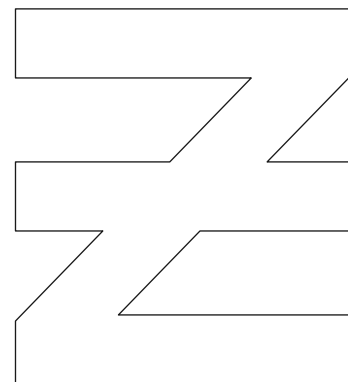


Ellerston Australian Emerging Leaders Fund



Monthly Newsletter, May 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	\$0.7354
Net Asset Value	\$0.7336
Redemption Price	\$0.7318
Liquidity	Daily
No Stocks	42
Management Fee	1.10% p.a.
Performance Fee ^{**}	20.00%
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[^]	-3.18%	-2.58%	-6.62%	-12.19%	-15.54%
Benchmark*	-3.26%	-1.29%	-2.48%	-5.77%	-9.13%
Alpha	0.08%	-1.29%	-4.14%	-6.41%	-6.42%

[^] 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 benchmark, finishing down 3.18% versus the Small Ordinaries Index down 3.26%. The market was weighed down by noise around the US debt ceiling and closer to home, fears around higher inflation and rising interest rates. In May we also saw weakness in Small Resources with the index down over 7% with coal, gold and copper names all being hit. On the flip side we saw a strong rally in tech names on the back of the frenzy in AI sparked by NVIDIA's 2Q trading update in the US.

May can be a mini reporting seasons with numerous conferences taking place which can require companies to provide trading updates. We entered May being very cautious around consumer facing names and anticipating a wave of downgrades. Early trading updates in May were a mixed bag with Media exposed names being hit heavily while large cap retailers such as Super Retail Group and JB Hi-Fi weathered the storm slightly better. However as the month progressed, a number of domestic retailers began providing negative trading updates, with consumer conditions markedly tougher post the Easter period.

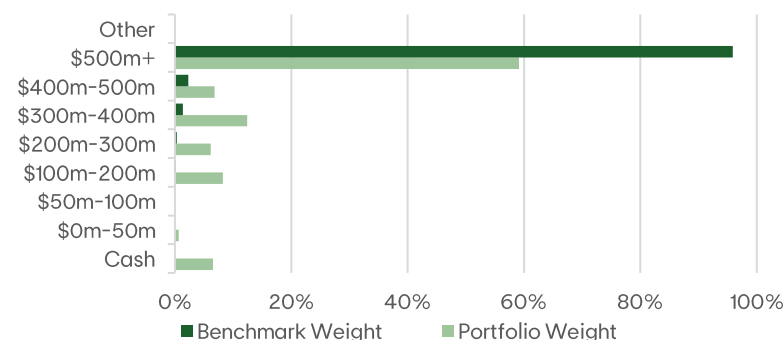
Turning to the portfolio, two names worth discussing this month are Smartgroup (SIQ AU) and Kelsian Group (KLS AU).

SIQ is significant player in the novated leases space. What caught our attention more recently was a change in Federal Government policy, where FBT on new electric vehicles (EVs) was abolished on novated leases. We have seen the experience in Europe and New Zealand when supportive government policy is implemented, typically leading to a rapid adoption of EVs. In SIQ's first quarter trading update, EVs as a percentage of total quotes had exceeded 23% (vs 2% in the prior period). It is our view as more EV supply enters the Australian market, demand for SIQ novated leases will increase rapidly given the savings to the consumer. We also note, that while SIQ's Smart Future program has taken longer to implement, it remains on foot and should produce reasonable cost savings to the group and therefore higher earnings over the longer term. We believe these two factors should lead to consensus estimates proving conservative in coming years.

KLS is a provider of multi-modal transport and tourism services both domestically and internationally. KLS had a strong month, rallying over 11%. What attracts us to KLS – particularly in the current inflationary environment – is its long-dated, secure contracts with blue chip and government counterparties. In recent months, KLS has announced the acquisition of US based passenger motor-coach company All Aboard America! Holdings. This transformational acquisition should add US\$208m of revenue and US\$51m of EBITDA to the group. This acquisition also represents the first steps into the US market for KLS, which is a huge opportunity for growth given a total addressable market of ~US\$40bn.

PORTFOLIO CHARACTERISTICS

Market Capitalisation



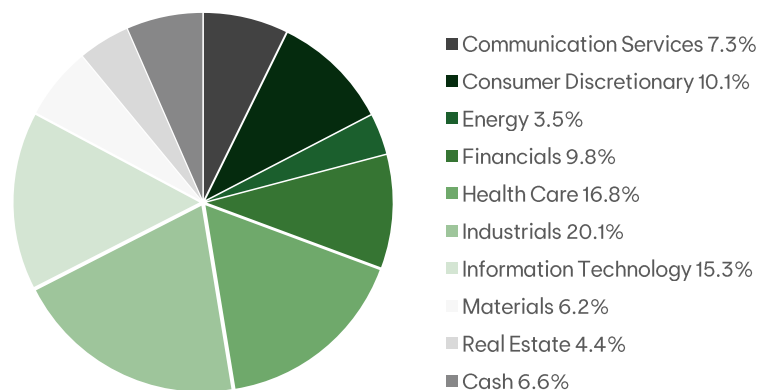
Source: Ellerston Capital.

Key Portfolio Metrics

	FY23e	Fund	Benchmark
Price/Earnings		17.22x	18.94x
Dividend Yield		1.84%	3.15%
Net Debt/EBITDA		-0.03x	1.17x

Source: Ellerston Capital.

Sector Allocation



Source: Ellerston Capital.

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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 Group on 1300 101 595 or ellerstonfunds@automicgroup.com.au

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