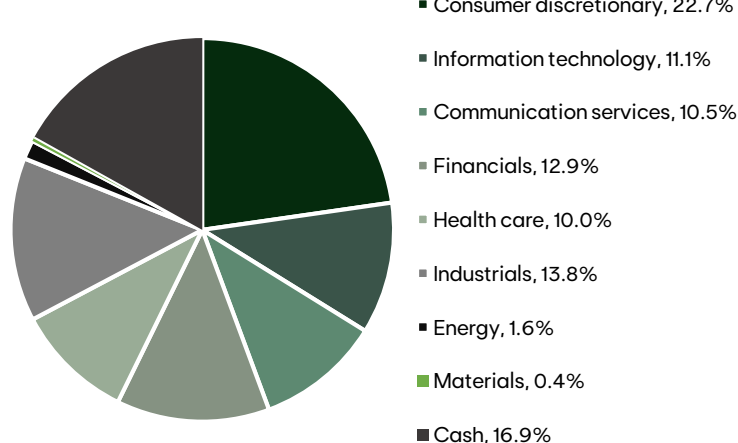
Source: Ellerston Capital.

### Key Portfolio Metrics

FY21e	Fund	Benchmark
Price/Earnings	19.3x	22.2x
Dividend Yield	2.5%	2.6%
Net Debt/EBITDA	0.1x	1.2x

Source: Ellerston Capital.

### Sector Allocation



Source: Ellerston Capital.

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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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