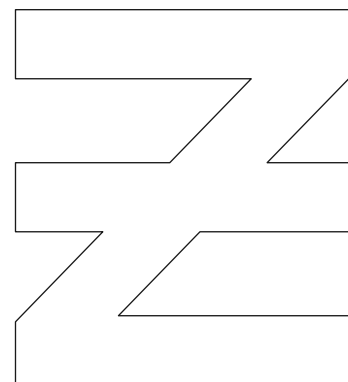


Ellerston Australian Micro Cap Fund



Monthly Newsletter, May 2023

Investment Objective

To provide investors with long term capital growth by investing in a portfolio of quality Australian & New Zealand 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	\$1.1297
Net Asset Value	\$1.1269
Redemption Price	\$1.1241
Liquidity	Daily
No Stocks	47
Management Fee	1.20% 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	FYTD	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.) ^{^^}
Net [^]	-3.12%	0.19%	4.06%	7.27%	8.04%	12.27%
Benchmark [*]	-3.26%	-1.29%	8.42%	4.46%	2.46%	5.53%
Alpha	0.14%	1.47%	-4.36%	2.81%	5.58%	6.74%

[^] 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 0.14% in the month of May. 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.

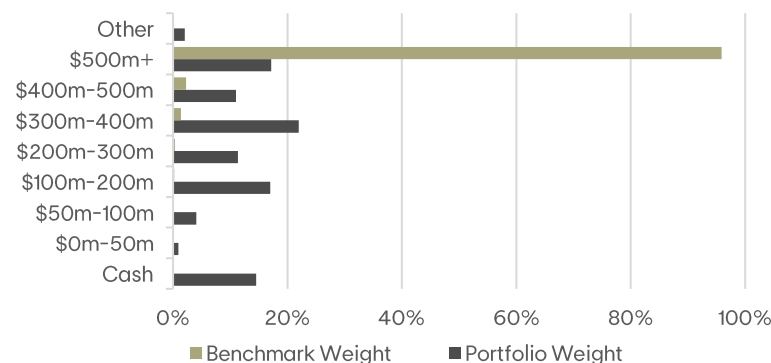
Turning to the portfolio, two names worth discussing this month are Austin Engineering (ANG AU) and Probiotec (PBP AU).

ANG is a designer, manufacturer, distributor and maintainer of premium and lightweight truck trays, buckets and other related items for large mining vehicles. For the month of May, ANG was down 25.6% on the back of a trading update which saw work shift from FY23 to FY24. The new guidance range was for \$17-\$19 million NPAT, compared to its previous guidance range of \$24 million. The downgrade was primarily driven by a delay in purchase orders from its largest customer out of Perth. As a result, this see most of the revenue from these orders fall into next financial year, however obviously its fixed cost base impacts FY23. We see this as a temporary timing issue rather than any impact to the underlying business. Given the significant share price move and short-term nature of the earnings slip, we added to the position over the month. Since the downgrade, ANG has announced that 85% of the delayed purchase orders have now come through which bodes well for FY24 revenue and earnings.

On a more positive note, PBP rose 7.1% in May. PBP is a manufacturer, packer and distributor of over the counter and prescription pharmaceuticals, consumer health and FMCG products. The business has grown through organic contract wins across its 200+ clients coupled with accretive acquisitions. The business currently operates from 6 facilities in Sydney and Melbourne with plans to consolidate its Sydney operations over time. The stock rallied during the month on the back of newspaper commentary around a potential M&A interest. We think the business is well placed, with PBP guiding to \$34.5-36m FY23 EBITDA, the potential to benefit from increased cold and flu activity and participate in further industry consolidation.

PORTFOLIO CHARACTERISTICS

Market Capitalisation



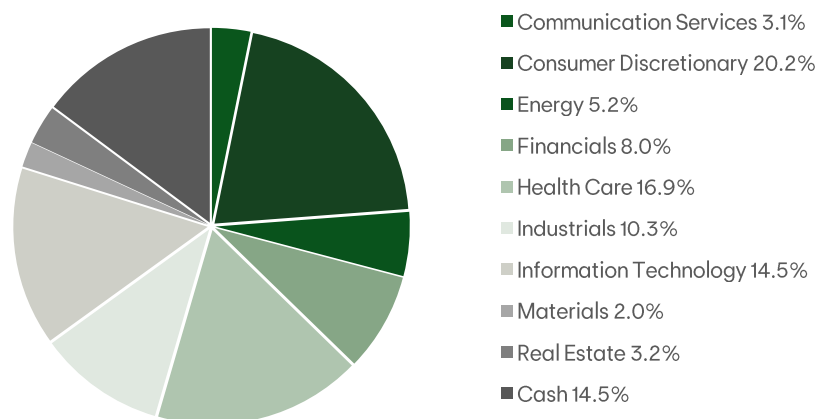
Source: Ellerston Capital.

Key Portfolio Metrics

FY23e	Fund	Benchmark
Price/Earnings	13.63x	18.94x
Dividend Yield	1.54%	3.15%
Net Debt/EBITDA	-0.11x	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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