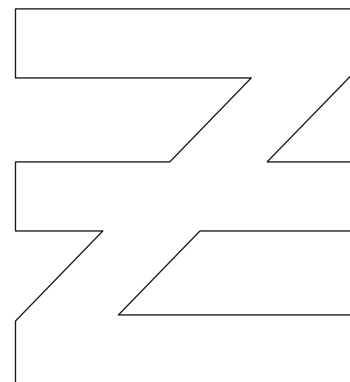


# Ellerston Australian Micro Cap Fund



## Monthly Newsletter, May 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	\$1.3680
Net Asset Value	\$1.3646
Redemption Price	\$1.3612
Liquidity	Daily
No Stocks	48
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.)	5 Years (p.a.)	Since Inception (p.a.) ^^
Net^	-10.77%	-11.84%	-22.33%	-10.38%	15.51%	16.15%	16.67%
Benchmark*	-7.01%	-3.58%	-11.02%	-4.56%	5.50%	8.49%	7.90%
Alpha	-3.76%	-8.26%	-11.31%	-5.82%	10.01%	7.66%	8.76%

^ 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

May was a volatile month with the Small Ordinaries falling 7.01%, as the market digested rate hikes, inflation, the Federal Election, and ongoing concerns around recessions, particularly in the USA. Once again Small Resources outperformed Small Industrials driven by the coal names. We saw continued weakness in housing and consumer discretionary names as the market tried to process the new rate environment as well as inflationary fears, both of which will ultimately flow through to households. M&A remained elevated with several non-binding approaches made across numerous sectors. Against this backdrop the Ellerston Australian Micro Cap Fund underperformed the Small Ordinaries Accumulation Index by 3.76%. The fund was not immune to several issues both at a macro level as well as a stock specific level which weighed on performance. Specifically, it was a challenging month for one of our key holdings, Aussie Broadband (ABB AU), which fell 25% on a softer than expected trading update. The market was disappointed with the subscriber and EBITDA guidance, which were both tightened towards the bottom half of the previous range. The federal election campaign impacted marketing efficiency, which was exasperated by extended call centre wait times and elevated CVC charges. We think this was an overreaction to factors which are transitory and were largely outside of management's control. Accordingly, we took this as an opportunity to accumulate more of what we think is a solid business as an attractive price. We take comfort knowing the company continues to steal market share from the large incumbents at record pace, the Over the Wire integration is progressing well and the fibre rollout is tracking to schedule. ABB is the country's fastest growing telco, rapidly approaching the critical \$100m EBITDA mark with several catalysts yet to play out, and it remains one of our higher conviction positions.

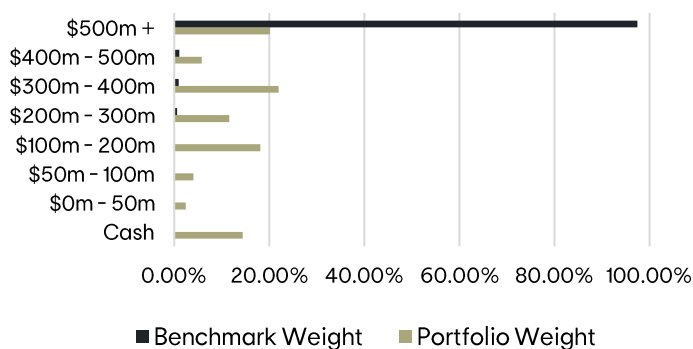
A positive contributor this month was EnviroSuite (EVS AU), delivering a 9% return. EVS is a global provider of environmental management software, providing blue-chip customers with real-time data and analytics. Its software assists with operational and environmental outcomes across Air, Noise and Water. EVS provided an update on its Water division this month, which now has sites operational across Australia, Asia, Europe and the USA. Additionally, revenue per site ahead of forecasts and total Water revenue to date now over A\$1 million.

We think EVS is well placed to benefit as the momentum in Water continues to build, in addition to increased spend in its Aviation segment as travel resumes.

As we approach the end of the financial year, we expect further volatility and macro noise around interest rate rises, inflationary concerns along with ongoing political unrest to have an impact on broader markets. As such we remain vigilant in upweighting the quality of our portfolio and looking for opportunities that present a three to one risk reward. As we are all aware volatility does create opportunities and we are well positioned to take advantage of them.

## PORTFOLIO CHARACTERISTICS

### Market Capitalisation



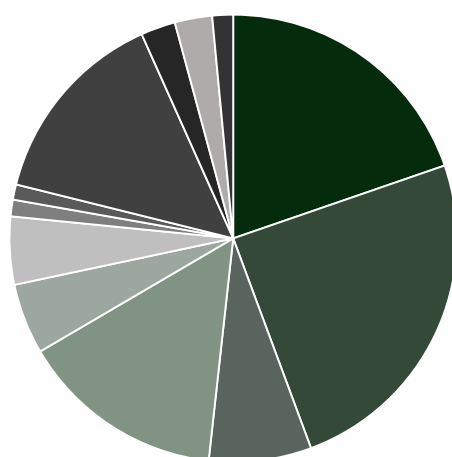
Source: Ellerston Capital.

### Key Portfolio Metrics

FY22e	Fund	Benchmark
Price/Earnings	14.71x	16.08x
Dividend Yield	2.21%	3.51%
Net Debt/EBITDA	-0.53x	1.04x

Source: Ellerston Capital.

### Sector Allocation



- Consumer discretionary, 19.7%
- Information technology, 24.6%
- Communication services, 7.4%
- Financials, 14.8%
- Health care, 5.1%
- Industrials, 4.9%
- Energy, 1.2%
- Consumer staples, 1.1%
- Cash, 14.4%
- Materials, 2.5%
- Real estate, 2.7%
- Other, 1.5%

Source: Ellerston Capital.

### Contact Us

#### Sydney

Level 11, 179 Elizabeth Street,  
Sydney, NSW 2000  
+612 9021 7701  
info@ellerstoncapital.com

### 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)

This report has been prepared by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, responsible entity of the Ellerston Australian Micro Cap Fund (ARSN 619 727 356) without taking account the objectives, financial situation or needs of individuals. Before making an investment decision about the Fund persons should read the Fund's Product Disclosure Statement and Target Market Determination (TMD) which can be obtained from the Manager's website [www.ellerstoncapital.com](http://www.ellerstoncapital.com) or by contacting [info@ellerstoncapital.com](mailto:info@ellerstoncapital.com) and obtain advice from an appropriate financial adviser. Units in the Fund are issued by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000. This information is current as at the date on the first page.

This material has been prepared based on information believed to be accurate at the time of publication. Assumptions and estimates may have been made which may prove not to be accurate. Ellerston Capital undertakes no responsibility to correct any such inaccuracy. Subsequent changes in circumstances may occur at any time and may impact the accuracy of the information. To the full extent permitted by law, none of Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, or any member of the Ellerston Capital Limited Group of companies makes any warranty as to the accuracy or completeness of the information in this newsletter and disclaims all liability that may arise due to any information contained in this newsletter being inaccurate, unreliable or incomplete. Past performance is not a reliable indicator of future performance.