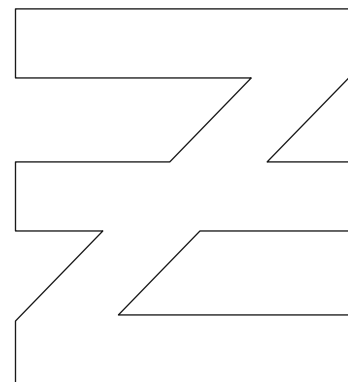


Ellerston Australian Micro Cap Fund



Monthly Newsletter, December 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	\$1.1029
Net Asset Value	\$1.1001
Redemption Price	\$1.0973
Liquidity	Daily
No Stocks	56
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^	-2.54%	-0.68%	0.82%	-29.78%	3.99%	7.44%	12.60%
Benchmark*	-3.73%	7.54%	7.03%	-18.38%	1.38%	2.92%	5.71%
Alpha	1.18%	-8.21%	-6.20%	-11.40%	2.61%	4.52%	6.89%

^ 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

December saw a reversal of the exceptionally strong November period with the market finishing down 3.73%. The Ellerston Australian Microcap Fund outperformed the Small Ordinaries Accumulation Index by 1.18%. The market was weighed down by higher-than-expected US Nonfarm payrolls which in turn meant that equity markets expected a delay in the US Federal Reserve (Fed) "pivot".

Looking more broadly at CY22, it has been a particularly challenging year for Micro and Small Caps with the Small Ordinaries finishing down 18.38% compared to the ASX 100 which was broadly flat at +0.63. The smaller end of the market was disproportionality impacted by the withdrawal of liquidity due to tightening monetary policy. This led to significantly reduced volumes across financial markets (especially at the small end of town). We also saw the Small Industrial Index derate heavily as higher inflation rates accentuated existing cost pressures at an industry level. While at an asset allocation level, it drove a rotation out of Industrials into Resources which have historically benefited in inflationary environments.

Contributing to the Fund's performance in December was MMA Offshore (MRM AU) and Acrow Formwork & Construction (ACF AU).

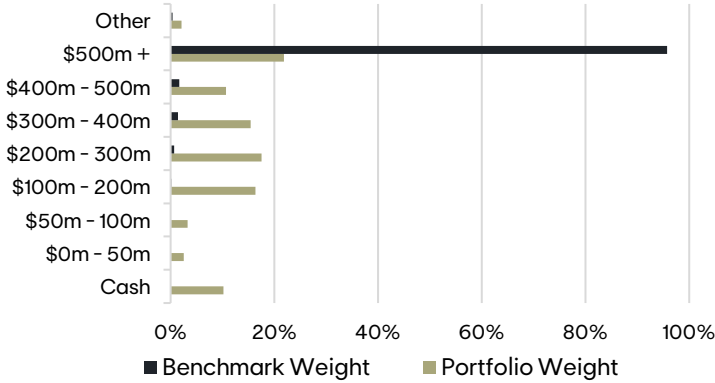
During December, MMA Offshore (MRM AU) was one of our top performers with a share price increase of 27% for the month. MRM released a trading update in which they upgraded 1H23 to the range of \$30-32m of EBITDA. This was on the back of a considerably high utilisation of their MPSV vessels - the largest and most expensive of their fleet. We anticipate the overall utilisation rate to continue to grow year on year, reflecting strong tailwinds from both the oil and gas and offshore wind sectors as they ramp up production. We hold MRM as a core position in our portfolio and believe that this is just the beginning of the operational leverage the business can generate at high fleet utilisation and increasing day rates for vessel hire.

Acrow Formwork and Construction Services (ACF AU) performed admirably in the month of December. It's share price rose 9% in anticipation of their 1H FY23 results due in February. Going into December, there was much speculation over Clough Engineering and their involvement in the Snowy Hydro 2.0 project. However, fears were abated when ACF clarified that they had no debt exposure to Clough for this project. ACF has a strong track record of meeting/beating its guidance, and we believe the outlook for secured hire revenue and increased margins is positive. We hold ACF as a core position into the result and feel there is more of the story yet to play out.

Kicking off 2023, our initial priority will be preparing for the 1H23 reporting season. With concerns around cost pressures, weakening demand and balance sheet flexibility, we are comfortable that our portfolio exposure is balanced heading into the reporting season. We suspect volatility will remain elevated in the near term. As always, our preference is to uncover high quality businesses benefiting from long-term structural tailwinds, with solid balance sheets and strong management teams. Given our bottom-up stock picking approach, we welcome volatility as it provides the fund with opportunities to accumulate high quality stocks at attractive prices.

PORTFOLIO CHARACTERISTICS

Market Capitalisation



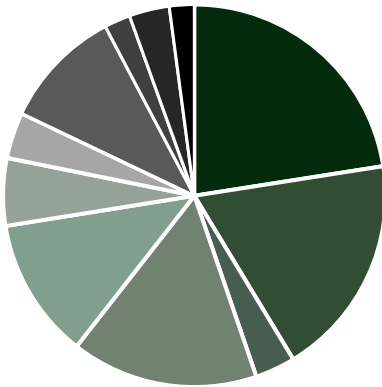
Source: Ellerston Capital.

Key Portfolio Metrics

FY23e	Fund	Benchmark
Price/Earnings	13.64x	19.45x
Dividend Yield	2.52%	3.39%
Net Debt/EBITDA	-0.24x	1.24x

Source: Ellerston Capital.

Sector Allocation



- Consumer discretionary, 22.5%
- Information technology, 18.8%
- Communication services, 3.4%
- Financials, 15.8%
- Health care, 11.9%
- Industrials, 5.7%
- Energy, 3.9%
- Cash, 10.2%
- Materials, 2.2%
- Real estate, 3.4%
- Other, 2.1%

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, Automic Group on 1300 101 595 or ellerstonfunds@automicgroup.com.au

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