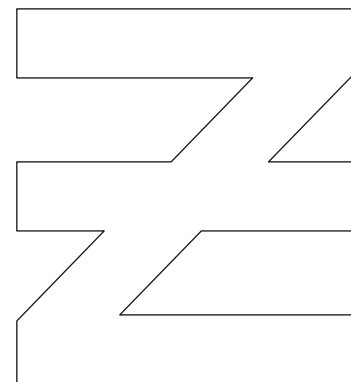


# Ellerston Pre-IPO Fund



## Performance Report, June 2022

### Investment Objective

The investment objective of the Fund is to generate a positive return above a Hurdle Return of 6% p.a. net of fees.

### Investment Strategy

The Manager uses a fundamental, research driven investment strategy to provide returns above the Hurdle Return that are not correlated to listed equity markets. The Manager undertakes fundamental research to selectively identify and invest in quality companies focus on investments in Pre-IPO, IPO, Unlisted Expansion Capital and Listed Microcap Companies, predominantly in Australia but also covering OECD and developed countries.

### Key Information

<b>Inception Date*</b>	31 March 2020
<b>Portfolio Manager(s)</b>	David Keelan & Alexandra Clarke
<b>Application Price</b>	\$0.8932
<b>Net Asset Value</b>	\$0.8932
<b>Redemption Price</b>	\$0.8932
<b>No Stocks</b>	21
<b>Hurdle Return</b>	6% p.a. net of fees
<b>Management Fee</b>	1.50%
<b>Performance Fee</b>	20% of the investment return above the Hurdle Return for each financial year, calculated and accrued quarterly
<b>Distributions</b>	Annually

### Performance Summary

Performance	3 Months	6 Months	1 Year	2 Years (p.a.)	Since Inception (p.a.)*
<b>Ellerston Pre-IPO Fund<sup>^</sup></b>	0.26%	-1.04%	3.34%	10.33%	8.56%

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

### Market Commentary

The June quarter saw the Small Ordinaries (XSO) lose 20.4% over the period. April was a relatively flat month, with the benchmark down 1.5% for the month as Australian markets held up well versus US equities. May was a volatile month with the benchmark falling 7.0% as domestic equities caught up to offshore moves, with the market digesting rate hikes, inflation, the Federal Election and concerns around a USA recession. The market sell-off accelerated in June, with the market closing down 13% for the month and closed near its lows.

Overall for the financial year, the benchmark declined 20%. However, it was a tale of two halves with the XSO +5.5% in the first half of the year and -24% for the second half. While there was some notable M&A during the quarter, ECM conditions remain challenging with only a handful of IPOs/secondary deals over the fourth quarter.

### Fund News

During the June quarter the Ellerston Australian Pre-IPO Fund generated a return of 0.3%. We note currently less than 2% of the book is exposed to market movements with the remaining holdings predominately held at cost. In the June quarter we announced a ~A\$0.09 distribution per unit, which brings cumulative distributions paid to A\$0.392 since inception.

### Current Thinking

Upon reflection, fiscal 2022 in listed markets 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 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 24% in the second half, to finish down 20% for the year.

Reflecting our view on the above factors, we have only made four new investments this financial year in the context of a flurry of pre-IPO activity during the 1H. We have been cautious about deploying capital into what was a frothy market where valuations were stretched and did not reflect the inherent risk associated with illiquidity. Consequently, our more cautious approach means that we are well placed to capitalise on businesses that require additional growth capital in a tougher market environment at more realistic valuations. We are starting to see more attractive valuations flow through to the unlisted environment and we are more positive on quality and price of deal flow coming through looking ahead. Our cash position sits at over 22% with several liquidity events expected to occur over the next 6-12 months.

