

Ellerston Australian Emerging Leaders Fund

Monthly Report as at 31 October 2023

APIR Code: ECL6748AU | ARSN 647 979 333



Portfolio of 30-60 smaller companies built through an active, research-driven investment approach.



Focus on companies which have a sound business franchise with an attractive earnings profile, which operate in growth industries and trade at a discount to valuation.



Aims to outperform the Benchmark over a rolling three-year period.

Performance Summary

Performance	1 Month	3 Months	6 Months	1 Year	Since Inception (p.a.) ^{^^}
Net [^]	-3.41%	-4.24%	-2.53%	-5.42%	-12.60%
Benchmark [*]	-5.45%	-10.45%	-10.28%	-5.10%	-10.55%
Alpha	2.04%	6.21%	7.74%	-0.31%	-2.05%

[^]The net return figure is calculated after fees & expenses, assuming all distributions are reinvested. Past performance is not a reliable indication of future performance. ^{*}S&P/ASX Small Ordinaries Accumulation Index. ^{^^}Inception date is 13 August 2021.

Key Information

Portfolio Manager(s)	David Keelan & Alexandra Clarke
Investment Objective	To outperform the Benchmark over a rolling three year period.
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Liquidity	Daily
Target Number of Holdings	30-60
Number of Holdings at Month End	43
Minimum Investment	Initial investment - \$10,000 Additional investment - \$5,000
Distribution Frequency	Half-Yearly (where available)
Management Fee	1.10% p.a.
Performance Fee ¹	20.00%
Buy/Sell Spread	0.25% / 0.25%

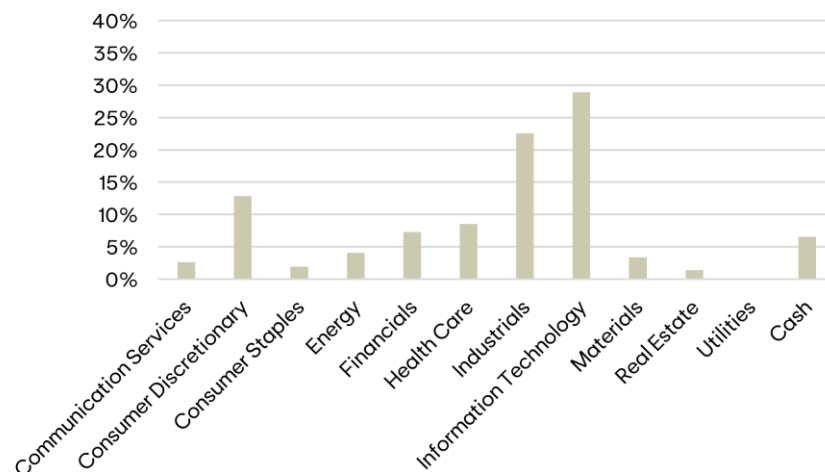
¹Of the investment return above the benchmark, after recovering any underperformance in past periods.

Top Holdings*

Hansen Technologies Limited	Information Technology
Life360 Inc	Information Technology
MMA Offshore Ltd	Energy
RPM Global Holdings Ltd	Information Technology
Serko Ltd	Information Technology

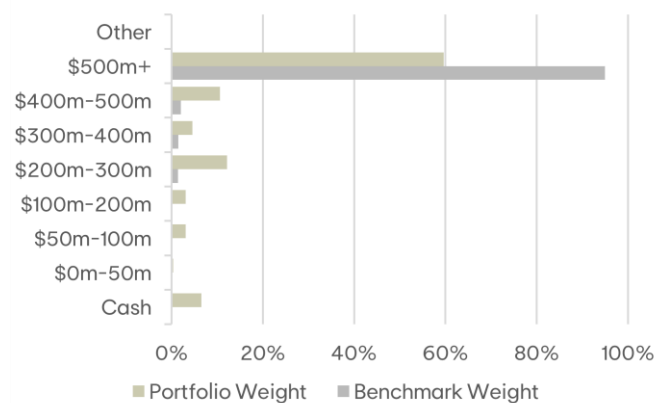
*In alphabetical order.
Source: Ellerston Capital.

Sector Allocation



Source: Ellerston Capital.

Market Capitalisation Exposure



Source: Ellerstun Capital.

Key Portfolio Metrics

FY24e	Fund	Benchmark
Price/Earnings	15.29x	16.40x
Dividend Yield	2.66%	3.10%
Net Debt/EBITDA	-1.41x	1.20x

Source: Ellerstun Capital.

