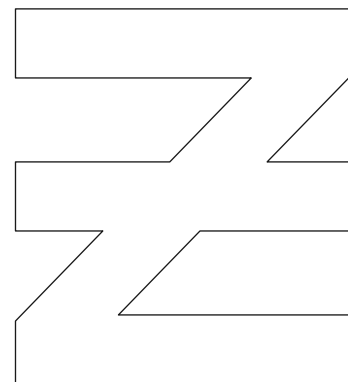


Ellerston Australian Micro Cap Fund



Monthly Newsletter, January 2023

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-17
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	\$1.1269
Net Asset Value	\$1.1241
Redemption Price	\$1.1213
Liquidity	Daily
No Stocks	54
Management Fee	1.20% p.a.
Performance Fee**	20%
Buy/Sell Spread	0.25% on application 0.25% on redemption
Minimum Investment	\$10,000
Minimum Additional Investment	\$5,000
Distribution Frequency	Half Yearly (i.e. June & December)

** Of the investment return above the benchmark, after recovering any underperformance in past periods

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.)^^
Net^	2.95%	-1.97%	-21.34%	3.35%	7.69%	12.98%
Benchmark*	6.56%	7.64%	-4.44%	2.41%	4.35%	6.79%
Alpha	-3.61%	-9.61%	-16.91%	0.95%	3.34%	6.18%

^ 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

January saw the equity markets rally strongly on the back of easing fears around interest rates with the perception that inflation may have peaked. This saw discretionary stocks take off with the likes of Super Retail Group up 18% and JB-Hi-Fi up 15% on the back of positive trading updates. Discretionary stocks with larger than usual short interest also outperformed, with Breville up 23% and ARB Limited up 24%. Other deeper value cyclicals also had positive momentum with Media and Telco stocks having a good run. Materials stocks weren't left out, however, it mattered very much which commodity you were in with lithium and rare earth stocks outperforming the coal names. The Ellerston Australian Micro Cap Fund finished the month up 2.95% verse the Small Ordinaries up 6.56%.

While January is usually a quiet month as the market comes back from the Christmas break and prepares for the February reporting season, it wasn't the case this year. We saw numerous M&A transactions and trading updates. Two of our companies that provided updates were Austin Engineering and OFX Group.

Austin Engineering (ANG AU) is a mining services company that specialises in the construction of light-weight buckets and trays for large mining plant and equipment. In January, ANG's share price rose by 23% on the back of a very solid trading update at the end of the month. In its trading update, the group confirmed that it had received confirmed orders and contracts for its budgeted \$250m FY23 revenue. This means that any additional contracts signed to March have a high probability of being realised in FY23 and provide further upside. In this update, ANG confirmed a positive outlook for the mining equipment market for the next 18 months. We continue to be excited by the prospects of ANG going forward, as it continues to realise both cost and revenue synergies from its Mainetec acquisition, tapping into the huge potential of the US market.

OFX Group (OFX AU) was one of our weaker performers for the month, declining by 17% on the third quarter trading update. This reflected softer consumer revenue, as the mix of transactions shifted from larger property/wealth transfers towards travel. This normalisation is broadly in line with our expectations, and we were pleased to see the corporate segment, which is now the engine room, firing on all cylinders.

While consumer average transaction values will moderate, the metrics which the company has more influence over, like customer signups and transactions per customer, continue to grow at a healthy pace. Additionally, the recent acquisition, Firma, is performing better than expected, and we think paves the way for future acquisitions. Overall, we think it's a high quality business, with the mix continuing to shift towards stickier and higher margin corporate. We are comfortable with OFX remaining one of our core positions and took the opportunity to top up at very appealing levels.

Looking forward to reporting season we think the market is likely to focus on several key factors:

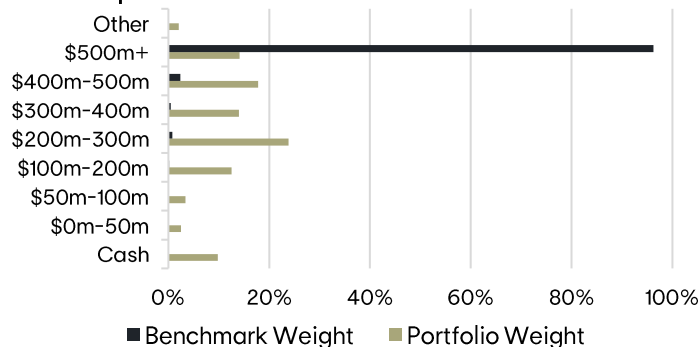
1. **Cost inflation impacting margins:** Given our high employment rate, the lag effect of supply chains as well as higher input costs we think margins will come under pressure. Therefore, companies which can demonstrate flat to growing margins should be rewarded by the market.
2. **M&A:** Despite current market conditions, balance sheets are reasonably robust and private equity firms have refilled their war chests. As such we believe M&A activity will remain elevated as companies seek out inorganic growth opportunities.
3. **Earnings outlook commentary/guidance:** While outlook commentary and guidance is always a key focus for the market, we think given the volatility in the market and the nervousness of investors, the companies which provide quantitative outlook will be rewarded.

While this reporting season will undoubtedly be different to prior years given the macro landscape with higher inflation, we continue to stress-test our positions, and we remain confident of our process and portfolio.

PORTFOLIO CHARACTERISTICS

Source: Ellerston Capital.

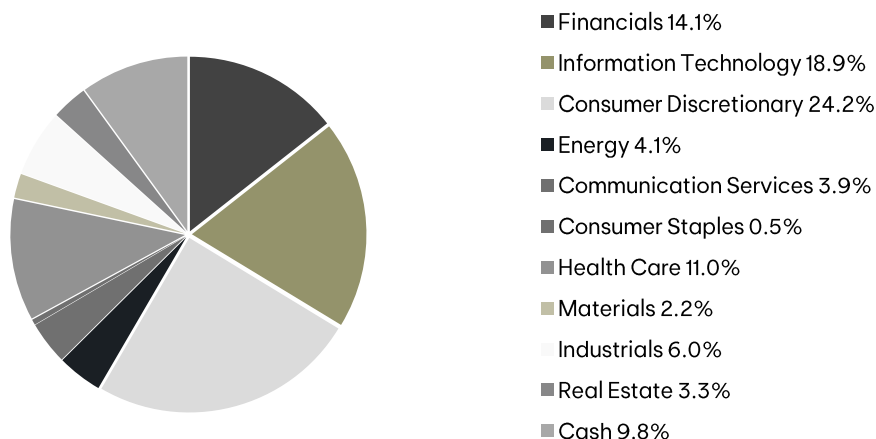
Market Capitalisation



Key Portfolio Metrics

FY23e	Fund	Benchmark
Price/Earnings	14.45x	18.35x
Dividend Yield	1.35%	3.33%
Net Debt/EBITDA	0.10x	1.22x

Source: Ellerston Capital.



Source: Ellerston Capital.

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Find out more

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All holding enquiries should be directed to our register, Automic Group on 1300 101 595 or ellerstonfunds@automicgroup.com.au

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