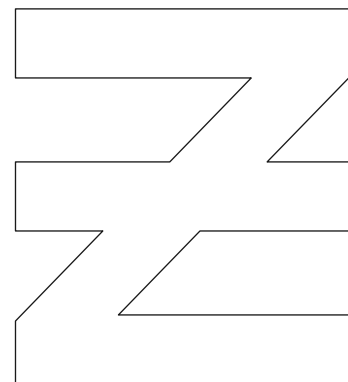


# Ellerston Australian Micro Cap Fund



Monthly Newsletter, October 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	\$1.8041
Net Asset Value	\$1.7996
Redemption Price	\$1.7951
Liquidity	Daily
No Stocks	55
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^	0.14%	10.58%	17.90%	40.11%	31.49%	26.57%
Benchmark*	0.92%	3.68%	7.88%	31.01%	13.52%	11.92%
Alpha	-0.77%	6.90%	10.02%	9.10%	17.97%	14.66%

^ 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 delivered 0.14% in October, underperforming the Small Ordinaries Accumulation Index which was up 0.92%. Notably, what kept the market on its toes in October was the rise in bond yields. We saw the Australia's 10-year bond yield rise 59bps to 2.08% (after 33bps rise in September). In October we also saw the Small Resources Index (+6.5%) again materially outperform the Small Industrials Index (-0.6%) driven by Gold and Lithium names. M&A was the clear theme of the month with a flurry of takeover offers. We saw HUB24 bid for Class; DDH1 bid for Swick; Cardno and Intega Group both receive offers from offshore players; Senex continue dialogue with its suitor; and the REIT space continue to consolidate, to name just a few.

As we previewed last month, October kicks off AGM season. So far, most of the commentary has revolved around post-lockdown trading, and generally speaking this has been positive with signs of life seen across most sectors. Another theme is the state of the supply chains, labour supply and cost inflation – all of which we continue to monitor closely.

Turning to the portfolio there was a lot of news flow in three of our names: Aussie Broadband (ABB AU), Aroa Biosurgery (ARX AU) and Envirosuite (EVS AU).

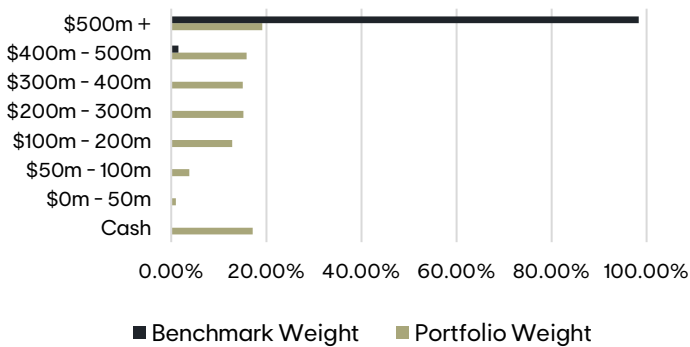
ABB posted a solid first quarter trading update, and also made a takeover bid for Over the Wire (OTW AU), both of which we were pleased with. The trading update featured a continuation of the strong organic growth across both residential and business customers, as the company continues to take market share from the larger incumbents. The white label deal is performing better than initially expected, while the fibre build project is progressing well and on track to deliver material network cost savings from FY23. Over the Wire is a technology driven telco, which provides data and voice networks, cloud hosting, security, and manager services. At this point we only have limited detail on the takeover proposal (including the price at \$5.75 per share and a mix of cash and scrip) but from a strategic standpoint we think it makes a lot of sense. It is consistent with ABB's strategy of building out its capabilities in the business segment, and we'd expect material network cost savings by migrating OTW customers onto ABB's infrastructure where possible. We look forward to seeing how OTW plays out over the coming months.

Aroa Biosurgery (ARX AU) is a NZ based soft tissue regeneration company founded in 2008. ARX develops and manufactures medical devices for hernia repair, wound healing, soft tissue reinforcement and reconstructive surgery. All of ARX's products feature a proprietary extracellular matrix (ECM) biomaterial derived from ovine (sheep) forestomach. ARX currently has regulatory approval in over 35 countries, however, the main focus is rolling out in the US. During the month, ARX pre-released its 1H22 results showing revenue up >100% year on year to NZ\$17.9m. Given the strong 1H result and improving demand for its products, ARX upgraded its FY22 revenue guidance by 12%. The business has a healthy A\$65m net cash position and continues to ramp up its manufacturing and US sales operations. We believe ARX is well placed over coming years, trading at a meaningful discount to peers. ARX closed the month up 4.7%.

One of our standout performers in October was Envirosuite (EVS AU), delivering a 29.4% return for the month. EVS is a global provider of environmental management software, providing blue-chip customers with real-time data and analytics. Its software assists with operational and environmental outcomes across Air, Noise and Water. EVS provided a solid 1Q22 update in October, reporting ARR of \$48.6m, up 42% on the prior year. The group also has a proof of concept underway with WA's Water Corporation. Water represents a meaningful opportunity over the coming years for the group and we think we will see numerous more updates from this division.

## PORTFOLIO CHARACTERISTICS

### Market Capitalisation



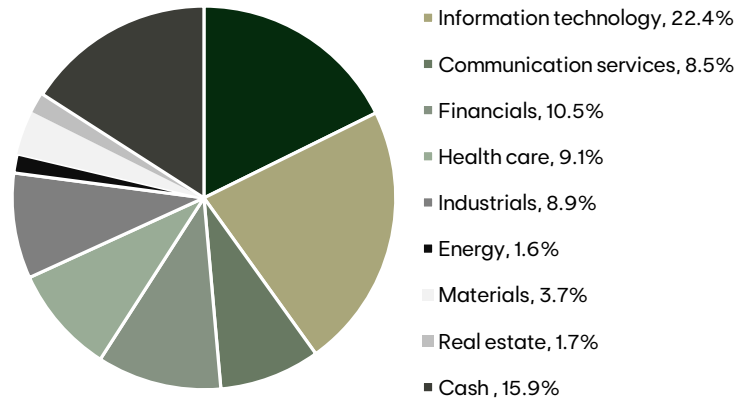
Source: Ellerston Capital.

### Key Portfolio Metrics

FY22e	Fund	Benchmark
Price/Earnings	19.80x	24.49x
Dividend Yield	2.23%	2.34%
Net Debt/EBITDA	0.10x	1.04x

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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