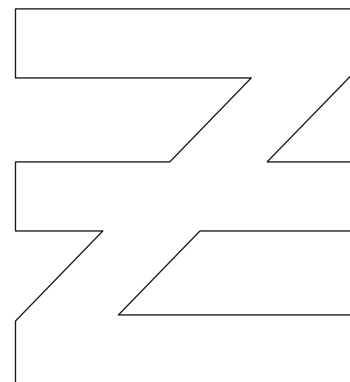


# Ellerston Australian Micro Cap Fund



## Monthly Newsletter, February 2022

### 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	\$1.5518
Net Asset Value	\$1.5479
Redemption Price	\$1.5440
Liquidity	Daily
No Stocks	49
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^	-3.14%	-11.90%	-11.52%	6.10%	23.97%	20.71%
Benchmark*	-0.01%	-7.71%	-9.14%	5.02%	7.74%	9.15%
Alpha	-3.14%	-4.19%	-2.39%	1.08%	16.23%	11.56%

^ 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 Small Ordinaries Accumulation Index finished February relatively flat despite some volatile intra-month swings. What isn't immediately obvious is the significant dislocation between Industrials and Resources. Small Resources were up 7.9% in the month compared to the Small Industrials which finished down 2.1%. This dynamic is even more pronounced over a longer time period, with Small Resources up around 20% financial year to date, compared to Small Industrials which are down almost 10% over the same period. The key macro event during February was the outbreak of war in Ukraine which saw a global rotation into more defensive assets and a spike in energy prices. This news spooked what was an already nervous market, in the process of digesting the tighter US monetary policy. Against this backdrop, and our lack of resource exposure, the Ellerston Australian Microcap Fund held up relatively well, but still underperformed the Small Ordinaries Accumulation Index by 3.14%. While the disconnect between Industrials and Resource stocks is painful in the short term, it provides the Fund with opportunities to either add to our current positions or accumulate new high-quality names at attractive valuations.

Stepping away from the macro news, February was also reporting season resulting in a highly catalyst rich / news flow heavy period. In January we outlined several themes which we thought would play out including inflation; M&A; cautious outlook statements and resetting of valuation expectations. All in all, these themes played out in line with our expectations. It's worth highlighting that some of the share price moves we saw were more aggressive than usual, and in some cases the reactions were highly disproportionate to the earnings results. We saw companies which reported results ahead of consensus expectations being sold off, as market participants used the liquidity to rebalance portfolios. We also saw a number of high-profile small caps, fall circa 30% as their share prices capitulated on weaker than participated results.

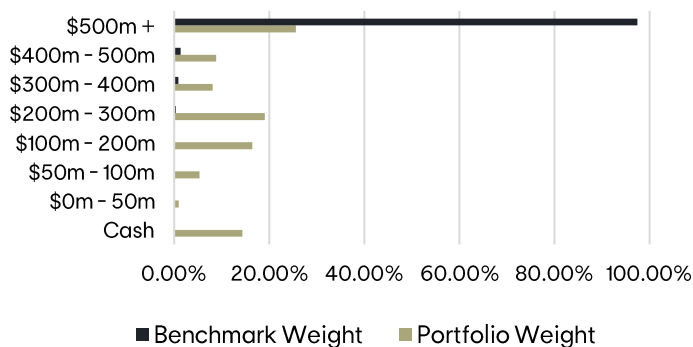
Acrow Formwork and Construction Services (ACF AU), one of our core positions, enjoyed a price increase of over 20% for the month of February. The main driver was a strong half year FY22 result with an impressive 51% growth in EBITDA. The result was underpinned by their Industrial Services Scaffolding division, which benefited from large contract wins such as the Snowy Hydro 2.0. It's worth highlighting the recent rain and flooding events are not necessarily a negative, as a significant chunk of the total contribution is made up of hire revenue. As more building sites have work suspended during these periods of heavy rainfall, Acrow continues to charge extended hire on their formwork and scaffold, which is higher margin revenue. The company will continue to expand their Industrial Services division on the East Coast of Australia, and push into the SA and WA markets. Their formwork division aims to continue to take market share with a focus on major infrastructure projects.

Propel Funeral Partners (PFP AU), one of our higher conviction positions delivered a solid 1H22 result and finished the month up almost 4%, a pleasing outcome given the challenging market. The highlights of the result were 2.5% increase in average revenue per funeral compared to pre-COVID levels, along with a solid 8% like-for-like volume growth – both solid indicators notwithstanding the COVID disruption throughout the half. The outlook is bright with the positive momentum continuing into the second half, and acquisitions making a full six-month contribution and operating leverage benefits flowing through. The ageing population and ongoing pricing power will continue driving top-line growth over the long term. The company boasts a defensive, property backed balance sheet with approximately \$150 million in firepower to continue executing on its vast acquisition pipeline.

Another stock that we hold in the Fund that has been impacted by COVID and we think should be a re-opening beneficiary is Atomos (AMS AU). The business was significantly impacted as its retail channels reduced inventory orders and global restrictions reduced event-driven videography. As macro conditions improve, AMS has significant leverage to: 1) continued strong consumer conditions globally; 2) significant tailwinds to come from event videography – which we expect to gain traction over this calendar year; 3) a 'catch-up' in new product launches following a subdued period given disruptions (historically a key driver of sales); 4) a strong balance sheet position to fund inventory for new/existing products, as well as potential M&A; and 5) a much improved cost base which should see meaningful operating leverage come through over time. Despite negative share price movements in recent times, we believe AMS is as well positioned as it has been in some time. We increased our position in AMS following its results.

## PORTFOLIO CHARACTERISTICS

### Market Capitalisation



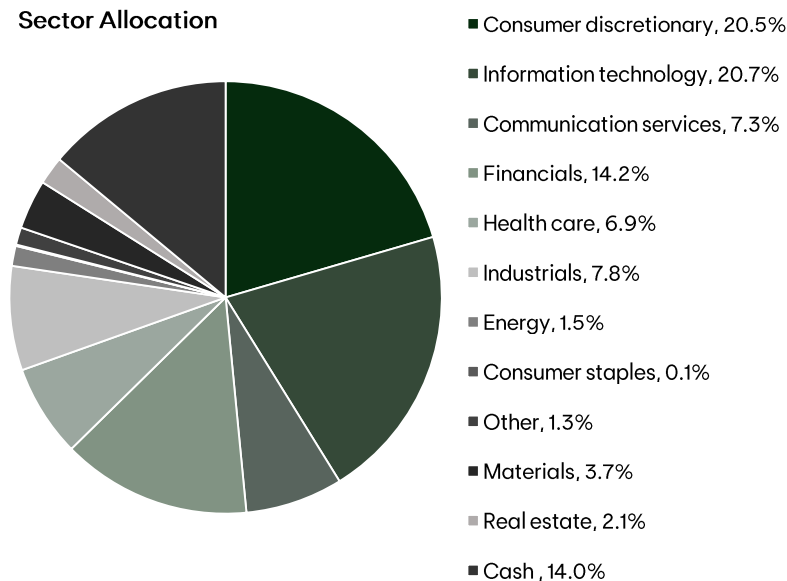
Source: Ellerston Capital.

### Key Portfolio Metrics

	FY22e	Fund	Benchmark
Price/Earnings		16.9x	18.3x
Dividend Yield		0.1%	3.17%
Net Debt/EBITDA		1.1x	1.23x

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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