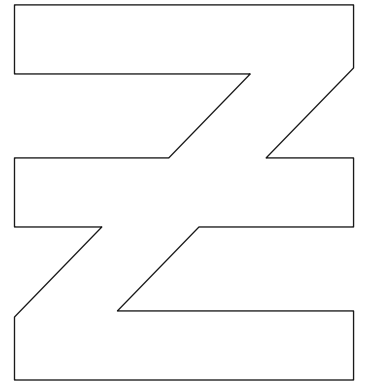


Ellerston Australian Micro Cap Fund



Monthly Newsletter, April 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	\$1.1661
Net Asset Value	\$1.1632
Redemption Price	\$1.1603
Liquidity	Daily
No Stocks	53
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	FYTD	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.) ^{^^}
Net[^]	3.73%	3.48%	7.41%	11.12%	9.23%	13.04%
Benchmark*	2.78%	-1.74%	12.07%	9.22%	3.90%	6.19%
Alpha	0.95%	5.21%	-4.66%	1.90%	5.33%	6.85%

[^] 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 Micro Cap Fund outperformed the Small Ordinaries Index by 1.0% in the month of April. The market rallied in April partially based on the Reserve Bank of Australia (RBA) pausing interest rate rises (we note RBA moved rates by 0.25% in May), the anticipation of a softer landing and signs that global inflation was on a downward trajectory. We continued to see M&A appear with Kirin bidding for Blackmores and Wesfarmers/API bidding for Silk Lasers to name two. More importantly, we saw at the smaller end of the market, fundamentals return. By this we mean catalysts and changes in earnings once again drove share price movements. The quarter was filled with news flow as companies got a handle on their 3Q results, and many cleansing the market before conference season kicked off.

Turning to the portfolio, three stocks that had a strong April were Helloworld Travel (HLO AU); SmartPay (SMP AU) and Fleetwood Limited (FWD AU).

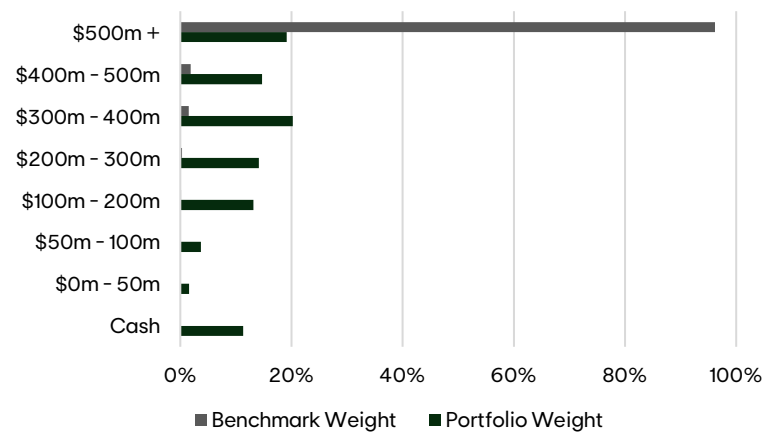
We first bought into HLO in 2021 when it sold its corporate travel division to Corporate Travel Management (CTD AU) for \$175m (\$100m cash + \$75m in CTD scrip). While the transaction removed an earnings stream for HLO, it fundamentally changed the balance sheet of the business. HLO has benefited from the opening of borders and the recovery of leisure. This was clearly demonstrated in April when the Group provided a 3Q trading update, materially upgrading EBITDA guidance (+31-36%) to \$38-42m (from \$28-32m). This is the second upgrade that HLO has pushed through this year and there is further scope as guidance implies a weaker 4Q despite this usually being a seasonally stronger period. With Management being major shareholders and a balance sheet, which is ready to undertake M&A we believe HLO remains materially undervalued.

SmartPay (SMP AU) is a provider of payment solutions within Australia and New Zealand. They currently operate a fleet of 15,700 transacting terminals across Australia, with an additional 30,000 terminals over in New Zealand. In late April, SmartPay announced their results for what is their 4Q FY23 trading period in which they have been able to demonstrate strong continuation of their terminal rollout strategy. While the result was muted by the seasonally weak fourth quarter, SmartPay announced that they have entered into a non-binding letter of intent with their Australian processing partner to hopefully move over all of their New Zealand fleet of terminals to an acquiring model; in line with their Australian business. This has unlocked significant value within the business, and has significantly increased their growth potential beyond their rollout in Australia.

FWD share price has been under pressure over the last few months due to several different reasons. Some issues have been internally generated while other issues have been out of FWD's control. We have seen the conclusion of FWD's problem contracts and we are starting to see a rebasing of its Building Solutions business. More importantly though is the announcement around a potential key client in Karratha receiving an offtake agreement. This has been the catalyst the market has been waiting on. Our attraction to FWD has always been around the operating leverage that the Searipple village can deliver to earnings. This asset over the last 10 years has been heavily written off on FWD's balance sheet given the historic downturn in accommodation requirements around Karratha. However, over the last few years even though occupancy had remained low compared to historical averages it has been a solid cash producing asset. We believe as more projects are launched around the Karratha region that this asset can once again start printing c\$25m+ of EBIT which is more than the entire business is generating currently. We believe further contracts on top of its already announced RIO contract should see a continue re-rating to the FWD share price.

PORTFOLIO CHARACTERISTICS

Market Capitalisation

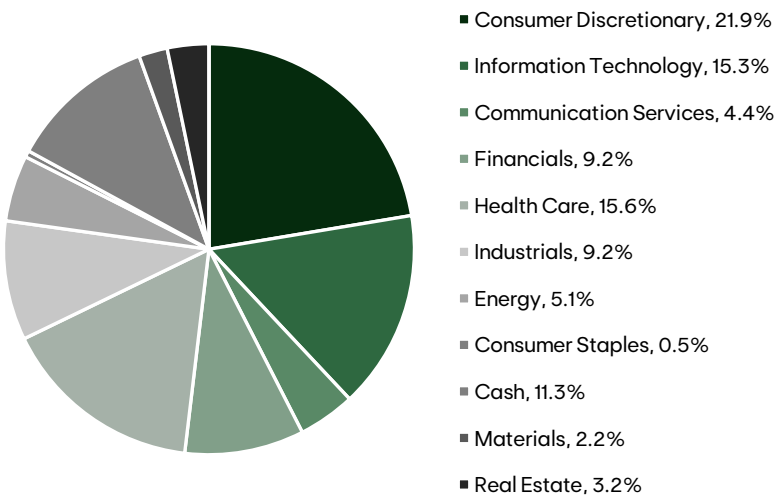


Key Portfolio Metrics

FY23e	Fund	Benchmark
Price/Earnings	13.6x	18.9x
Dividend Yield	1.6%	3.2%
Net Debt/EBITDA	-0.2%	1.2%

Source: Ellerston Capital.

Sector Allocation



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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