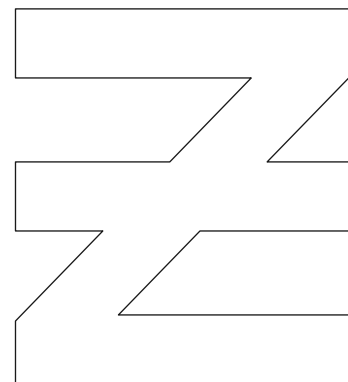


Ellerston Australian Micro Cap Fund



Monthly Newsletter, July 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	\$1.1985
Net Asset Value	\$1.1955
Redemption Price	\$1.1925
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.)	5 Years (p.a.)	Since Inception (p.a.)^^
Net^	9.57%	-13.24%	-16.97%	-18.47%	11.78%	12.99%	15.48%
Benchmark*	11.43%	-9.94%	-6.63%	-10.93%	2.55%	7.30%	6.99%
Alpha	-1.86%	-3.30%	-10.35%	-7.54%	9.23%	5.69%	8.49%

^ 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 trailed the Small Ordinaries Accumulation Index by 1.86% during July. It was an incredibly solid month for global equity markets, with the benchmark rallying by over 11% driven by lower bond yields, and moderating rate-hike expectations. Healthcare led the charge, rising by 23%, while many of the heavily sold off tech names ran hard, driving the IT sector up almost 18%. The only sector that went backwards was consumer staples, albeit by a modest 3%, while small industrials also outperformed small resources for the second straight month. Confession season is well and truly underway. We saw Nuix and EML Payments falling by around 30% on a weaker trading update and a sudden CEO departure respectively. It was also tough month for some of the agriculture names with Bega Cheese and Costa Group down by circa 20% on weaker trading updates, while several other names were heavily sold off on the back of noise around a possible Foot and Mouth disease outbreak in Australia.

Two stocks that did well for us in July were Fleetwood 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.

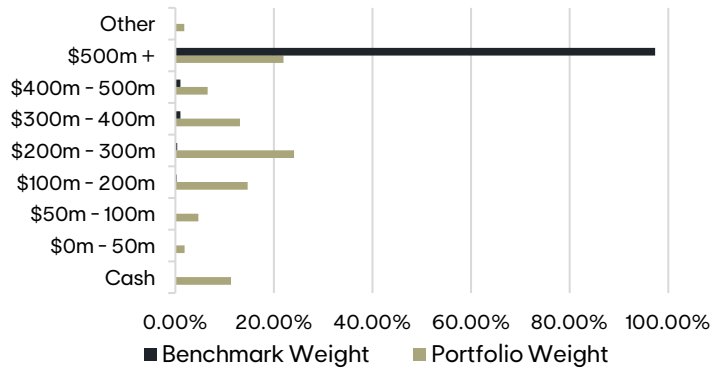
However, over the last few years even though occupancy had remained low compared to historical averages it has been a solid cash producing asset. We believe as more projects are launched around the Karratha region that this asset can once again start printing circa \$25m+ of earnings which is more than 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.

Moving into August, we continue to assess our positions as we head into reporting season, and we have focused the portfolio on higher quality companies which have pricing power, defensive earnings, and solid balance sheets. Given the recent surge in inflation and rapid interest rate hikes we think the outlook statements and post result trading commentary will be key and expect to see FY23/FY24 EPS revisions across the street. Notwithstanding, 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 reward to risk.

PORTFOLIO CHARACTERISTICS

Market Capitalisation



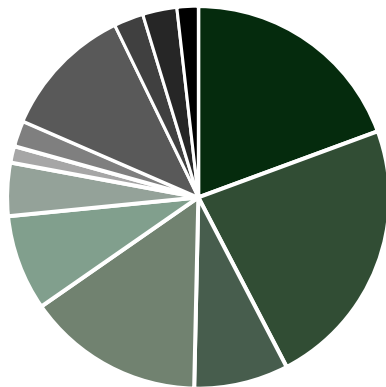
Key Portfolio Metrics

FY22e	Fund	Benchmark
Price/Earnings	15.2x	17.4x
Dividend Yield	2.5%	3.6%
Net Debt/EBITDA	-0.05x	1.3x

Source: Ellerston Capital.

Source: Ellerston Capital.

Sector Allocation



- Consumer discretionary, 19.4%
- Information technology, 23.0%
- Communication services, 8.0%
- Financials, 15.0%
- Health care, 8.1%
- Industrials, 4.5%
- Energy, 1.4%
- Consumer staples, 2.2%
- Cash, 11.3%
- Materials, 2.5%
- Real estate, 2.9%
- Other, 1.8%

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 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

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 or by contacting 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.
