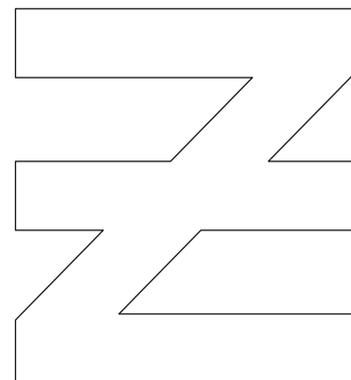


Ellerston Australian Emerging Leaders Fund



Monthly Newsletter, December 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	\$1.0273
Net Asset Value	\$1.0247
Redemption Price	\$1.0221
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^	3.05%	-1.80%	-	-	-	2.47%
Benchmark*	1.41%	2.03%	-	-	-	1.49%
Alpha	1.63%	-3.83%	-	-	-	0.99%

^ 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 Emerging Leaders Fund delivered 3.05% in December outperforming the Small Ordinaries Accumulation Index which was up 1.41%.

Looking more closely at December, it was a volatile month with the Small Ordinaries Index down circa 4.5% at its lows, with fears around the Omicron variant weighing on sentiment. The usual Christmas rally arrived late in December but wasn't sufficient for the Small Ordinaries Index to keep pace with the ASX100. The Small Ordinaries Index was strongly supported by Small Resources which was up 3.5% for the month, materially outperforming Small Industrials (+0.8%). Resources benefited from iron ore rebounding and oil rallying, with the Fund having no exposure to either thematic. M&A continued in the space, with the Virtus Health receiving a non-binding approach from BGH Capital and Link entering into a scheme with Dye & Durham. We expect M&A to remain a strong theme for CY22.

Turning to stocks, DGL Group (DGL AU), one of our high conviction names had a strong December, rising by 28% on the back of positive trading and outlook commentary at the AGM. The company has also made solid progress with its M&A pipeline, having completed seven acquisitions since the start of fiscal 2022, all of which are consistent with its strategy of filling gaps in the network, expanding geographic coverage and entering new verticals. While the company still has significant capacity for further M&A, the focus has shifted towards organic growth and integrating acquisitions, which we think is appropriate. We see DGL as a high-quality business, with strong earnings momentum, an attractive valuation and several catalysts yet to play out.

Johns Lyng (JLG AU) was a strong performer in December, delivering a 23% return for the month. This was driven by the highly accretive acquisition of Reconstruction Experts, a US-based insurance focused repair services business. Having built a meaningful presence domestically, we believe JLG can now leverage its expertise into the large US insurance repair and restoration market (US\$100bn). This transaction was significantly improves the scope for material earnings growth over coming years as it expands its US footprint and we see meaningful upside over time. We note management have meaningful alignment with shareholders, owning >35% of the company (~A\$700m) combined and have executed strongly to-date.

As we begin calendar year 2022, our initial priority will be preparation for the 1H22 reporting season. Supply chains and labour shortages continue to impact a sizeable portion of the market. Accordingly, the more normalised trading conditions which we were hoping would feature in this reporting season are unlikely to materialize for the time being. As such, we think volatility will remain elevated in the short term. Going forward we will closely monitor global supply chains, and how central banks are approaching inflation, both of which will materially impact market sentiment. As always, our preference is to find high quality businesses benefiting from long-term structural tailwinds, with solid balance sheets and strong management teams. Given our bottom-up stock picking approach we welcome volatility, as it provides the Fund with opportunities to accumulate high quality stocks at attractive prices.

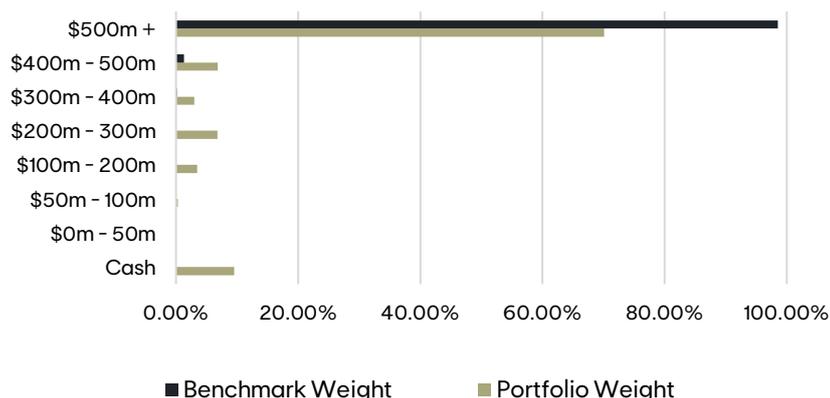
PORTFOLIO CHARACTERISTICS

Key Portfolio Metrics

FY22e	Fund	Benchmark
Price/Earnings	22.3x	19.2x
Dividend Yield	1.35%	2.9%
Net Debt/EBITDA	0.5x	1.01x

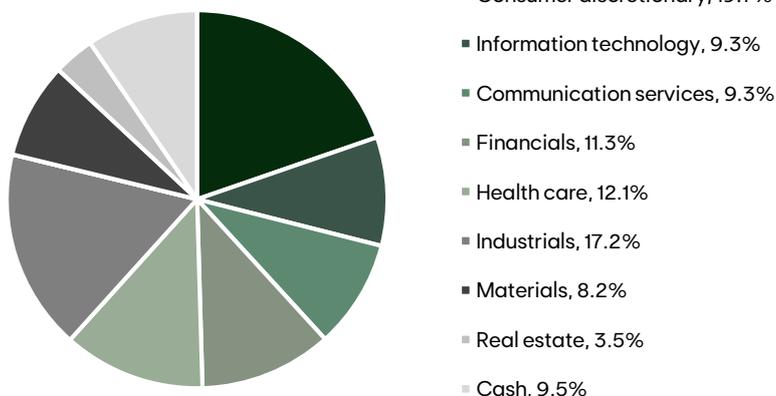
Source: Ellerston Capital.

Market Capitalisation



Source: Ellerston Capital.

Sector Allocation



Source: Ellerston 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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