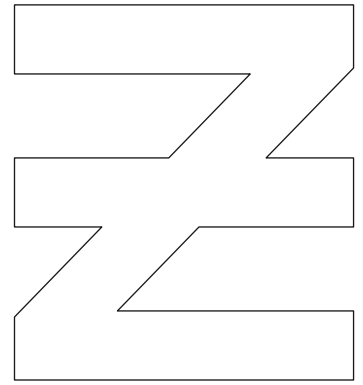


Ellerston Australian Micro Cap Fund



Monthly Newsletter, June 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	\$1.2140
Net Asset Value	\$1.2110
Redemption Price	\$1.2080
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.)	5 Years (p.a.)	Since Inception (p.a.)^^
Net^	-11.26%	-23.11%	-30.35%	-22.28%	10.45%	11.93%	13.72%
Benchmark*	-13.09%	-20.39%	-23.74%	-19.52%	0.38%	5.07%	4.89%
Alpha	1.83%	-2.72%	-6.61%	-2.76%	10.07%	6.86%	8.83%

^ 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 outperformed the Small Ordinaries Accumulation Index by 1.83% during June. Overall, it was a rocky month for markets with the benchmark down by 13%, and for the first time in a while the Small Industrials outperformed the Small Resources, which fell by 22%. Telecommunications was the strongest performer during the month down 5%, closely followed by healthcare and consumer staples, as investors shifted towards the more defensive side of the market. The sell-off mainly reflected macro uncertainty along with rapid inflation across fuel, housing and food.

Upon reflection, fiscal 2022 was a rollercoaster year to say the least, and really a tale of two halves. Markets were buoyant in the first half, with the Small Ordinaries finishing up 4% driven by record low interest rates, stimulus, and ongoing economic reopening. However, this came to a grinding halt in the second half with the global Omicron outbreak and Chinese lockdown, capped off by the war in the Ukraine. The main consequences being choked up supply chains, an energy crisis, and rapidly rising commodity prices – all of which helped inflation rear its ugly head in a big way. As if the cost-of-living pressures weren't already putting households under enough pressure, the Reserve Bank of Australia (RBA) backflipped on its guidance that rates would not rise until 2024 and began hiking at a pace not seen in decades. All of which drove the Small Ordinaries down by 25% in the second half, to finish down 20% for the year.

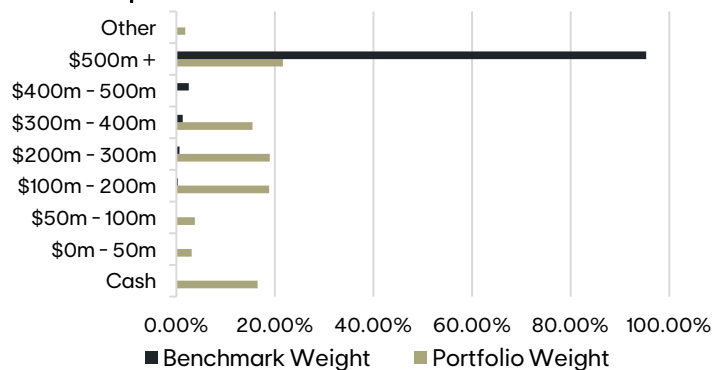
One of our core positions, RPM Global (RUL AU) outperformed in June, delivering a -4.1% absolute and +9% relative return versus the benchmark. The company provides advisory consulting, technology and software solutions to the mining industry. RUL provided a number of trading updates during June, given it is typically the largest selling period for the group. The group continues to show strong sales momentum with Annual Recurring Revenue of \$32.8m and total pre-contracted software revenue of A\$95.5m (as at 30 June). While the technology sector has been under pressure in recent times, we see RUL as a high-quality play given its blue-chip customer base, it is EBITDA profitable and is currently undertaking a share buyback (announced in late May).

Pacific Smiles (PSQ AU) was a strong outperformer in June, delivering a +15.4% absolute and +28.5% relative return. The group provided a trading update for May, reporting the first return to positive same-centre patient fees (+2.8% YoY) since November 2021 and that the rollout was tracking well. Operating conditions have been challenging as a result of COVID-19 and flu disruptions, however these factors started to abate during May. PSQ also announced it had extended its A\$40m loan facility with CBA for a further 3 years and confirmed that it had no requirement to raise capital. We see PSQ as a quality organic growth story over coming years with significant market share and earnings potential over time and have used disrupted trading conditions to increase our position.

June was a busy month for the team as we hit the pavement and assess our positions before the companies going into blackout ahead of the fiscal 2022 reporting season. We think this July confession season will be particularly interesting, with cost pressures building throughout the halves but still minimal cuts to earnings expectations. Accordingly, we have minimal exposure to consumer discretionary, and have focused on higher quality companies which have pricing power, defensive earnings, and solid balance sheets. We continue to stress test each of our assumptions and 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 these opportunities.

PORTFOLIO CHARACTERISTICS

Market Capitalisation



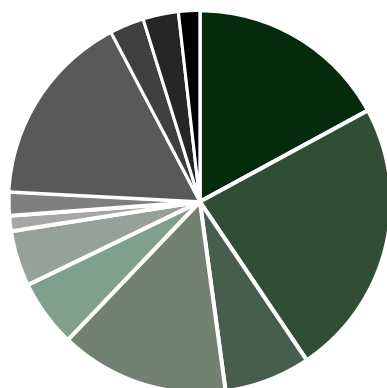
Key Portfolio Metrics

FY22e	Fund	Benchmark
Price/Earnings	14.66x	15.24x
Dividend Yield	1.9%	3.1%
Net Debt/EBITDA	-0.05x	1.2x

Source: Ellerston Capital.

Source: Ellerston Capital.

Sector Allocation



- Consumer discretionary, 17.1%
- Information technology, 23.5%
- Communication services, 7.3%
- Financials, 14.3%
- Health care, 5.7%
- Industrials, 4.7%
- Energy, 1.3%
- Consumer staples, 2.0%
- Cash, 16.5%
- Materials, 2.9%
- Real estate, 3.0%
- Other, 1.8%

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

All holding enquiries should be directed to our register, Link Market Services on 1800 992 149 or ellerston@linkmarketservices.com.au

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