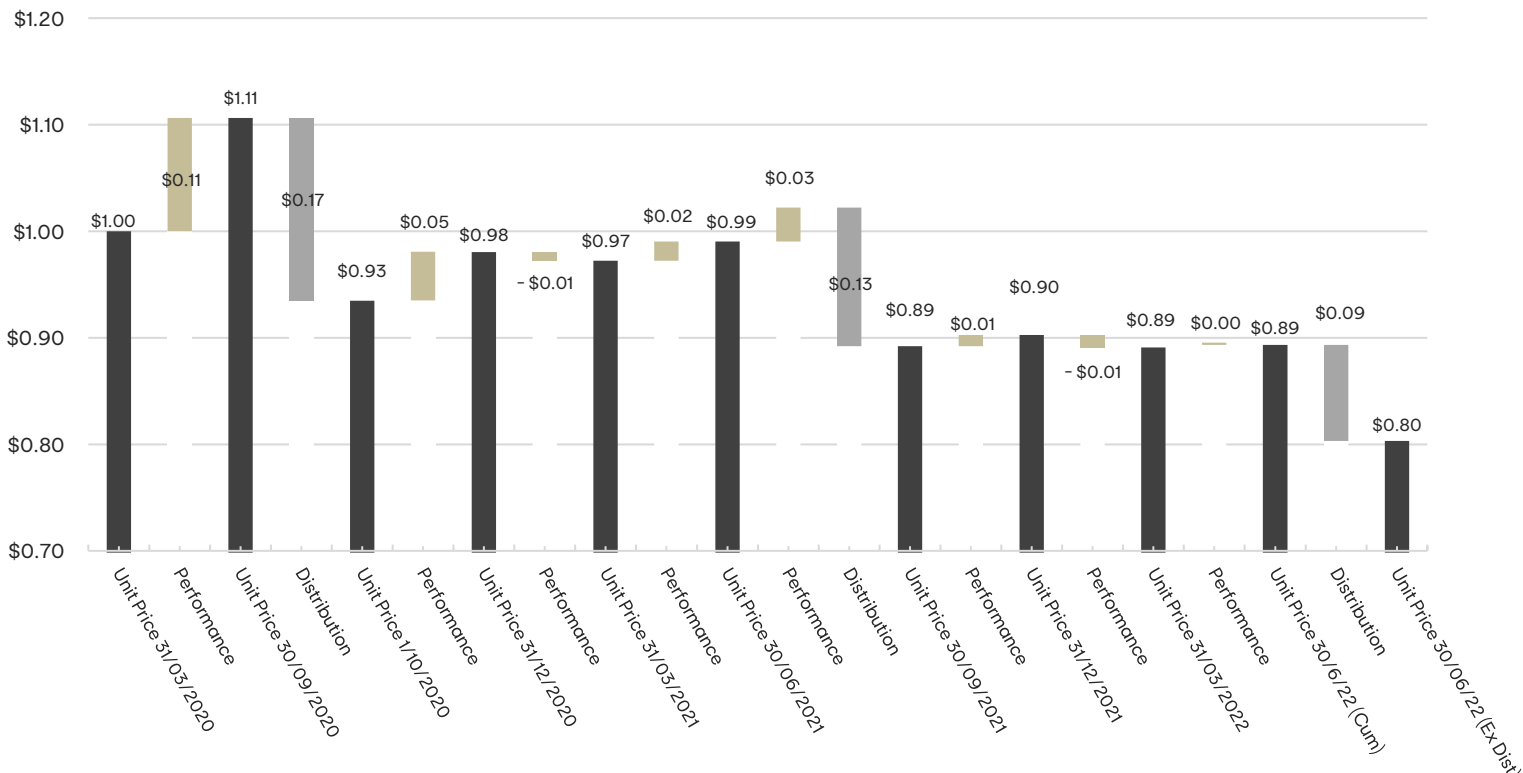
Note: Portfolio weights are calculated excluding the impact of distribution.

We think it is important given the current state of markets to reiterate how assets are held and valued within the portfolio. We know that market conditions have resulted in a slow-down in primary and secondary equity markets and a de-rating of market multiples. While this may have a potential impact on the timing of some of our liquidity events, the majority of our investments are held at cost and in instruments which float, like convertible notes. This reflects our conservative approach and means the Fund is well placed when our expected liquidity events occur. The Fund also has a process of reviewing the holding valuations of its investments, which is overseen from an external valuation committee. For those investments that we hold in more equity like structures, we have reviewed valuations to reflect current market conditions which has resulted in 4 investments being written down on average by 20%. We also note, we have written up one of our investments, as a meaningful transaction occurred at 70% premium to our holding cost and the business is now paying shareholders a cash dividend equating to a 11% yield on our holding cost. As such we have taken a more conservative approach and have written up this investment by 61% which equates to an 8x PE and 7.6% dividend yield.

### Notable News

- FibreSense:** We invested in FiberSense during the quarter. FiberSense develops technology that turns fiber cables into infrastructure that can monitor objects and events in real-time. Utilising sensors, a fiber network can be accessed to measure local vibrations, allowing various use cases. The business has patented applications, as well as proprietary hardware and analytical capabilities. FiberSense’s target clients include governments, utilities, insurers, and city planners. There are five key use cases for FiberSense’s offering: Linear Asset Protection; Marine Cable protection; Vehicle Tracking; Seismic energy mapping; and Water leak detection.
- Gold Hydrogen:** The second investment made during the quarter was Gold Hydrogen. The company is a prospect position for the pre-IPO fund, which has 100% ownership of the flagship Ramsay Project in South Australia. The company has a certified un-risked prospective resource of 1.3billion/kg of hydrogen and drill ready prospects. It also has a significant collaboration underway with the Geological survey of South Australia, CSIRO and Schlumberger. The business is aligned to the South Australia and National Hydrogen Action plan and is close to existing and planned infrastructure (including the A\$750m Hydrogen project at Port Pirie). We expect a liquidity event for Gold Hydrogen over the next 12 months.
- VALD Performance:** We exited our convertible note investment and a proportion of our equity during the quarter. The outstanding convertible notes were redeemed by the company, with the total investment IRR equating to ~38% since investment in 2020. A proportion of our equity was also sold during the period at a healthy premium to our investment price/holding cost.

