

# Ellerston Australian Emerging Leaders Fund

Monthly Report as at 31 December 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	FYTD	1 Year	Since Inception (p.a.) <sup>^^</sup>
Net <sup>^</sup>	7.75%	10.99%	12.04%	11.79%	-6.57%
Benchmark*	7.23%	8.52%	6.42%	7.82%	-4.57%
Alpha	0.52%	2.47%	5.62%	3.97%	-2.00%

<sup>^</sup>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 <sup>^^</sup>Inception date is 13 August 2021.

## Key Information

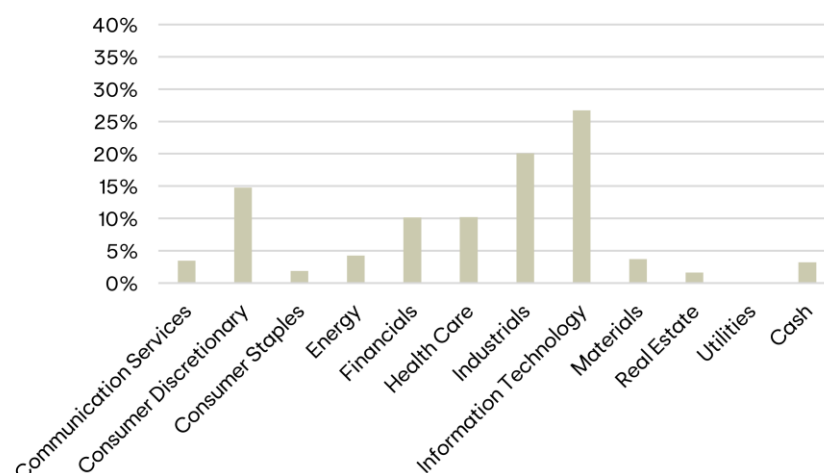
Portfolio Manager(s)	David Keelan & Alexandra Clarke
Investment Objective	To outperform the Benchmark over a rolling three year period.
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Liquidity	Daily
Target Number of Holdings	30-60
Number of Holdings at Month End	44
Minimum Investment	Initial investment - \$10,000 Additional investment - \$5,000
Distribution Frequency	Half-Yearly (where available)
Management Fee	1.10% p.a.
Performance Fee <sup>1</sup>	20.00%
Buy/Sell Spread	0.25% / 0.25%

## Top Holdings\*

Company	Sector
Hansen Technologies Limited	Information Technology
Index Ltd	Materials
MMA Offshore Limited	Energy
Propel Funeral Partners Ltd.	Consumer Discretionary
RPMGlobal Holdings Ltd	Information Technology

\*In alphabetical order.  
Source: Ellerston Capital.

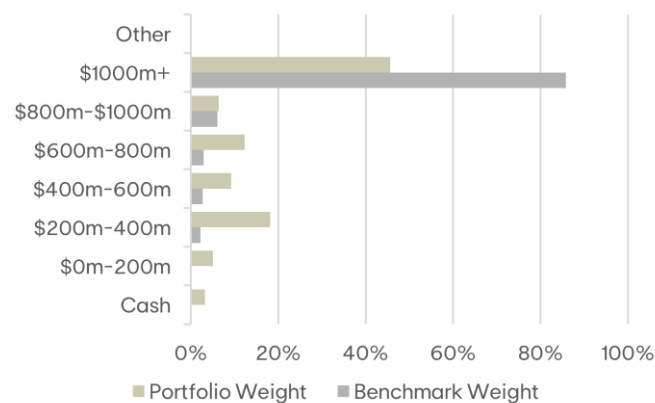
## Sector Allocation



Source: Ellerston Capital.

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

## Market Capitalisation Exposure



Source: Ellerston Capital.

## Key Portfolio Metrics

FY24e	Fund	Benchmark
Price/Earnings	17.96x	19.59x
Dividend Yield	2.89%	3.10%
Net Debt/EBITDA	-0.45x	1.44x

Source: Ellerston Capital.

