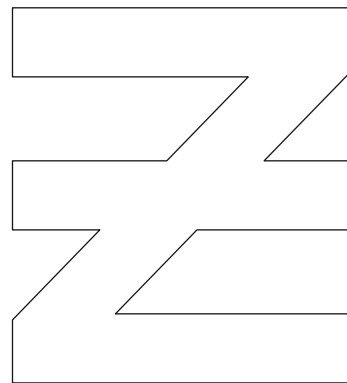


Ellerston Australian Micro Cap Fund



Monthly Newsletter, August 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	\$1.1714
Net Asset Value	\$1.1685
Redemption Price	\$1.1656
Liquidity	Daily
No Stocks	54
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	FYTD	3 Months	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.) ^{^^}
Net[^]	0.34%	2.08%	4.24%	0.86%	8.98%	12.49%
Benchmark*	-1.31%	2.19%	2.22%	3.00%	2.40%	5.67%
Alpha	1.65%	-0.11%	2.02%	-2.14%	6.58%	6.82%

[^] 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 0.34%, outperforming the Small Ordinaries Accumulation Index which finished down 1.31%. We do note that at one point during the month the market was down over 3%, before recovering as it waited for Fed Chair Powell to comment at the annual Jackson Hole summit, and digested concerns around the Chinese economy.

Closer to home, August is reporting season and to a large extent, it played out as we had anticipated, with inflationary costs impacting margins and higher interest and lease costs dragging on EPS. Overall, cyclicals and consumer facing companies outperformed expectations, while large caps and defensives had a more challenging August. As anticipated, not many companies provided guidance but those that did were generally rewarded. While reporting season can see volatility in share prices, we find it also creates numerous opportunities and allows us to reset our expectations with new information at hand, setting us up for the 2Q of the financial year.

During the month, several of our stocks outperformed. Duratec (DUR AU) saw its share price rise by over 18%. DUR is an Australian engineering and remediation contractor that specialises in upgrading and extending the life and use of infrastructure assets. Both revenue and EBITDA numbers that were reported were at the top end of the guidance range, with \$491.8m of revenue vs \$465m-\$495m and \$38.8m of EBITDA vs \$36m-\$39m. Having already upgraded its guidance range in April, we see this as a terrific result with strong exit run rates, particularly at the EBITDA line. We hold DUR as one of our core positions within our Microcap Fund.

Babybunting (BBN AU) also rallied strongly ending the month up 32%. The stock had been significantly sold off following a raft of negative trading updates, combined with a CEO Transition. The stock rallied following a release which showed the FY23 result was no worse than feared, combined with a better-than-expected trading update for July, as well as the announcement of a cost base reduction. Despite an uncertain macro outlook, we think BBN should be able to improve its financial performance through a recovering consumer, self-help initiatives and its store rollout potential as a category killer.

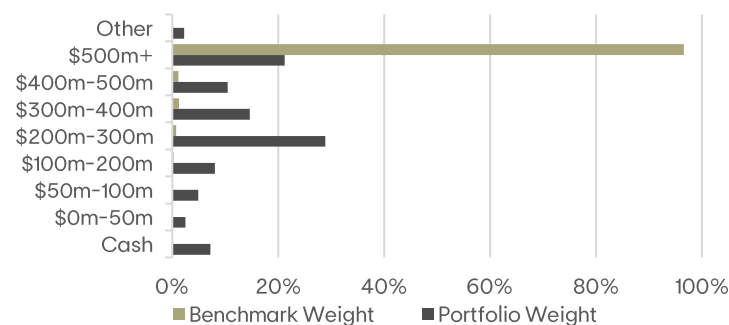
Helloworld (HLO AU) finished the month up 12%. HLO was one of very few companies to provide the market with FY24 guidance and was rightfully rewarded. The group is guiding for EBITDA of \$64-72m which implies 45-63% growth. Given we are only early in the year and with a number of acquisitions undertaken in the back end of FY23, we believe guidance may prove to be conservative.

This is particularly evident if you extrapolate the 4Q23 which implies an EBITDA run rate of \$57m, pre the groups most recent acquisitions which would add an additional \$11-12m EBITDA to FY24. While we remain conscious of the perception that travel is discretionary, so far it is holding up exceptionally well, and HLO expects to return to FY19 travel volumes in FY25. This will be supported by its customers continuing to purchase premium fares, hotels and cruises at record levels.

Moving forward, we think many of the cost headwinds we have been talking about for the last 24 months may have peaked and should start to stabilise /moderate. We are pleased earnings expectations have come down to more achievable levels, with higher interest and depreciation costs now factored into EPS forecasts. We will continue to stress test our positions and sift through these opportunities, particularly where we can see evidence of pricing power, resilient demand, and healthy balance sheets.

PORTFOLIO CHARACTERISTICS

Market Capitalisation



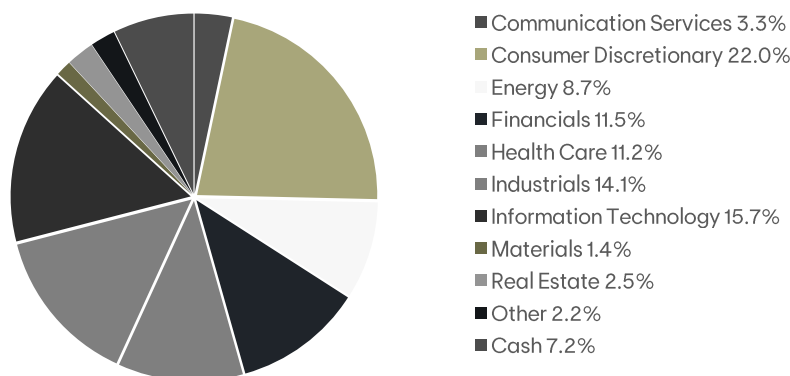
Key Portfolio Metrics

FY24e	Fund	Benchmark
Price/Earnings	15.47x	20.80x
Dividend Yield	1.82%	2.97%
Net Debt/EBITDA	-0.64x	1.28x

Source: Ellerston Capital.

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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