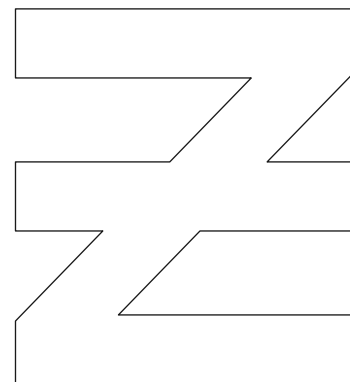


# Ellerston Australian Micro Cap Fund



## Monthly Newsletter, March 2022

### Investment Objective

To provide investors with long term capital growth by investing in a portfolio of quality Australian & New Zealand 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	\$1.5789
Net Asset Value	\$1.5750
Redemption Price	\$1.5711
Liquidity	Daily
No Stocks	51
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 ^	1.75%	-9.42%	-12.35%	8.05%	24.36%	20.75%
Benchmark*	5.26%	-4.21%	-2.27%	9.68%	9.64%	10.13%
Alpha	-3.51%	-5.21%	-10.09%	-1.63%	14.72%	10.62%

^ 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 finished up 1.75% 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 commodities continued. This resulted in the Small Resource index finishing up over 12%, outperforming the Small Industrials by about 10%. Given Australia's exposure to commodities, the AUD rallied against most major currencies, placing pressure on offshore earners. Looking more broadly at the economic settings, including the March FOMC decision, the US Federal Reserve (Fed) hiked by 25bps. This saw yields surge, with the US 10-year 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). Domestically, the Federal Budget was announced which now assumes a deficit equivalent to 3.5% of GDP. During the month M&A was very much front and center, with Uniti Group receiving multiple 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 \$3.00 where the stock was previously trading. Also, in 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 at attractive prices.

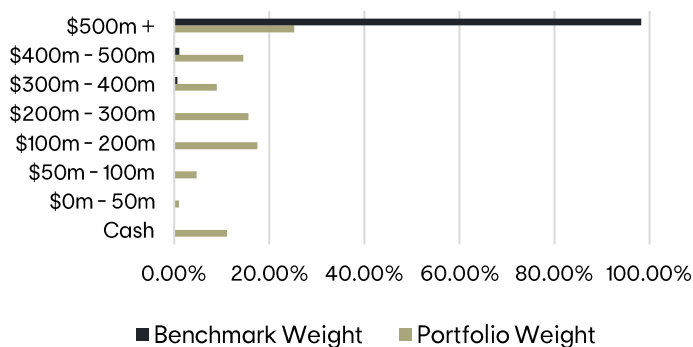
Turning to the portfolio, we are fundamental bottom-up stock pickers at heart, however we always remain cognisant of the macro backdrop and manage the portfolio risk accordingly. One theme that we have been spending time on is the tourism sector. With the Australia borders reopening and two years of constrained travel, we believe tourism stocks are likely to rebound as the world slowly starts reverting to pre-covid behavior. 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 there have been several.

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 recently added to the portfolio is Helloworld Travel (HLO AU). HLO has been in the wilderness for a number of years with an over-gearred balance sheet. It recently announced the sale of its Corporate Travel division to Corporate Travel Management (CTD AU) for \$175m (\$100m cash + \$75m in CTD scrip). While the transaction does remove an earnings stream for HLO, the newfound strength of its balance sheet should position the business well to capitalise on the resurgent consumer. Our view is the unpredictability in the travel environment will drive demand for advice driven travel and agents, away from self-directed travel. We also believe, HLO with its bolstered balance sheet may look to make acquisitions which would be highly accretive.

## PORTFOLIO CHARACTERISTICS

### Market Capitalisation



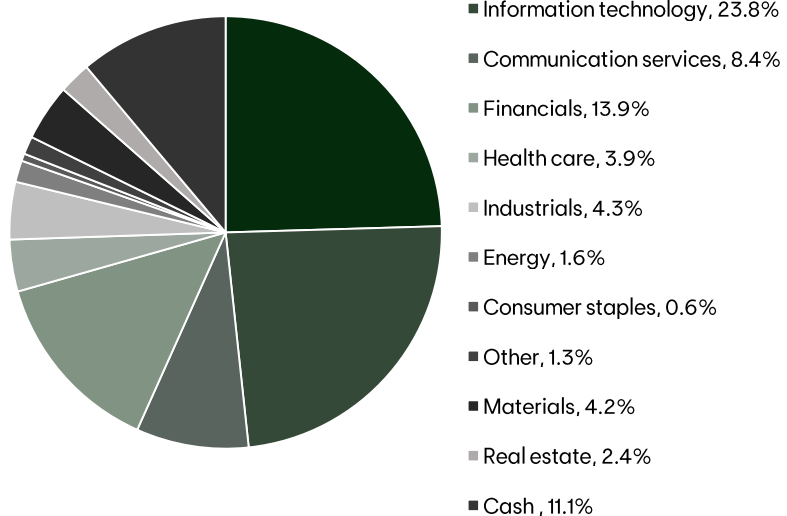
Source: Ellerston Capital.

### Key Portfolio Metrics

FY22e	Fund	Benchmark
Price/Earnings	16.29x	18.74x
Dividend Yield	1.38%	3.01%
Net Debt/EBITDA	-0.18x	1.16x

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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