## COMMENTARY

The Ellerston Australian Emerging Leaders fund delivered 7.75% (net) in December, relative to the S&P/ASX Small Ordinaries Accumulation Index which returned 7.23%. After a poor November, the market rallied strongly on the back of sentiment around expected US rate cuts in 2024 as inflation looks to be coming under control. We saw a resurgence in corporate activity in the month with numerous capital raisings, as well as a plethora of takeovers. At the bigger end, Link Administration (LNK AU) was bid by MUFJ Trust; Adbri Ltd (ABC AU) was bid by CRH and the Barro Group; while Perpetual Ltd (PPT AU) was back in the cross hairs of an acquirer, with Soul Patts (SOL AU) launching a takeover. The smaller end of the market was not immune from M&A either, particularly in healthcare linked businesses. We had Pacific Smiles (PSQ AU) reject a bid from Genesis Capital, and Volpara Health (VHT AU) accept an offer from Lunit and Probiotec (PBP AU) happy to be acquired by Pyridam.

The month also saw several trading updates with the likes of Premier Investments (PMV AU) surprising on the upside, while Katmandu (KMD AU) continued to disappoint. We anticipate a raft of retail updates in late January as businesses release Christmas trading data. Resources were a mixed bag with smalls underperforming large (+3.7% vs 8.2% respectively) on the back of an iron ore rally and conversely, weakness in rare earths.

The biggest news in the portfolio this month was the historic potential reverse takeover by Chemist Warehouse of Sigma Healthcare (SIG AU), one of our core positions. SIG is one of the leaders in full line pharmaceutical wholesales in Australia. Back in June 2023, SIG won back the supply contract to Chemist Warehouse where it would supply both Pharmaceutical Benefits Scheme Medicines and Fast-Moving-Consumer-Goods products for a period of 5 years. With this relationship back in place, Chemist Warehouse took the opportunity to launch probably ASX's largest reverse takeover. The SIG share price rocketed off the back of the news and closed the month up 44% on its starting price. With significant synergies and great value unlocked through the combination of the two businesses, new investors flocked to the stock. Chemist Warehouse boasts around 500 stores nationally with around \$300m in annual profit, bringing significant scale to the SIG business.

Other stocks which performed admirably during the month were RPMGlobal Holdings (RUL AU) and Qoria (QOR AU, formerly FamilyZone or FZO AU). RUL is a provider of software, ESG and other advisory services to the global resources industry. Over the month, RUL's share price rose by 15% on very little news. In November, the group upgraded its revenue guidance by \$3m to the new range of \$110-115m with all of that falling through to NPAT (\$16.5-18m). This upgrade is on the back of a payment related to a software agreement that will now be recognised in FY24. We continue to like RUL and believe it is a high-quality software business that is generating earnings and cash, trading at an attractive valuation.

QOR, a child safety business, had its share price rally 24% during December, supported by an update on its recently devised cost out strategy. As announced as part of its AGM in November, QOR is looking to target a sub \$80m run rate in cash operating costs in FY24. In the December update, QOR was able to quantify the benefit of its cost outs to date, while flagging further savings would be achieved and detailing where remaining savings are coming from. Having completed \$4.6m of the costs savings already, with another \$2.2m identified by the company to be achieved before the end of the March quarter. With these significant steps into profitability for QOR, investors have gained comfort around the business funding position moving forward. We continue to hold QOR as a core position and see significant upside as they reach milestones including as 20% EBITDA margins in the short to medium term.

With calendar year 2023 now behind us, we would like to thank all of our investors for their continued support. We are excited about the opportunities that are presenting themselves in 2024 with the large valuation disconnect appearing at the smaller end of the market. As always, our focus remains on finding high quality businesses benefiting from long-term structural tailwinds, with solid balance sheets and strong management teams. Given our bottom-up stock picking approach we welcome volatility, as it provides the fund with opportunities to accumulate high quality stocks at attractive prices.

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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](mailto:info@ellerstoncapital.com) or visit us at [ellerstoncapital.com](http://ellerstoncapital.com).

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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