### Unit Prices Since Inception



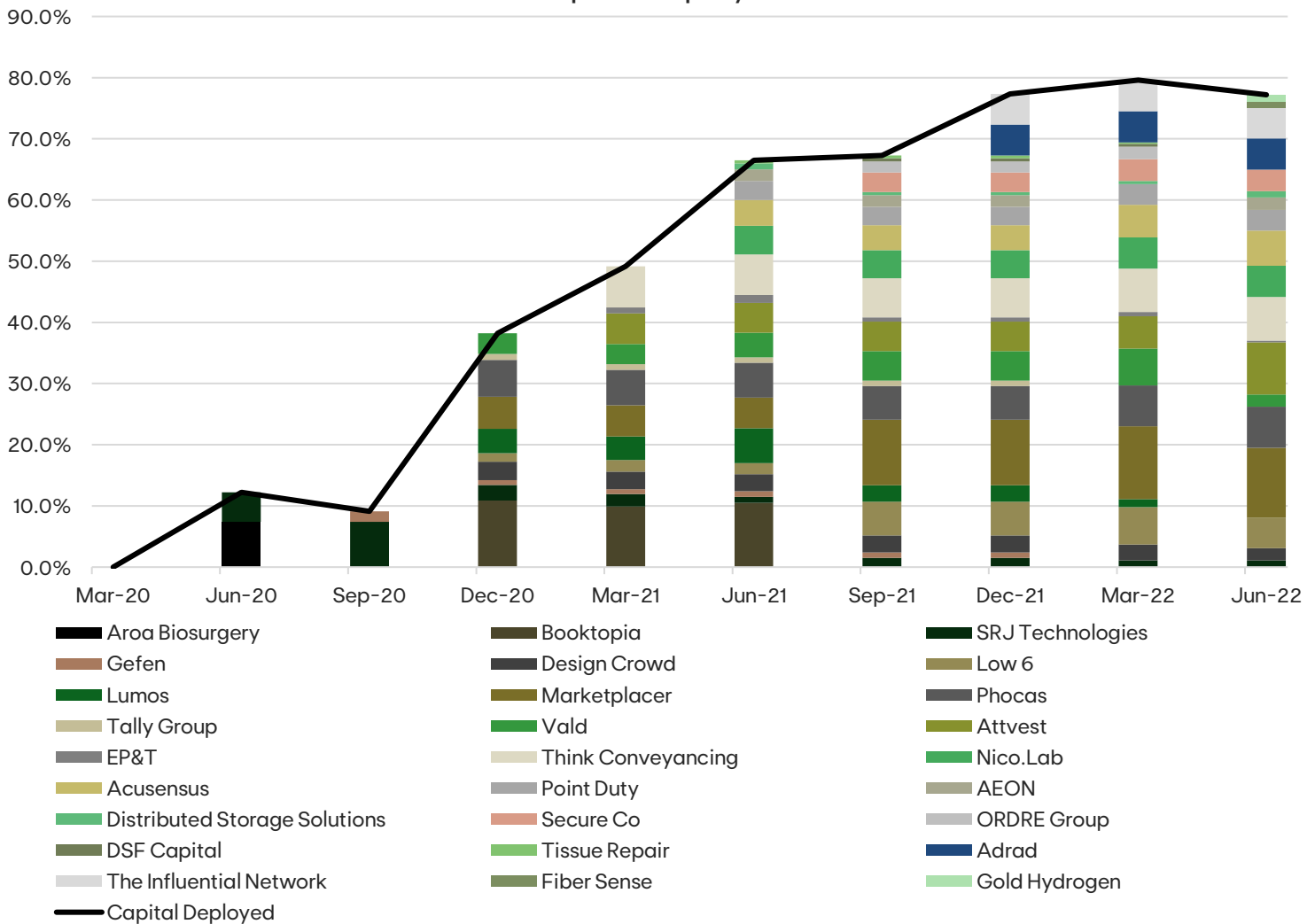
Source: Ellerston Capital.

## Holdings Summary

SECURITY	PORTFOLIO WEIGHT <sup>^</sup>
MARKETPLACER	11.43%
ATTVEST (CAPEVEST)	8.51%
DEEP BLUE COMPANY (THINK CONVEYANCING)	7.12%
PHOCAS	6.71%
ACUSENSUS	5.73%
OTHER CAPITAL DEPLOYED*	37.56%
CASH	22.94%
<b>TOTAL</b>	<b>100.00%</b>

Source: Ellerston Capital. \*Other capital deployed includes additional 16 holdings. ^Portfolio weights are calculated excluding the impact of distribution.

## Capital Deployed



Source: Ellerston Capital.

Our philosophy around pre-IPOs is very simple. We are looking for high quality businesses that have clear pathways to IPO, offering opportunities to achieve superior returns with minimal correlation to the market. We are looking to achieve a 20% IRR and given the current state of the market we believe we are well placed to deliver on this target.

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## 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** 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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