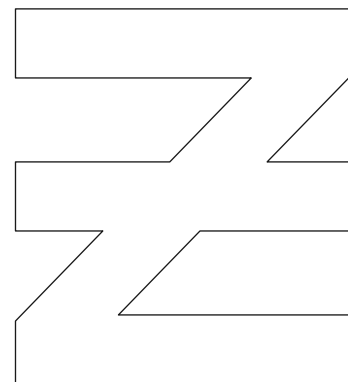


# Ellerston Australian Micro Cap Fund



## Monthly Newsletter, April 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	\$1.5331
Net Asset Value	\$1.5293
Redemption Price	\$1.5255
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 ^	-2.90%	-4.31%	-15.02%	0.19%	21.18%	19.66%
Benchmark*	-1.50%	3.68%	-4.61%	2.91%	7.64%	9.62%
Alpha	-1.40%	-7.98%	-10.41%	-2.72%	13.54%	10.04%

^ 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 underperformed the Small Ordinaries Accumulation Index by 1.40% in April. April was another challenging month for the equities markets with ongoing concerns around inflation, interest rates, COVID lockdowns in China and continuing Ukraine / Russia tension impacting sentiment. Closer to home we also had the starters gun go off on the upcoming Federal Election (called for the 21 May) with both parties releasing a range of new potential policies. While Australian markets were down for the month, they held up relatively better than US equities where we saw the S&P 500 down 8.7% and the NASDAQ down 13.2%. Against this macro backdrop as expected more defensive sectors outperformed while Information Technology sector was worst hit. Once again Small Resources (+0.3%) outperformed Small Industrials (-2.1%) pushed higher by the coal names.

During these volatile markets we continue to stick to our process of looking for stocks which provide a 3 to 1 risk return. While the market has been pushed higher by an exceptionally strong resource sector, it has meant that small industrials have been marked down aggressively. Small industrials are our bread and butter and this market sell off is creating opportunities to increase our weights in names we already hold and open new positions at highly attractive prices.

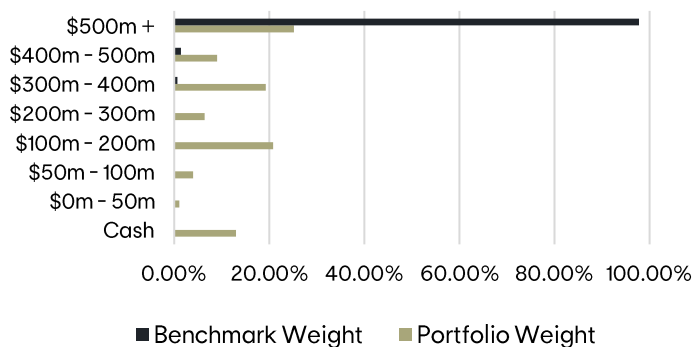
Turning to stocks, two names that had quality updates in the month were Generation Development Group (GDG AU) and Aroa Biosurgery (ARX AU).

Generation Development Group (GDG AU) was one of our stronger performers during April, putting on almost 10%. The company released a solid March quarterly update, which emphasised the ongoing momentum in the core Investment Bond business and Lonsec, despite being a seasonally quieter period. We think the highlight of the period was the launch of the new market-linked lifetime annuity product. While still early days, we are excited about this opportunity, as it will give the company exposure to post-retirement superannuation market which is expected to exceed \$1 trillion in assets in the coming years. With a well-thought-out product, a strong brand in the industry and a sales network which is firing on all cylinders, we believe GDG is well placed to capitalise on this enormous opportunity.

Aroa Biosurgery (ARX AU) is a NZ based soft tissue regeneration company founded in 2008. ARX develops and manufactures medical devices for hernia repair, wound healing, soft tissue reinforcement and reconstructive surgery. All of ARX's products feature a proprietary extracellular matrix (ECM) biomaterial derived from ovine (sheep) forestomach. ARX had a strong month, closing +14% on the back of its 4Q22 update. The update revealed ARX achieved above the top-end of its upgraded revenue guidance, delivering total revenue of NZ\$39m (product sales up 81% year on year). The business continues to invest in its manufacturing and sales team and has a healthy NZ\$56m cash position. Despite recent volatility in valuations for the healthcare sector, we believe ARX is well placed to deliver continued growth into FY23 and management has built a strong track record of execution since listing.

## PORTFOLIO CHARACTERISTICS

### Market Capitalisation



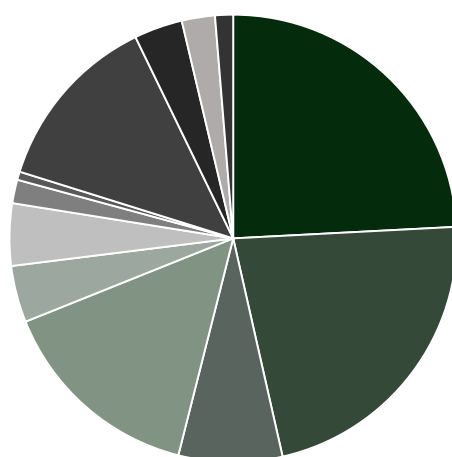
Source: Ellerston Capital.

### Key Portfolio Metrics

FY22e	Fund	Benchmark
Price/Earnings	15.2x	17.0x
Dividend Yield	1.93%	3.34%
Net Debt/EBITDA	-0.4x	1.06x

Source: Ellerston Capital.

### Sector Allocation



- Consumer discretionary, 24.2%
- Information technology, 22.3%
- Communication services, 7.5%
- Financials, 15.0%
- Health care, 4.1%
- Industrials, 4.5%
- Energy, 1.7%
- Consumer staples, 0.6%
- Cash, 13.0%
- Materials, 3.5%
- Real estate, 2.4%
- Other, 1.3%

Source: Ellerston Capital.

### Contact Us

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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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