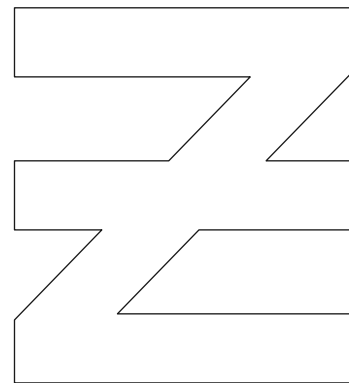


# Ellerston Australian Micro Cap Fund



Monthly Newsletter, June 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             | \$1.1536                                    |
| Net Asset Value               | \$1.1507                                    |
| Redemption Price              | \$1.1478                                    |
| Liquidity                     | Daily                                       |
| No. Stocks                    | 52  |
| Management Fee                | 1.20% p.a.                                  |
| Performance Fee**             | 20.00%                                      |
| Buy/Sell Spread               | 0.25% on application<br>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^        | 2.11%   | 2.61%    | 6.25%  | 5.54%          | 8.51%          | 12.47%                   |
| Benchmark*  | 0.03%   | -0.54%   | 8.45%  | 5.16%          | 2.25%          | 5.46%                    |
| Alpha       | 2.08%   | 3.15%    | -2.19% | 0.38%          | 6.26%          | 7.02%                    |

^ 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 Microcap Fund delivered 2.11%, outperforming the Small Ordinaries Index which finished flat at 0.03%. This was the second month in a row where large caps outperformed small caps. In June we saw the RBA hike rates by 25bp, May monthly CPI beat expectations, both of which contributed to further consumer weakness. We saw a number of consumer discretionary names continue to drift on the back of negative sentiment and consensus estimate downgrades. M&A activity remained elevated with PointsBet receiving multiple bids for its US business, while Perenti bid for DDH1.

Qoria Limited (QOR AU), formally Family Zone, had a strong month finishing up 40% on the back of two positive announcements. QOR is one of the only global providers of digital safety and student wellbeing solutions. Its services look after over 13m students; 5m parents and 24k schools globally. QOR's share price was supported by its trading update which reported that its ARR was at +\$95m before entering its seasonal strong quarter while its fixed costs remained stable, producing gross margins of +80%. The group also outlined the pathway to EBITDA profitability and 20% EBITDA margins over the next 24 months. QOR also announced a new debt facility which should help clean up the group's capital structure and remove the doubt of a further capital raise. We don't have many stocks in the portfolio which are loss making, however, when we see a business that has the ability to take market share globally and a line of sight to cashflow breakeven we are happy to invest.

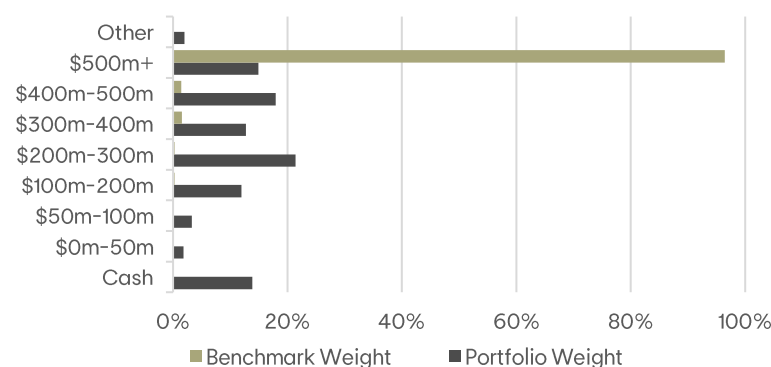
We only recently wrote about Fleetwood (FWD AU), but once again it contributed strongly to this month's performance with the stock rallying 26% on the back of an additional contract with RIO which can generate a further \$100-120m in revenue over a number of years. Our attraction to FWD has always been 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 that as more projects are launched around the Karratha region, this asset can once again start printing ~\$30m+ of EBIT which is more than the entire business is generating currently. We believe further contracts on top of its already announced contracts should see a continued re-rating to the FWD share price.

June was a busy month for the team as we hit the pavement and assessed our positions before the companies go into blackout ahead of the fiscal 2023 reporting season. We

think many companies will update the market in July before officially reporting in August given cost pressures building throughout the halves which we don't think is adequately reflected in consensus earnings. Accordingly, we have minimal exposure to consumer discretionary and have tried to focus on higher quality companies which have pricing power, defensive earnings, and solid balance sheets. We continue to stress test each of our assumptions and remain vigilant in upweighting the quality of our portfolio and looking for opportunities that present a three to one risk reward. As we are all aware share price volatility does create opportunities and we are well positioned to take advantage of these opportunities.

## PORTFOLIO CHARACTERISTICS

### Market Capitalisation



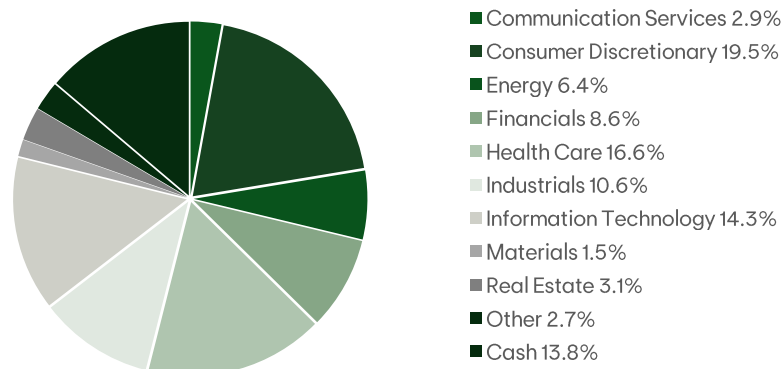
### Key Portfolio Metrics

| FY24e           | Fund   | Benchmark |
|-----------------|--------|-----------|
| Price/Earnings  | 14.25x | 18.94x    |
| Dividend Yield  | 1.40%  | 3.15%     |
| Net Debt/EBITDA | -0.35x | 1.17x     |

Source: Ellerston Capital.

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### 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](mailto:ellerstonfunds@automicgroup.com.au)

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