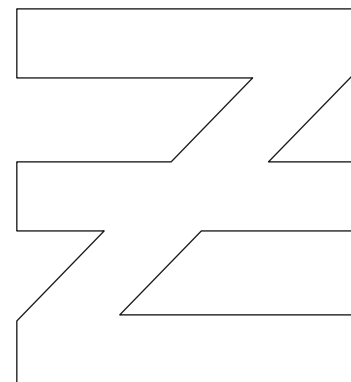


# Ellerston 2050 Fund



Monthly Newsletter, March 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 at 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

Strategy Inception ^^	31 May 2022
Portfolio Manager(s)	David Keelan & Alexandra Clarke
Application Price	\$0.9293
Net Asset Value	\$0.9258
Redemption Price	\$0.9223
No Stocks	36
Management Fee	1.50% p.a.
Performance Fee**	20%
Distribution Frequency	Half Yearly (i.e. June & December)

\*\* Of the investment return above the Benchmark for each financial year, calculated and accrued monthly

## Performance Summary

Performance	1 Month	3 Months	6 Months	1 Year	Since Inception (p.a.)^^
Net^	0.22%	-0.45%	-1.74%	-	-7.42%
Benchmark*	-3.01%	1.35%	8.02%	-	-4.49%
Alpha	3.23%	-1.80%	-9.76%	-	-2.93%

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

## Market Commentary

The Ellerston 2050 Fund outperformed the Small Industrials Index by 3.23% 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 -3.01% 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 Liantown - a lithium explorer. Liantown 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. Both operators are leading the charge towards net zero by 2050 in the aged care sector, with emission reduction targets, renewable energy generation at their facilities, electronic appliances, and energy-efficient lighting. New builds are more energy efficient, and we think this will force the sector to follow suit.

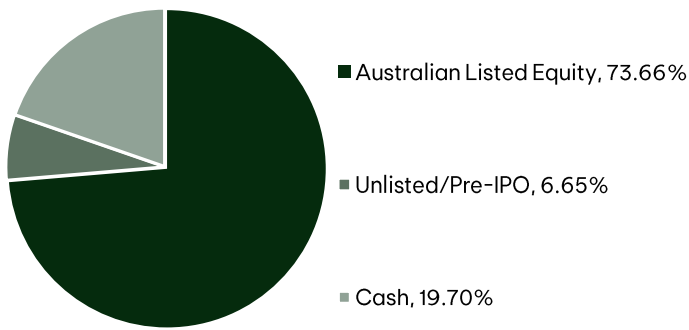
IPD Group (IPG AU) is a leader in the Australian electrical product distribution space. During the month IPG rose 20% on the back of a management presentation which outlined the EV charging infrastructure tailwinds that the business enjoys. IPG's solutions encompass the value chain from the planning/engineering required to prepare for the EV charger installation, all the way through to the ongoing maintenance and repairs. It appears that this has opened the markets eyes to the huge opportunity and strong structural tailwinds behind this story and the share price has responded accordingly. We continue to hold IPG as a high conviction stock and look forward to strong FY23 results.

### Holdings Summary

Security	Portfolio weight
Imdex Ltd	5.56%
Kelsian Group Limited	4.86%
Estia Health Ltd.	4.67%
IPD Group Ltd	4.54%
Adrad	4.53%
Additional Holdings^	56.14%
Cash	19.70%
<b>Total</b>	<b>100.00%</b>

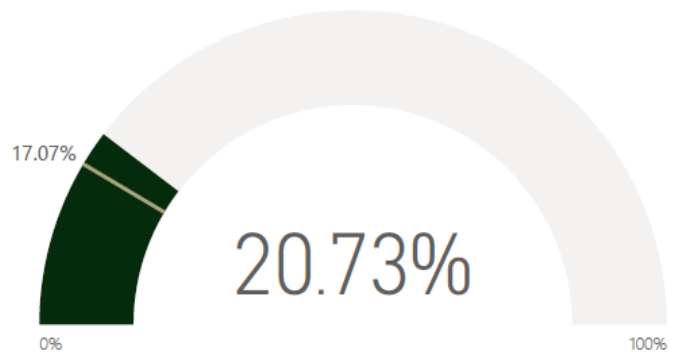
Source: Ellerston Capital. ^Other capital deployed includes additional 29 holdings.

### Portfolio Breakdown

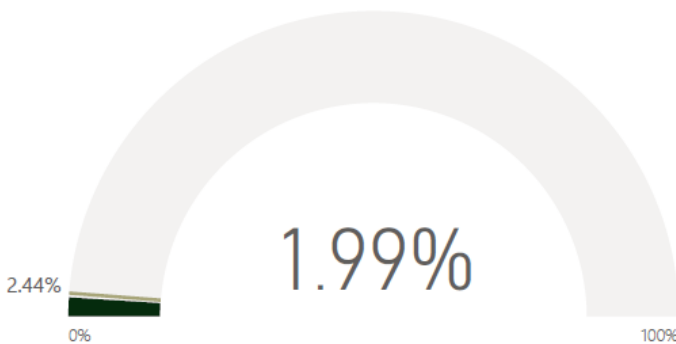


Source: Ellerston Capital.

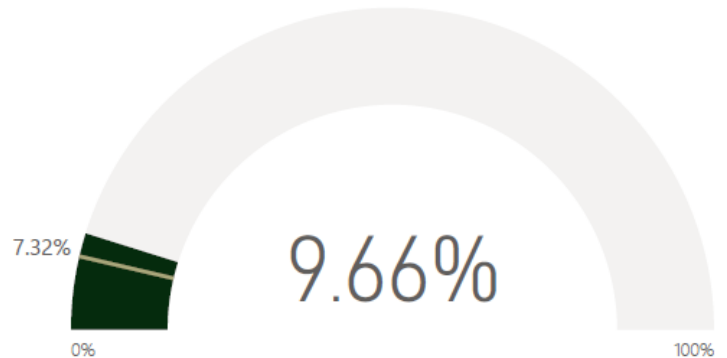
### Value of Portfolio Reporting vs. Number of Companies Reporting on Scope 1 and 2\*



### 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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## Contact Us

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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](mailto:info@ellerstoncapital.com)** or visit us at **[ellerstoncapital.com](http://ellerstoncapital.com)**

All holding enquiries should be directed to our register, Automic Registry Services on **1300 101 595** or **[ellerstonfunds@automicgroup.com.au](mailto:ellerstonfunds@automicgroup.com.au)**

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