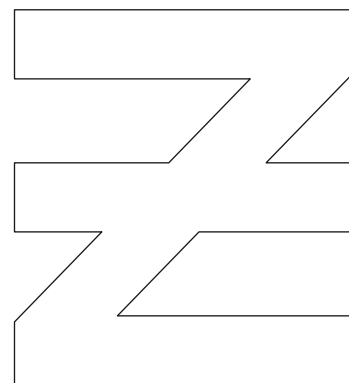


Ellerston Australian Emerging Leaders Fund



Monthly Newsletter, March 2023

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-Aug-21
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	\$0.7529
Net Asset Value	\$0.7510
Redemption Price	\$0.7491
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
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	6 Months	1 Year	Since Inception (p.a.)^^
Net^	-0.27%	-1.07%	1.61%	-21.60%	-15.78%
Benchmark*	-0.72%	1.88%	9.55%	-13.19%	-9.69%
Alpha	0.46%	-2.94%	-7.94%	-8.40%	-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 Ordinaries Accumulation Index

COMMENTARY

The Ellerston Australian Emerging Leaders Fund outperformed the Small Ordinaries Index by 0.46% in the month of March. It was a roller coaster ride for small caps with the index being down over 5% mid-month before recovering to close -0.72% on the back of a wave of takeover offers. From a macro point of view, March was one of the more interesting months that we have had in some time. We saw the failure of multiple US banks with Silicon Valley Bank (SVB) having some direct contagion into the Australian market. We also saw the rescuing of Credit Suisse by UBS. Unlike previous periods of financial distress, regulators were on the front foot which appears to have stemmed any broader contagion.

March also saw a wave of M&A. In the Industrial space we saw all cash bids for United Malt from an industry player and Invocare, which was trading near COVID lows, be pounced on by private equity. In the healthcare space, Estia Health received a credible bid from Bain Capital while Australian Clinical Labs made an opportunistic scrip bid for Healius. The most dramatic impact to small caps in March was Albemarle's bid for Liontown- a lithium explorer. Liontown holds a reasonably large weight in the index and was also heavily shorted, which resulted in the stock rallying more than the bid price. It also had a chain reaction sending other lithium names soaring. Ultimately this dynamic resulted in the Small Resources Index finish up 6% on the day and 5.57% for the month (vs Small Industrials which finished down 3.01%). We think M&A will remain a large thematic going forward.

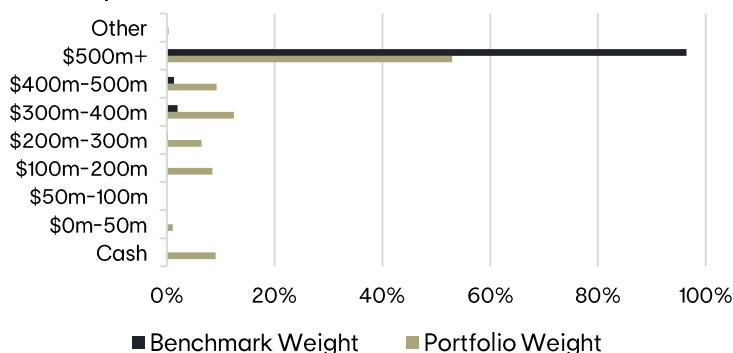
We remain cautious of broad-based EPS growth across the market. This, coupled with rising interest rates and the push and pull of inflation/rate expectations, leaves us of the belief that we are back in a stock-pickers market. We continue to look for companies that can grow revenue and navigate inflationary pressures through the current period.

In March, two of our listed aged care providers Regis Healthcare (REG AU) and Estia Health (EHE AU) were significant out-performers versus the market. REG and EHE were up 24% and 27% for the month respectively, primarily running on the back of EHE receiving an Indicative Non-binding Proposal from Bain Capital at \$3.00 per share. This proposal represented a 28% premium to the previous closing price, or a 40% premium to the closing price two days prior to the proposal. The share price for REG also rallied on the back of the offer – a result of being the only other Australian listed aged care provider. We feel the outlook of these two companies has cleared up due to clarification around the outcomes of the Royal Commission into the Aged Care sector, specifically relating to care minutes and funding, as well as the impacts of COVID-19 dissipating. We continue to be significantly overweight the aged-care sector within our portfolio and anticipate an increase to occupancy and profitability in the coming periods. The \$3.00 per share implies an enterprise value (including RADs) of approximately \$270k per bed, which is broadly in line with the price at which now delisted Japara was acquired by Calvary in late 2021.

Tuas (TUA AU) is an owner/operator of a national 4G mobile network in Singapore. During March, the share price for TUA rose 17% on the back of their 1H23 result. One of the key drivers for TUA is its subscriber count, which came in well above market expectations. Higher subscriber numbers, coupled with meaningful operating leverage, saw EBITDA beating analyst estimates. Pleasingly, TUA announced that they are launching into the Singapore broadband market, which has been estimated at 1.5m households and has a TAM of S\$600-700m. We feel this is a natural progression for TUA as it expands its product offering and is well positioned to take market share given its very competitive offering. TUA remains one of our core positions for the fund.

PORTFOLIO CHARACTERISTICS

Market Capitalisation



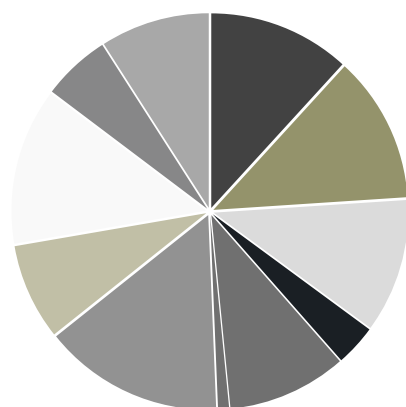
Source: Ellerston Capital.

Key Portfolio Metrics

FY23e	Fund	Benchmark
Price/Earnings	17.12x	18.32x
Dividend Yield	2.02%	3.29%
Net Debt/EBITDA	0.46x	1.21x

Source: Ellerston Capital.

Sector Allocation



- Financials 11.8%
- Information Technology 12.2%
- Consumer Discretionary 11.1%
- Energy 3.4%
- Communication Services 9.9%
- Consumer Staples 0.9%
- Health Care 14.9%
- Materials 8.0%
- Industrials 13.0%
- Real Estate 5.6%
- Cash 9.1%

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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