Ellerston 2050 Fund

Performance Report, February 2023

Investment Objective

The investment objective of the Fund is to outperform the Benchmark over a rolling three year period.

Investment Strategy

The Fund employs an active, research-driven investment approach which seeks to identify a portfolio of unlisted (pre-IPO and expansion capital) and listed (micro and small capitalisation) companies, with the aim of delivering superior returns to the benchmark over time. Investments will generally be made in companies that have sound business franchises with attractive earnings profiles that operate in growth industries and trade as a discount to valuation. For inclusion in the portfolio, companies must, either directly or indirectly, demonstrate a pathway to aiding the abatement of carbon within Australia and the global economy.

Key Information

Inception Date*	31 May 2022
Portfolio Manager(s)	David Keelan & Alexandra Clarke
Application Price	$0.9273
Net Asset Value	$0.9238
Redemption Price	$0.9203
No Stocks	34
Management Fee	1.50%
Performance Fee	20% of the investment return above the Benchmark for each financial year, calculated and accrued monthly
Distributions	Half Yearly

Performance Summary

Performance	1 Month	3 Months	6 Months	1 Year	Since Inception (p.a.)*
Ellerston 2050 Fund^	-1.79%	-3.18%	-7.54%	-	-7.62%
Benchmark**	-1.71%	0.97%	-0.30%	-	-1.52%
Alpha	-0.08%	-4.14%	-7.23%	-	-6.10%

^ The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance
**S&P/ASX Small Industrials Accumulation Index

Market Commentary

The Ellerston 2050 Fund finished the month down 1.79% underperforming the Small Industrials Index which finished down 1.71%. Statistically, reporting season disappointed the market with more companies missing consensus estimates which resulted in net downgrades across the board. However, what we would say is the drivers of the earnings downgrades were very much inline with our expectations and what we have been discussing in these newsletters over the last 6 months. We saw higher wages impacting costs bases; we saw rising interest rates impacting net interest costs; and we saw inventory levels that couldn't be cleared or if they were cleared, with the use of discounting. The mixture of all these issues meant that cash balances have diminished (or debt has increased) and management discussions around price rises, "right sizing" and re-considering their capital allocation policy were front of mind. This reporting season highlighted the markets grapple with what are the right multiples for businesses with an uncertain earnings trajectory. On one hand we had GUD Holdings which supplies aftermarket parts up 28% verse a Temple & Webster an online retailer down 38%. While there are many differences between these two names, most simply we have defensive retailer verse an expensive cash burning retailer. This dichotomy played out across the market with a rotation back towards defensives over the growth/ risk shift we saw in December and January.

Three companies which reported a reasonable result in February whose valuations over the last 6 months have come back into more agreeable territories are DGL Group, Aussie Broadband and Kelsian Group.

DGL group (DGL AU), a provider of diversified services within the chemical manufacturing, warehousing, distribution and environmental services, closed the month of February up 20%. The share price ran throughout the month in anticipation of the H1 FY23 results, which was released on the 28th February. DGL demonstrated strong revenue growth of 52% on the prior period, driven both by acquisitive activity in the half as well as strong organic growth. Cash flow conversion, which had been an issue in previous results, came in very strong for H1 FY23 at 108%. The result was accompanied by an upgrade to the guided EBITDA range, from $70-$72m to $71.5-$73.5m for FY23, and was coupled with guidance to strong underlying cash flow conversion of 90-95%. We hold DGL as one of our core positions and look forward to a strong half in which DGL continues to leverage their specialised solutions in the chemical manufacturing and logistics space. DGL fits within 2050 because its environmental solutions division provides battery recycling services, while it also sells chemicals used in electric and fuel efficient vehicles.

Aussie Broadband (ABB AU), one of Australia's fastest growing telecommunication providers, had a positive month putting on around 5% and gaining even more momentum after it reported. Historically, the stock had been one of our high conviction positions which we trimmed last year due to the valuation becoming stretched and the market getting ahead of itself. The stock has since pulled back and we think market expectations are much more realistic. The first half result demonstrated healthy subscriber growth, improving earnings mix, and most importantly that costs appear to be well managed. We think it represents attractive value at the current price, trading at sub 9x EBITDA on FY24, continuing to take share in residential, business and enterprise, with several catalysts in the pipeline. ABB fits within 2050 because it helps enable people to work remotely, reducing travel related emissions. It also helps corporates to transition from on premise network infrastructure to the cloud, reducing emissions in the process.

