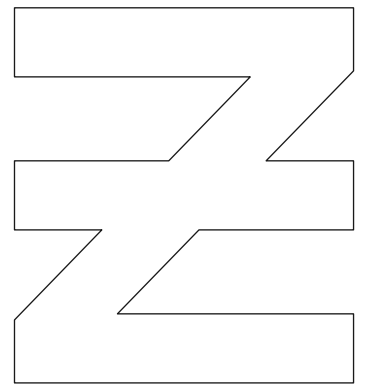


# Ellerston Australian Micro Cap Fund



Monthly Newsletter, September 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 <sup>^^</sup>	28-Apr-17
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	\$1.1440
Net Asset Value	\$1.1411
Redemption Price	\$1.1382
Liquidity	Daily
No Stocks	54
Management Fee	1.20% p.a.
Performance Fee <sup>**</sup>	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)

<sup>\*\*</sup> Of the investment return above the benchmark, after recovering any underperformance in past periods

## PERFORMANCE SUMMARY

Performance	1 Month	3 Months	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.) <sup>^^</sup>
<b>Net<sup>^</sup></b>	-2.34%	-0.31%	0.74%	8.38%	11.90%
<b>Benchmark<sup>*</sup></b>	-4.04%	-1.94%	2.57%	1.63%	4.92%
<b>Alpha</b>	1.69%	1.62%	-1.83%	6.75%	6.99%

<sup>^</sup> The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

<sup>\*</sup> S&P/ASX Small Ordinaries Accumulation Index

## COMMENTARY

The Ellerston Australian Microcap Fund outperformed the S&P/ASX Small Ordinaries Accumulation Index by 1.69%, with the market finishing down 4.04%. The best performing sector in the Small Ordinaries was energy, up almost 16%, in contrast with real estate which fell by almost 8%. The market selloff was macro driven, with the September monthly CPI indicator showing we aren't out of the woods yet, with inflation reaccelerating to over 5% for the year. The spike in fuel prices, a stubbornly strong job market, and rebounding house prices have added to inflationary pressure, causing the market to push out rate cut expectations into late 2024. Meanwhile the surging US bond yields and consequential lower AUD are only exacerbating the situation.

Tuas (TUA AU) is an owner/operator of a national mobile network in Singapore. During September, the share price for TUA rose 11% on the back of their FY23 result. The FY23 result saw TUA beat on market estimates for subscriber net adds, revenue and EBITDA. The business increased revenues 50% yoy and more than doubled EBITDA, as it continues to win market share off the incumbent telcos. The business is expected to launch its fibre broadband product in 1H24, and given its attractive price point, should see TUA replicate its initial prepaid success in the broadband market. TUA remains one of our core positions for the fund.

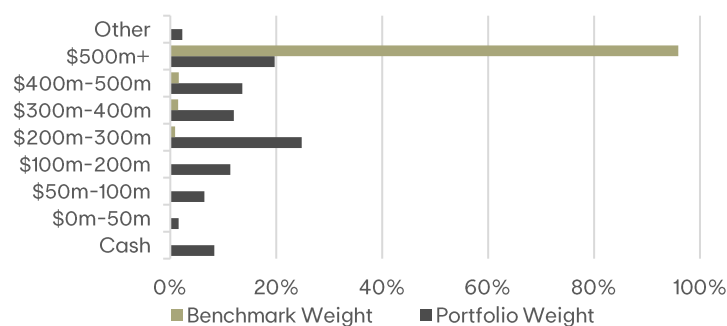
Generation Development Group (GDG AU) is a specialist provider of investment bonds solutions, along with an investment-linked lifetime annuity product. During September the stock rallied by 11%, following a very strong FY23 result. While it's been a volatile period in financial markets, we were pleased with the rebound in sales throughout the quarter and we expect this momentum to continue in FY24. Additionally, Lonsec (which GDG owns 49% of) continues to thrive, with the Investment Solutions division continuing to outperform. The recently launched lifetime annuity product is small but gaining momentum, and we are optimistic about this opportunity which is supported by regulatory and demographic tailwinds. The stock remains one of our higher conviction positions.

Having wrapped up our post result meetings with company management, we are now in preparation for AGM season, which is effectively a mini reporting season, and upcoming broker conferences. During this period, the market will be paying close attention to September quarter trading updates, along with any outlook commentary or guidance. This is a great opportunity for us to explore new names, while ensuring our existing portfolio companies are tracking in line with our expectations.

The key themes we will be monitoring closely will be cost pressure and how effectively is it being mitigated, discretionary spending (given the macro challenges) and for any companies with debt, we are keeping an especially close eye on, as the higher interest costs continue to flow into analyst numbers.

## PORTFOLIO CHARACTERISTICS

### Market Capitalisation



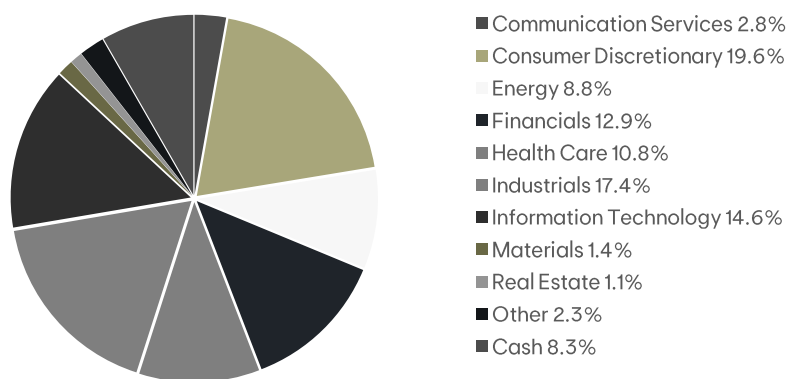
### Key Portfolio Metrics

FY24e	Fund	Benchmark
Price/Earnings	15.55x	20.80x
Dividend Yield	2.62%	2.97%
Net Debt/EBITDA	-0.53x	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](mailto:ellerstonfunds@automicgroup.com.au)

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