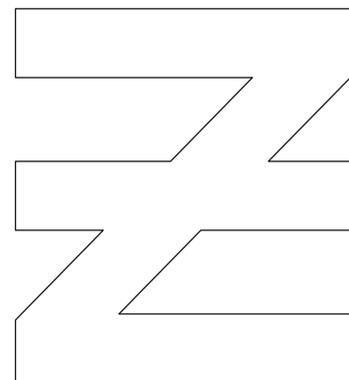


Ellerston Australian Emerging Leaders Fund



Monthly Newsletter, August 2022

Investment Objective

To provide investors with long term capital growth by investing in a portfolio of quality Australian & New Zealand 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 a portfolio of smaller company Securities with the aim of delivering superior returns to the Benchmark over time. The Fund will 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 the downside risk. Positions are actively managed within the Fund.

Key Information

Strategy Inception ^^	13 August 2021
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	\$0.8206
Net Asset Value	\$0.8186
Redemption Price	\$0.8166
Liquidity	Daily
No Stocks	42
Management Fee	1.10% 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.)	Since Inception (p.a.)^^
Net^	-0.15%	-2.01%	-10.88%	-20.52%	-	-16.87%
Benchmark*	0.58%	-2.59%	-6.08%	-14.66%	-	-12.31%
Alpha	-0.72%	0.58%	-4.79%	-5.86%	-	-4.56%

^ 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 Emerging Leaders Fund trailed the Small Ordinaries Accumulation Index by 0.72% during August. It was a rollercoaster month for the benchmark which rallied in the first two weeks, before giving it all back in the second half after Powell's hawkish comments. Looking behind the index, small resources surged higher finishing up almost 6%, while information and technology and REITs fell by around 5%. To a large extent reporting season played out as we had anticipated, with labour shortages and inflationary pressures being key features. What was also interesting, and while backwards looking, the consumer has held up surprisingly well despite the rising cost of living. Overall, outlook commentary was relatively conservative across the board, which is to be expected given the macro uncertainty, and we saw FY23 EPS forecasts cut by a much needed 5% on average.

Servcorp (SRV AU), one of our core positions was a standout performer during the month, putting on almost 20%. The company provides of workspace solutions, with operations in Australia and New Zealand, Asia, Europe, the Middle East and USA. Servcorp's product offering includes the provision of physical corporate offices, individual desks in a co-working environment, hot desks and a virtual office solution, where the customer can work remotely while using Servcorp's address and ancillary services. The company delivered a solid result, managing its costs tightly and generating free cash flow, while benefiting from higher occupancy and pricing post COVID. With nearly a third of its market cap in unencumbered cash, guidance for strong growth in FY23 and generating free cash flow of at least \$60m, we believe there is significant upside in this name.

Capitol Health (CAJ AU) is an owner and operator of radiology clinics predominately focused in the Victorian market. CAJ is a company that we have known for a number of years and have owned previously. We recently added it back to the portfolio given its under geared balance sheet, strong management team which has seen margins expand over the last few halves and its ability to consolidate the market. In August CAJ continued to deliver in one of the more challenging services environments we have seen due to covid lockdowns and absenteeism. The group also announced an acquisition of FMIG which should contribute around \$6m of EBITDA and bolsters its Victorian presence. We believe M&A in this space will remain elevated with both trade buyers and PE both looking at consolidating the sector. We note that CAJ is trading on 8.5x EV/EBITDA and a lot of the larger transactions in the market are being completed at circa 12x EBITDA. As such we believe CAJ is not only a quality organic growth story but an attractive takeover target.

Moving forward, we think many of these cost headwinds have peaked and should start to moderate. We are pleased earnings expectations have come down to more achievable levels, and we are starting to see some value emerge, particularly after some of the dramatic share price reactions which we believe were overdone. We will continue to stress test our positions and sift through these opportunities, particularly where we can see evidence of pricing power, resilient demand, and healthy balance sheets.

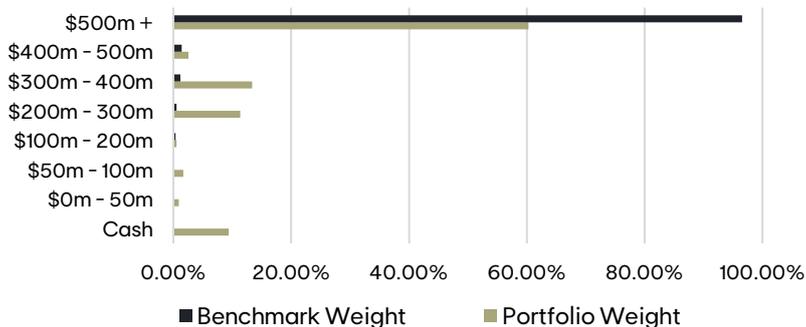
PORTFOLIO CHARACTERISTICS

Key Portfolio Metrics

FY22e	Fund	Benchmark
Price/Earnings	15.2x	17.6x
Dividend Yield	2.2%	3.6%
Net Debt/EBITDA	0.2x	1.3x

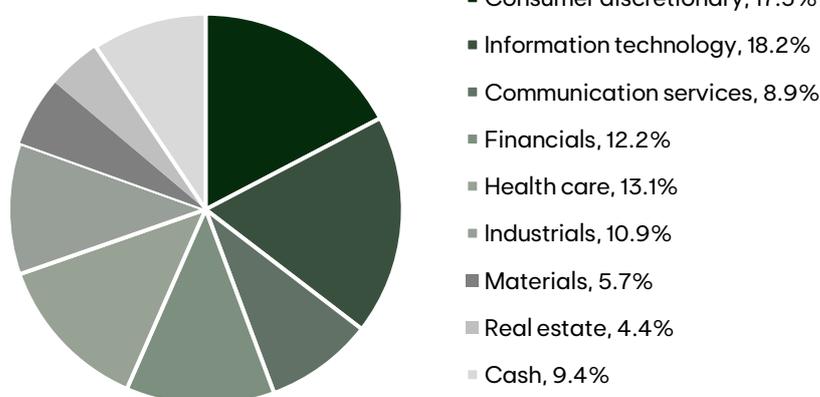
Source: Ellerston Capital.

Market Capitalisation



Source: Ellerston Capital.

Sector Allocation



Source: Ellerston Capital.

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Find out more

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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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