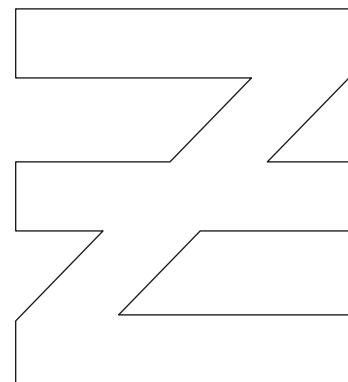


# Ellerston Australian Absolute Return Fund



## Monthly Newsletter, July 2022

### Investment Objective

The Fund targets absolute returns with an annualised return objective of 5% above the RBA Cash Rate over rolling five year periods.

### Investment Strategy

The Fund seeks to provide investors with a return profile that has a low correlation with traditional asset classes. The Fund aims to generate positive returns in all market environments by reducing the majority of market risk and focusing on capital preservation and alpha generation.

### Key Information

Inception Date **	3 June 2013
Portfolio Manager	Ashok Jacob
Application Price	\$1.1701
NAV Price	\$1.1672
Redemption Price	\$1.1643
Liquidity	Daily
Gross Exposure	83.53%
Net Exposure	37.72%
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 <sup>^</sup>	4.98%	-5.37%	-4.82%	-3.15%	9.19%	4.65%	7.09%
Benchmark*	0.11%	0.19%	0.22%	0.27%	0.34%	0.79%	1.38%
Alpha	4.88%	-5.56%	-5.04%	-3.42%	8.85%	3.86%	5.71%

<sup>^</sup> Net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

\* RBA Cash Rate

### PERFORMANCE

The Ellerston Absolute Return Fund delivered 4.98% in July.

### COMMENTARY

Three stocks that did well for us in July were Fleetwood, Johns Lyng and Tuas.

Fleetwood (FWD AU) was a solid performer with the stock up +32% for the month. The group is a diversified business which provides accommodation in remote locations; a modular manufacturer and sells spare parts and accessories for caravans. FWD over the last decade has gone from market darling to an under-loved micro-cap. Over the last four years, FWD has transformed the business by selling off underperforming assets, purchased further modular businesses, bringing in new management and bolstering the balance sheet. Late June and early July were a roller coaster ride for the FWD share price with the company announcing both a downgrade and a material contract within days of each other. FWD's Building Solutions business continued to have issues impacted by cost increases from material and labour shortages, project delays and unfavourable weather conditions. These problems resulted in a full year EBITA loss of circa \$3-4m relative to market expectations of a small EBITA gain. Management believe, issues in its Building Solutions business should be well contained to the FY22 and 1H23 result. On the flip side of this horrible news, a few days later FWD then announced a material contract for its Searipple Village in Karratha. This is a five-year contract with Rio Tinto to provide 250 rooms per night on an exclusive basis. The contract should generate between \$52-70m of revenue over the life of the contract and has the potential to increase if RIO takes up additional options. Our attraction to FWD has always been around the operating leverage that the Searipple village can deliver to earnings. This asset over the last 10 years has been heavily written off on FWD's balance sheet given the historic downturn in accommodation requirements around Karratha.

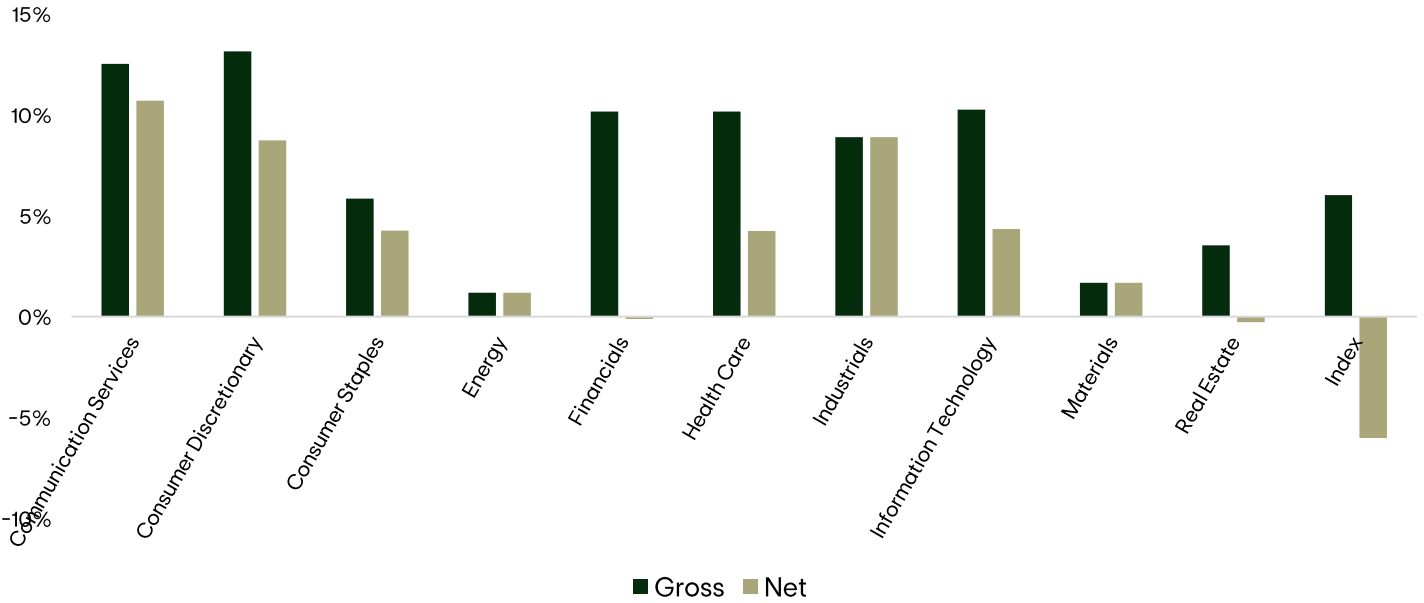
However, over the last few years even though occupancy had remained low compared to historical averages it has been a solid cash producing asset. We believe as more projects are launched around the Karratha region that this asset can once again start printing circa \$25m+ of earnings which is more than the entire business is generating currently. We believe the RIO contract will be one of many contracts FWD can announce in regard to its village which should see a continue re-rating to the FWD share price. In our view, we also think with nearly a third of its market cap in cash, FWD is well placed to seek out additional acquisitive growth strategies.

