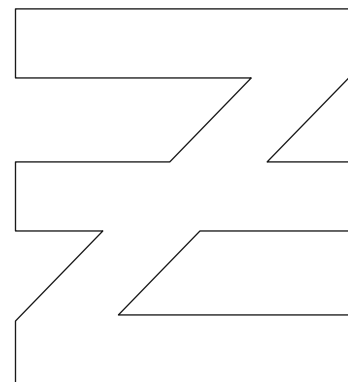


Ellerston Australian Emerging Leaders Fund



Monthly Newsletter, September 2021

Investment Objective

To provide investors with long term capital growth by investing in a portfolio of quality Australian & New Zealand 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 a portfolio of smaller company Securities with the aim of delivering superior returns to the Benchmark over time. The Fund will 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 the downside risk. Positions are actively managed within the Fund.

Key Information

| | |
|-----------------------|---|
| Strategy Inception ^^ | 13 August 2021 |
| Portfolio Manager | David Keelan & Alexandra Clarke |
| Application Price | \$1.0461 |
| Net Asset Value | \$1.0435 |
| Redemption Price | \$1.0409 |
| Liquidity | Daily |
| No Stocks | 40 |
| Management Fee | 1.10% 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^ | 1.31% | - | - | - | - | 4.36% |
| Benchmark* | -2.14% | - | - | - | - | -0.53% |
| Alpha | 3.45% | - | - | - | - | 4.89% |

^ 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 Australian Emerging Leaders Fund delivered 1.31% return in September, outperforming the Small Ordinaries Accumulation Index by 3.45%. The market was weighed down by several issues which included concerns around: 1) rising bond yields as the US looks to reduce its stimulus spend; 2) the US debt ceiling; 3) China's property market, given Evergrande potential debt default; and 4) impact from shortages due to both supply chains and ability to access energy. Closer to home we saw the Small Industrials materially outperform Small Resources.

Given the volatility we are experiencing in global markets, our preference is to invest in companies which can drive growth by internal means (working capital improvements, paying down debt with strong cashflow, changing funding cost etc) or grow market share via innovation and/or disruption. As such we continuously review our portfolio. Post the August reporting season we have additional data points, which result in the portfolio undergoing a preverbal spring clean. This allows us to reassess our three-year view on stocks and readjust the weightings in accordance with our level of conviction, along with any upcoming catalysts (AGM's, capital management, potential acquisitions etc). September is also a good opportunity to consider new investments given the new information. We find market volatility creates opportunities as it offers attractive entry points into stocks which had been on our watchlist. When we look to enter a new position there are several key criteria which need to be met before we start accumulating a position. But ultimately it boils down to a key question -- is the company in charge of its own destiny, or does it require external catalysts to ensure it can grow.

As we have previously discussed a key focus in recent months has been the dynamics relating to COVID-19 lockdowns, with nearly 60% of the Australian population readying themselves for a post-lockdown environment. We saw two stocks benefit from these developments in September - Atomo Diagnostics (AT1 AU) and Universal Store Holdings (UNI AU).

Atomo (AT1 AU) performed strongly in September, closing the month up 54.35%. AT1 is a business that is involved in the supply of rapid diagnostic tests, including a rapid antigen test which is used to screen for COVID-19. This test can be performed easily and onsite with results available in minutes. There has been significant progress over recent months, with recent trials of these tests being conducted in certain industries and the potential for State and Federal governments to implement these tests as screening tools more broadly. AT1 recently announced it has secured potential supply of 20 million rapid antigen tests from its manufacturing partner. Accordingly, we believe AT1 is well placed to capitalise on meaningful demand over coming periods.

Universal Stores (UNI AU) is another stock exposed to the reopening trends that performed well during September (+6.71%). UNI is a youth apparel retailer that has over 70 stores across Australia, with plans to roll out another 40-50 stores over coming years at attractive payback metrics. UNI has averaged >20% sales growth over the last four years as it expanded its store base and took share from incumbents due to its superior offering. However more recently, UNI saw sales fall by 20% over the first six weeks of FY22, given lockdown conditions in NSW and VIC. We expect a meaningful rebound in sales growth over coming months, reflecting pent-up demand as markets reopen. We saw this play out last year in UNI's trading performance when Australia came out of lockdown the first time. As expected, post the August result we saw share price weakness given the escrow overhang. We were able to use this weakness and liquidity event to add to our exposure. We believe UNI is well placed to benefit from reopening conditions, as well as long-term through its growth initiatives.

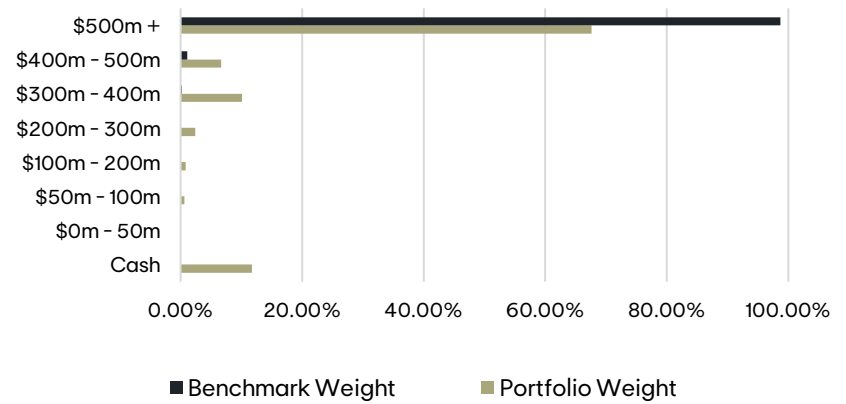
PORTFOLIO CHARACTERISTICS

Key Portfolio Metrics

| FY22e | Fund | Benchmark |
|-----------------|-------|-----------|
| Price/Earnings | 24.0x | 24.1x |
| Dividend Yield | 1.7% | 2.4% |
| Net Debt/EBITDA | 1.1x | 1.1x |

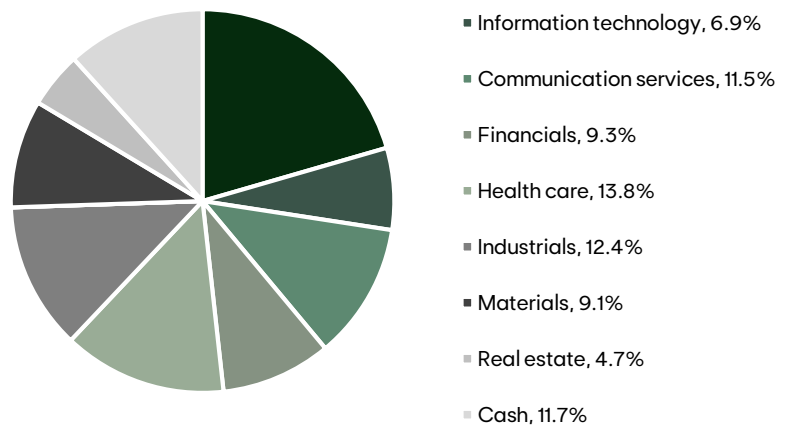
Source: Ellerstion Capital.

Market Capitalisation



Source: Ellerstion Capital.

Sector Allocation



Source: Ellerstion Capital.

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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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