COMMENTARY

The Ellerstun Australian Emerging Leaders Fund outperformed the S&P/ASX Small Ordinaries Accumulation Index by 2.04% (net), with the market finishing down 5.45%. The selloff was broad based with almost all sectors finishing in the red. Financials and Healthcare declined the most, down over 10%, whereas Consumer Staples and Materials were the only sectors to finish slightly positive. Once again, the market selloff was driven by macro factors, most noteworthy being the ongoing inflationary concerns and the potential for further rate hikes, along with escalating geopolitical tension in the Middle East.

Propel Funeral Partners (PFP AU) proved its defensiveness this month, putting on 3.7% in what was a tough month for markets. During the month, the company confirmed recent media speculation around potential takeover activity, indicating the offers weren't compelling enough to consider. Regardless, we are attracted to the resilience of the company's earnings and cashflows, and its strong pricing power which has protected its margins in the current inflationary environment. We think the company is best placed to consolidate what is a highly fragmented industry, with an extensive pipeline of acquisitions to make in the coming years. PFP remains one of our high conviction positions.

Imdex (IMD AU) finished up 5.8% for October. During the month, the company hosted their AGM, at which they gave a trading update to the market for 1Q24. This was an incrementally positive update, with some underlying year on year comparative figures looking weak, but performing better than the market had anticipated. Inclusive of their Devico acquisition, revenue for the quarter came in at \$126.1m which was up 19% on 1Q23, or up 2% excluding the Devico acquisition. While average sensor numbers on hire was down 9% on the PCP, ARPU had grown 4% on the back of their survey stack upgrade cycle. It should also be noted that sensor numbers on hire was up 8% QoQ, which provides evidence of a turnaround. The business also continues to be driven towards a higher SaaS mix, now comprising nearly two-thirds of total revenues. We continue to hold IMD as a core position and think it remains attractively priced.

Kelsian Group (KLS AU) is an owner/operator of multi-modal transportation and tourism services. KLS is a strong defensive play in times of economic uncertainty, with 92% of their contracted revenue coming from non-discretionary sources such as long term, government-backed contracts. For the month of October, KLS was up 5.1% as it gave a trading update at their AGM during the period. A significant piece of that update was around the Sydney region bus operations, of which KLS is the largest operator. News of the new contracts within the region being fully staffed, and KPIs being met/exceeded were well received by the market. Additionally, they gave positive news around the integration of AAAHI in the USA as it continues to grow its contract portfolio as well. We continue to hold KLS as a core position in our fund and like the strength of the tender pipeline in the international and domestic markets.

We continue to progress through AGM season and broker conferences, many of which include trading updates, outlook commentary, or guidance. This is a great opportunity for us to explore new names and check in on our existing portfolio companies. The key themes we will be monitoring closely remain the same, most noteworthy being cost inflation and mitigation measures, discretionary spending, and gearing levels. We also take this opportunity to do some travel, meeting with companies, prospects, and unlisted peers ahead of blackout and the holiday period. We stick to our formula, looking for high quality companies with healthy balance sheets and cash flow, pricing power, along with strong and well aligned management teams. We are bottom-up stock pickers and welcome the volatility in our search of companies which offer our targeted risk/reward ratio.

Contact Us

Sydney

Level 11, 179 Elizabeth Street,
Sydney, NSW 2000
+612 9021 7701
info@ellerstoncapital.com

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.

This report has been prepared by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, as the responsible entity of the Ellerston Australian Emerging Leaders Fund ARSN 647 979 333 without taking account the objectives, financial situation or needs of individuals. Before making an investment decision about the Fund, persons should read the Fund's Product Disclosure Statement and Target Market Determination (TMD) which can be obtained from the Manager's website www.ellerstoncapital.com or by contacting info@ellerstoncapital.com and obtaining advice from an appropriate financial adviser. Units in the Fund are issued by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000. This information is current as at the date on the first page.

This material has been prepared based on information believed to be accurate at the time of publication. Assumptions and estimates may have been made which may prove not to be accurate. Ellerston Capital undertakes no responsibility to correct any such inaccuracy. Subsequent changes in circumstances may occur at any time and may impact the accuracy of the information. To the full extent permitted by law, none of Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, or any member of the Ellerston Capital Limited Group of companies makes any warranty as to the accuracy or completeness of the information in this newsletter and disclaims all liability that may arise due to any information contained in this newsletter being inaccurate, unreliable or incomplete. Past performance is not a reliable indicator of future performance.
