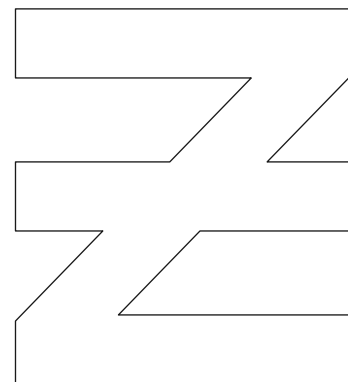


Ellerston Australian Micro Cap Fund



Monthly Newsletter, August 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	\$1.7539
Net Asset Value	\$1.7495
Redemption Price	\$1.7451
Liquidity	Daily
No Stocks	53
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 ^	7.50%	14.90%	19.91%	36.67%	26.99%	26.89%
Benchmark*	4.98%	8.95%	15.58%	29.51%	10.09%	12.72%
Alpha	2.52%	5.95%	4.33%	7.16%	16.90%	14.17%

^ 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 Micro Cap fund delivered 7.50% in August, outperforming the Small Ordinaries Accumulation Index by 2.52%. The market had a really strong month supported by the Telco sector which was up 10.9%, Financials up 9.5% and Consumer Staples up 8.9%. While the weakest sector was Industrials finishing relatively flat, up only 0.38%.

Turning to reporting season, August's results were generally solid and in line with our expectations. The impact of lockdowns were clearly front of mind for most companies, particularly in relation to the impact on consumer confidence and finding labour in a constrained market. Another key theme was supply chain management and the increase in both freight costs and delivery time. Generally speaking, this led to cash flows being impacted as companies are already building inventory ahead of the peak Christmas period. Balance sheets remain relatively intact across the board leading to dividends surprising on the upside.

As expected, very few companies provided earnings guidance during reporting season, but those with good earnings visibility were rewarded. Several companies committed to providing trading updates at the end of the quarter or at the upcoming AGM season, which we will be keenly watching. Consequently, AGM season will once again become a mini reporting season for the market and should provide some meaningful catalysts. Before August, Australia had experienced 11 consecutive months of net positive EPS revisions for the ASX 300. However, in August we saw EPS forecasts trimmed by 1.5ppt which is not a surprise given the current COVID-19 situation. However, the market is still looking for high-single-digit EPS growth in FY22, which we think is achievable.

Looking forward we are keeping a close eye on the AUD/USD which has been a little volatile of late. We continue to believe that the market will pay higher multiples for those companies delivering offshore earnings, and investors will seek out US and European reopening trades. We also think that M&A will remain a key feature, given balance sheet strength of most corporates.

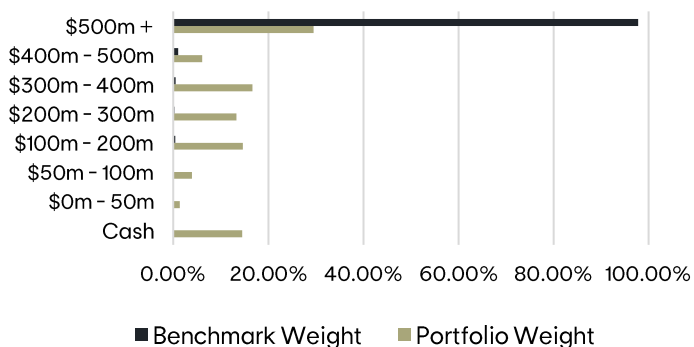
Turning to stocks, two names that delivered strong results in reporting season were Atomos (AMS) and Aussie Broadband (ABB).

Atomos (AMS) was an excellent performer up 33.19% during the month. This was on the back of a result that demonstrated accelerating revenues into year-end, driven by improving market conditions as well as a number of new product releases. A positive surprise to the market was the underlying operating leverage and free cash flow the business is now delivering – a thematic we see continuing over coming years. The business has invested meaningfully in its new product pipeline with new launches in Gaming and its Series II range expected later this financial year. We believe AMS is well positioned for a strong FY22 with increasing demand for its new and existing product ranges and significant industry tailwinds (proliferation of video), which are expected to drive strong revenue, earnings and free cash flow growth. We look forward to the AMS investor day in mid-September as the next catalyst for this name.

Aussie Broadband (ABB), one of our high conviction names had an excellent month, putting on 40% during August. The company delivered a solid maiden full year result, with EBITDA coming in at \$19.1m, at the top end of the recently upgraded guidance range, and over 50% ahead of the prospectus forecast. Recent NBN data shows its market share increasing to 5%, but more importantly taking an impressive 26% of net adds in the 4Q21, a new record for the company. ABB's success boils down to its extraordinary customer service, high-quality network and clever technology. Accordingly, we think the business is well placed to continue delivering solid organic growth for years to come, driven by ongoing market share gains, migration to higher speed plans, further white label deals, along with the fibre build project which will deliver an incremental \$15m of cost savings in FY23. The company is also actively seeking M&A opportunities which would expand its capabilities in the business segment and supercharge the growth narrative.

PORTFOLIO CHARACTERISTICS

Market Capitalisation



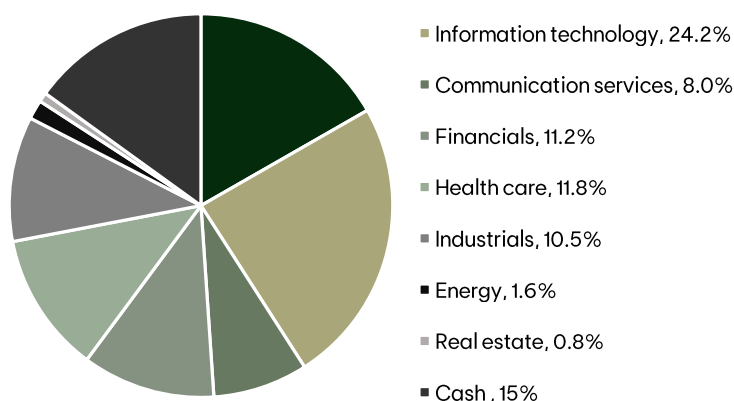
Source: Ellerston Capital.

Key Portfolio Metrics

FY22e	Fund	Benchmark
Price/Earnings	20.4x	24.1x
Dividend Yield	2.30%	2.38%
Net Debt/EBITDA	0.10x	1.24x

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 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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