Tuas Limited (TUA AU) was another strong performer in July, with the stock +40% for the month. While the company did not have any newsflow during the month, the stock had been oversold and was trading close to its asset backing of ~A\$1 per share. Recent industry data implies TUA continues to accelerate its subscriber levels, which is being assisted by improving migration flows into Singapore as the economy reopens. We believe the group is well-funded for its 5G rollout and continues to take market share as the 'challenger' Mobile Network Operator in Singapore.

Johns Lyng (JLG AU) was a strong performer in July, delivering a 31% return for the month. The recent weather events over 2H22 as well as the underlying business outperforming saw JLG increase its FY22 guidance in June. While JLG was sold off along with many other 'growth' stocks, we continue to believe JLG has a material opportunity in coming years. This is driven by continued growth in Australia across its IBRS division; a strong pipeline of Catastrophe work given recent weather events; and meaningful expansion into the US market through its beachhead acquisition Reconstruction Experts. We took advantage of share price weakness in June to increase our weighting in this quality name.

**PORTFOLIO CHARACTERISTICS**

Sector Exposure

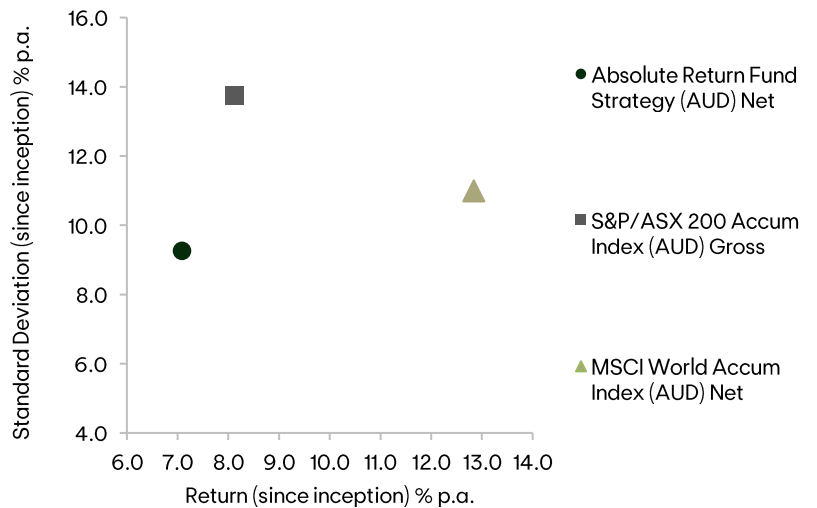


Source: Ellerston Capital.

**Top 10 Holdings (Alphabetical, Long Only)**

- Aussie Broadband
- Corporate Travel Management
- EQT Holdings
- Estia Health
- Fleetwood
- HiPages Group Holdings
- IPH
- Regis Healthcare
- Rubicon Water
- TasFoods

**Strategy Performance & Volatility**



Source: Ellerston Capital.

## RG240 Fund Disclosure Benchmark – Periodic Reporting (monthly)

- **Net Asset Value of the Fund and Redemption Price of Units**

Please refer to details on page one.

- **Any changes to key service providers including any change in related party status**

There have been no changes to key service providers, including any change in related party status.

- **Net returns after fees, costs and relevant taxes**

Please refer to details on page one.

- **Any material changes to the Fund's risk profile and strategy**

There have been no changes to the Fund's risk profile and strategy.

- **Any material changes related to the primary investment personnel responsible for managing the Fund**

Please refer to details on page one; there have been no changes to the primary investment personnel responsible for managing the Fund

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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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