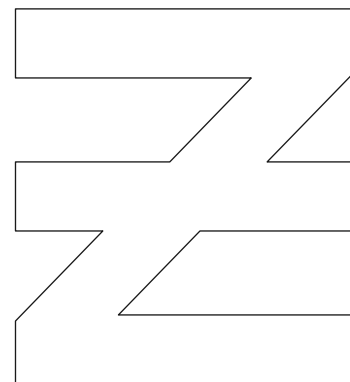


# Ellerston Australian Emerging Leaders Fund



## Monthly Newsletter, March 2022

### 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	\$0.9603
Net Asset Value	\$0.9579
Redemption Price	\$0.9555
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^	4.29%	-6.52%	-8.20%	-	-	-4.21%
Benchmark*	5.26%	-4.21%	-2.27%	-	-	-2.79%
Alpha	-0.97%	-2.30%	-5.94%	-	-	-1.42%

^ 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 Emerging Leaders Fund finished up 4.29% for March underperforming the Small Ordinaries Accumulation Index which was up by 5.26%. The strong rally into month end was once again driven by resource stocks as the rotation into commodity exposures continued. This resulted in the Small Resource index finishing up over 12% outperforming the Small Industrials by about 10%. Given Australia's weighting to commodities we also saw the AUD rally against most major currencies, placing pressure on offshore earners. Looking more broadly at the economic settings we say the March FOMC decision, where the US Federal reserve (Fed) hiked by 25bps. This saw yields surge with the US 10 yield up 51bps and the Australian 10 year yield up 70bps over the month. The bond market is currently pricing in 8 interest rate hikes this calendar year in the US. While in Australia consensus suggests we should see our first rate increase in June (previously August). Also, domestically, the Federal Budget was announced which now assumes a deficit of 3.5% of GDP. During the month M&A was very much front and center with Uniti Group receiving a number of competing offers from Morrison/Brookfield consortium and MIRA/Aware. The latest bid now stands at \$5.00 which is at a significant premium to the lower \$3.00 where the stock was trading. While in very early April we saw Perpetual make an all scrip bid for Pental for \$6.23 per share which was a 39% premium to Pental's last price. Overall with the current economic backdrop and recent resetting of valuations in the market we have had opportunities to build our position in our current holdings and add some new names to the portfolio.

Turning to the portfolio, we are fundamental bottom-up stock pickers at heart, however we always remain cognisant of the macro backdrop and manage the portfolio risk accordingly. One theme that we have been spending time on is the tourism sector. With the Australia borders reopening and two years of constrained travel, we believe tourism stocks are likely to rebound as the world slowly starts reverting to pre-COVID behaviour. Over the last two years most tourism companies have undertaken material and highly dilutive capital raisings to replenish balance sheets as they waited out the virus. Consequently, most of these companies now have balance sheets that have been recapitalised and well placed to participate on the reawakening of the industry. While we acknowledge we have had many false starts over the last 24 months, we have been patiently adding exposure to the portfolio. We think tourism assets are likely to see a two-pronged rebound. Not only will we see revenues reverting towards pre-COVID levels over the coming years, but we also expect to see structurally leaner cost bases, yielding further earnings upside.

A stock we have held in the portfolio for a little while is Corporate Travel (CTD AU). While most travel companies had to undertake highly dilutive capital raises, CTD was able to withstand the environment and raised to acquire a sizeable North American travel business which was generating TTV of US\$2.8bn in CY19. It has also recently acquired Helloworld Travel's (HLO AU) corporate travel business in ANZ. This acquisition adds meaningful scale to CTD's ANZ business and provides greater exposure to government contracts (Federal Govt; SA; NT and New Zealand government contracts). While we don't think the rebound in travel will be linear and there will be short term impacts on supply and demand, longer term we do believe names like CTD should see earnings revert to close or above pre-COVID levels.

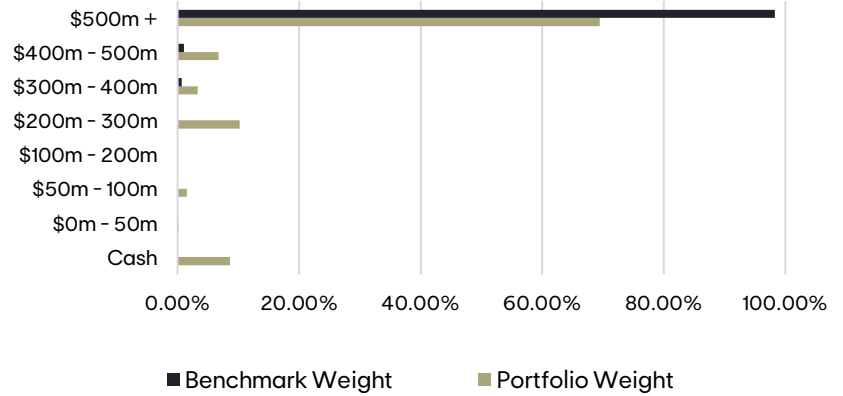
**PORTFOLIO CHARACTERISTICS**

**Key Portfolio Metrics**

FY22e	Fund	Benchmark
Price/Earnings	18.42x	18.74x
Dividend Yield	2.01%	3.01%
Net Debt/EBITDA	0.44x	1.16x

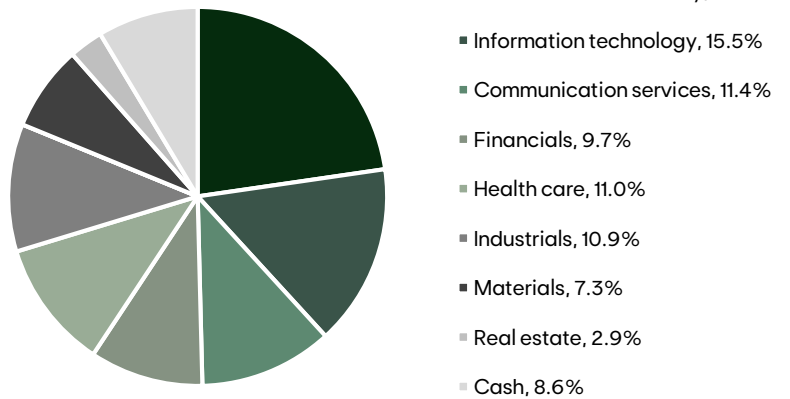
Source: Ellerston Capital.

**Market Capitalisation**



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 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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