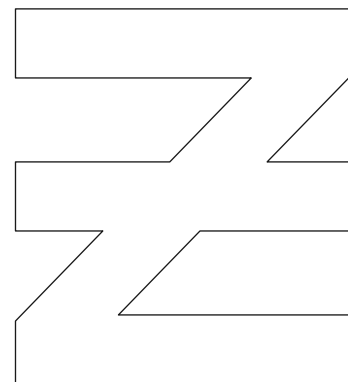


Ellerston Australian Emerging Leaders Fund



Monthly Newsletter, July 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.

| | |
|----------------------------------|---|
| Strategy Inception ^{^^} | 13-Aug-21 |
| Portfolio Manager | David Keelan & Alexandra Clarke |
| Application Price | \$0.7731 |
| Net Asset Value | \$0.7712 |
| Redemption Price | \$0.7693 |
| Liquidity | Daily |
| No Stocks | 41 |
| 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 [^] | 1.82% | 1.78% | -0.41% | -5.93% | -12.18% |
| Benchmark [*] | 3.54% | 0.20% | -1.54% | 0.77% | -6.78% |
| Alpha | -1.72% | 1.58% | 1.13% | -6.70% | -5.40% |

[^] 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 delivered 1.82%, underperforming the Small Ordinaries Accumulation Index which finished up 3.54%. During the month, the RBA paused interest rates and announced the replacement of RBA Governor Phillip Lowe with Michelle Bullock. Bond yields rose slightly as the market changed its expectations that rates may remain at peak levels for longer. Looking more specifically at stock news, M&A remained elevated as Costa (CGC AU), best known for avocados and berries, received a non-binding bid at \$3.50 per share while UMG Group (UMG AU) entered a scheme implementation deed at \$5.00 per share. We have also seen capital raises pick up at the smaller end of the market as companies look to bolt on growth to their current base.

In July, the market digested a lot of stock specific news flow with quarterlies in full swing and companies pre releasing their full year results. This saw many of the travel names upgrade guidance or provide positive trading updates - Flight Centre (FLT AU) up 23%; Corporate Travel (CTD AU) up 17% and Siteminder (SDR AU) up 44%, while retailers like KMD Group (KMD AU) and Michael Hill (MHJ AU) cited softer trading is continuing. Resources updates were a mixed bag with the lithium names struggling.

RPM Global (RUL AU) was a strong performer, delivering 10%. This was on the back of the company providing an update on its FY23 software sales and guidance. RUL reported that it now has A\$126m in pre-contracted, recurring, non-cancellable software revenue which was up 32% on the prior year. Total Annual Recurring Revenue now stands at A\$55m. FY23 operating EBITDA, before once-off management incentives, is now expected to finish at A\$15m, which compared to the company's guidance of A\$13.8m. We continue to see RUL as a high-quality play, noting its blue-chip customer base, its profitability, and the share buyback it is currently undertaking. RUL remains a high conviction position for the fund.

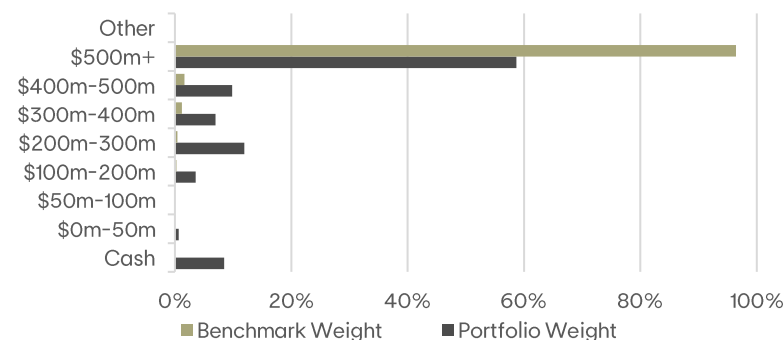
One of our top performers for the month of July was MMA Offshore (MRM AU), which finished the month up 14%. This price move was on the back of a +15% upgrade to consensus when guidance for FY23 was issued that would see EBITDA between \$66-68m. The trading update also implied that momentum is likely to continue. MRM's vessel utilisation over 2H23 was 79%. We believe this was very impressive given that three of their larger vessels were in dry dock for much of the third quarter of the year, when compared to their 71% utilisation from 2H22. This update was a strong indicator of the leverage that can come through with this business, and we believe this cycle is still some time from the peak, with day rate and utilisation still ramping up rapidly. We hold this as a high conviction name within our portfolio and still see significant upside from here.

SmartGroup (SIQ AU) was a standout performer during the month, increasing by 14%. While there was no company specific news during the period, one of its listed rivals, FleetPartners (FPR AU), provided a solid 3rd quarter trading update. FPR reported Electric Vehicles at 36% of novated leases delivered in the 3rd quarter, which increased to 45% in the month of June. FPR also highlighted the average EV price is 30% higher than the average internal combustion vehicle. These metrics are a positive read for SIQ which is one of the largest players in the novated leasing space. SIQ is benefiting from the regulatory tailwind, which provides material tax benefits for purchases of electric vehicles. This should continue to play out for at least the next few years, shifting consumers towards the novated channel, while the company also benefits from the higher yield and operating leverage.

Moving into August, we continue to assess our positions as we head into reporting season, and we have tried to focus the portfolio on higher quality companies which have pricing power, solid balance sheets and ability to grow outside the economy. We continue to stress test each of our assumptions and remain vigilant in upweighting the quality of our portfolio, as well as looking for opportunities that present a three to one risk reward. We think the market's focus will be around inflation and rapid interest rate hikes. As such, companies that can demonstrate EPS growth and provide positive qualitative and quantitative guidance should be rewarded.

PORTFOLIO CHARACTERISTICS

Market Capitalisation



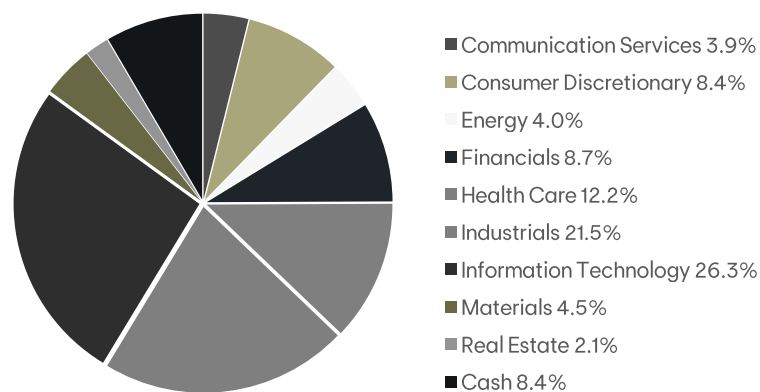
Source: Ellerston Capital.

Key Portfolio Metrics

| | FY23e | Fund | Benchmark |
|-----------------|-------|--------|-----------|
| Price/Earnings | | 16.04x | 20.80x |
| Dividend Yield | | 2.46% | 2.97% |
| Net Debt/EBITDA | | -0.99x | 1.28x |

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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