Kelsian Group (KLS AU) is Australia's largest integrated multi-modal provider and tourism operator. Over the month of February, the KLS share price closed 12.5% up on the back of new contract wins and a strong 1H FY23 result. KLS, through its wholly-owned subsidiary Transit Systems, announced that they have entered into a binding contract with Transport for NSW as the sole operator in Regions 2 and 15 in south-western Sydney. These contracts within Sydney solidify an already strong geographical presence within the region, and should be able to realise greater efficiencies with each additional adjacent region won. 1H FY23 results for Kelsian were strong, with revenue growth reflecting the strong rebound in domestic tourism market over the half, with outlook for the segment in the form of forward bookings also high. We continue to hold KLS as a core position, as we feel they are well positioned to win new transport contracts, both within Australia and internationally, as well as benefit from further recovery in the tourism sector. KLS fits in the 2050 portfolio because its bus fleet is transitioning from fossil fuel towards hydrogen powered and electric.

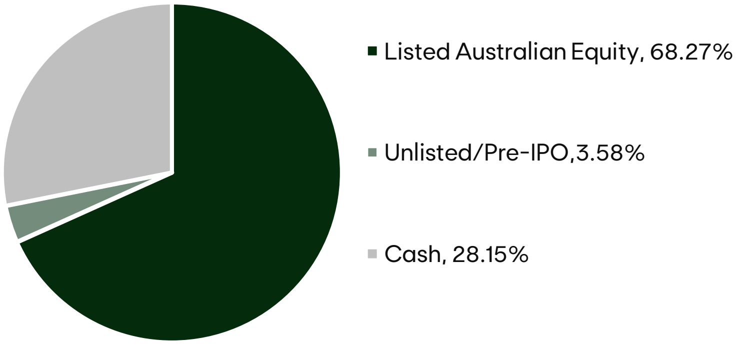
Moving to March, we continue to believe volatility will remain, however, the February reporting season gave us the data to reassess our views on reliability of earnings, margin sensitivities and management teams' ability to navigate the current environment. This updated data allows us to tweak our positioning and opens up opportunities for new investments into the funds, with stocks that have come back into our valuation universe. As such while we can never pick the timing of a "normalised market', pleasingly opportunities are appearing.

Holdings Summary

SECURITY	PORTFOLIO WEIGHT
Imdex	5.83%
Adrad Pty Ltd	4.78%
RPMGlobal Holdings	4.41%
Kelsian Group	4.00%
IPD Group	3.81%
Additional Holdings^	49.02%
Cash	28.15%
Total	100.00%

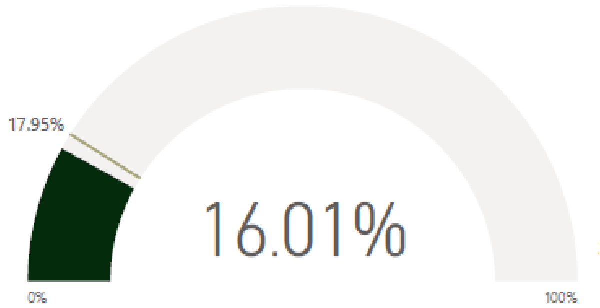
Source: Ellerston Capital. ^Other capital deployed includes additional 30 holdings.

Portfolio Breakdown

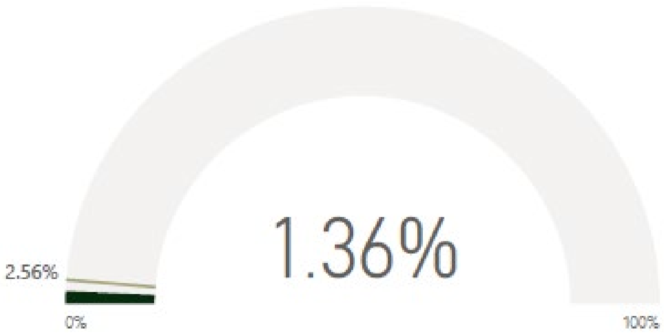


Source: Ellerston Capital.

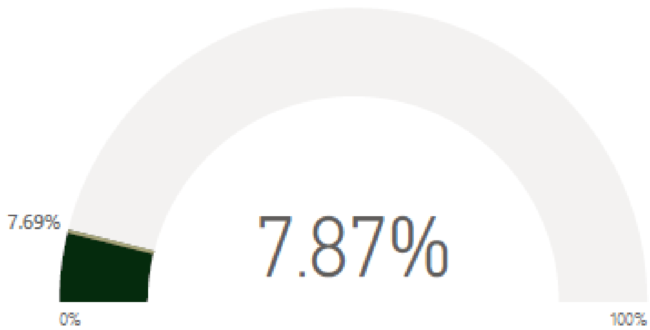
Value of Portfolio Reporting vs. Number of Companies Reporting on Scope 1 and 2*



Value of Portfolio Reporting vs. Number of Companies Reporting on Scope 3*



Value of Portfolio Reporting vs .Number of Companies Reporting According to TCFD^*



Source: ^Task Force on Climate-Related Financial Disclosure

*Please note the % represented by the line is the number of companies reporting and the shaded area (green) is the total holding value of the portfolio that the companies represent.

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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 Registry Services on **1300 101 595** or **ellerstonfunds@automicgroup.com.au**

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