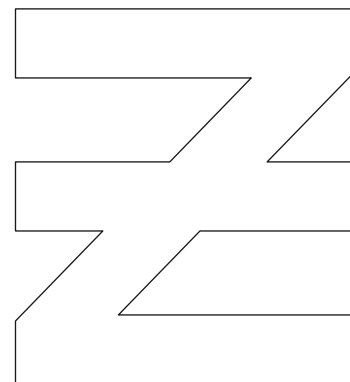


Ellerston Australian Micro Cap Fund



Monthly Newsletter, December 2021

Investment Objective

To provide investors with long term capital growth by investing in a portfolio of quality Australian & New Zealand 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	\$1.7431
Net Asset Value	\$1.7388
Redemption Price	\$1.7345
Liquidity	Daily
No Stocks	50
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^	-1.04%	-3.24%	11.60%	21.61%	32.35%	24.59%
Benchmark*	1.41%	2.03%	5.54%	16.90%	15.71%	11.73%
Alpha	-2.45%	-5.27%	6.06%	4.71%	16.64%	12.86%

^ 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 had a weak December delivering -1.04% versus the Small Ordinaries Accumulation Index of 1.41%. Pleasingly for calendar year 2021 the Fund returned 21.61% taking the since inception annualized return to 24.59%.

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 Index which was up 3.5% for the month, materially outperforming Small Industrials Index (+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.

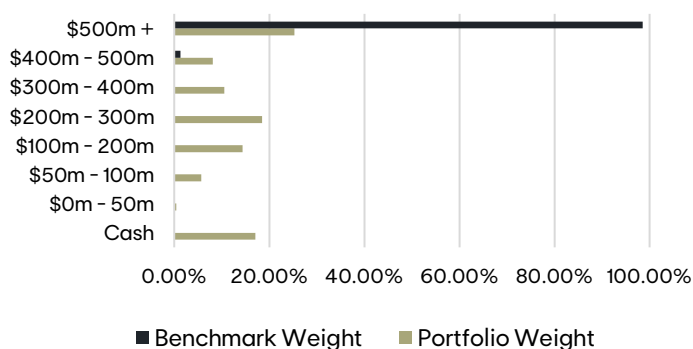
Turning to stocks, DGL Group (DGL AU), one of our high conviction names had a strong December, rising by 28% on the back of positive trading and outlook commentary at the AGM. The company has also made solid progress with its M&A pipeline, having completed seven acquisitions since the start of fiscal 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.

Atomo Diagnostics (AT1 AU) delivered a 33% return in December. AT1 is a medical device company focused on the supply of rapid test products, notably having a commercial agreement for the supply of COVID-19 Rapid Antigen Tests (RATs) into the Australian market. AT1 has TGA approval for the supply of RATs for professional settings, and has an application submitted to the TGA for its self-test product. Fortuitously, AT1 announced in October 2021 that it had locked in a commercial supply agreement for 10 million professional-use RATs, as well as the right to purchase an additional 10 million self-test RATs should TGA approval be granted. A key concern across Australia relates to shortages of these tests and therefore there is a significant revenue and valuation opportunity should AT1 attain TGA approvals. We remain positive on AT1.

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

Market Capitalisation



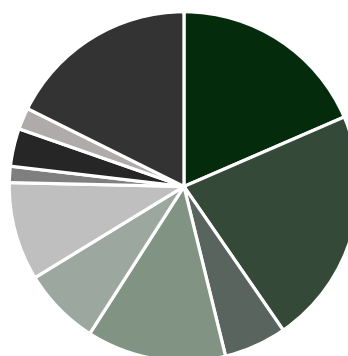
Source: Ellerston Capital.

Key Portfolio Metrics

FY22e	Fund	Benchmark
Price/Earnings	20.6x	19.2x
Dividend Yield	1.2%	2.9%
Net Debt/EBITDA	0.03x	1.01x

Source: Ellerston Capital.

Sector Allocation



Source: Ellerston Capital.

Find out more

Sydney

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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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