

Ellerston Australian Micro Cap Fund

Monthly Report as at 31 December 2023

APIR Code: ECL0984AU | ARSN 619 727 356



Portfolio of 30–60 smaller & micro cap 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	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.) ^{^^}
Net [^]	9.17%	7.09%	12.50%	-1.33%	12.87%	12.58%
Benchmark*	7.23%	8.52%	7.82%	0.95%	6.40%	6.02%
Alpha	1.94%	-1.43%	4.68%	-2.28%	6.47%	6.56%

[^] 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 28 April 2017.

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	57
Minimum Investment	Initial investment - \$10,000 Additional investment - \$5,000
Distribution Frequency	Half-Yearly (where available)
Management Fee	1.20% p.a.
Performance Fee ¹	20.00%
Buy/Sell Spread	0.25% / 0.25%

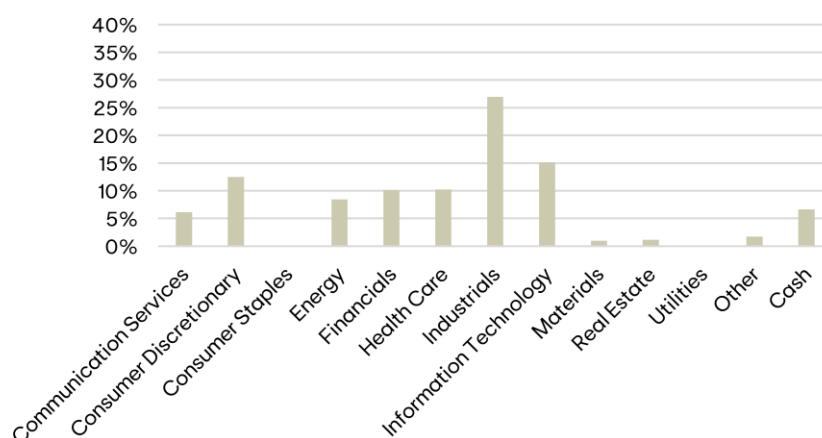
¹Of the investment return above the benchmark, after recovering any underperformance in past periods.

Top Holdings*

Company	Sector
Aussie Broadband Ltd.	Communication Services
Duratec Limited	Industrials
IPD Group Ltd	Industrials
Propel Funeral Partners Ltd.	Consumer Discretionary
RPMGlobal Holdings Ltd	Information Technology

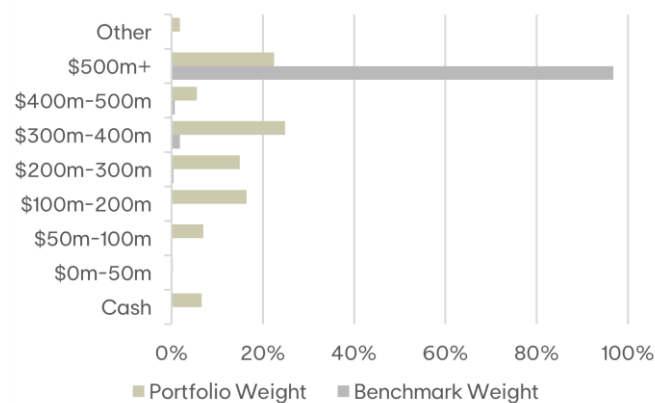
*In alphabetical order.
Source: Ellerston Capital.

Sector Allocation



Source: Ellerston Capital.

Market Capitalisation Exposure



Source: Ellerstun Capital.

Key Portfolio Metrics

FY24e	Fund	Benchmark
Price/Earnings	15.49x	19.59x
Dividend Yield	2.64%	3.10%
Net Debt/EBITDA	-0.62x	1.44x

Source: Ellerstun Capital.

COMMENTARY

The Ellerstun Australian Microcap Fund delivered 9.17% (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.

Turning to the portfolio, as mentioned, Probiotec (PBP AU) entered into a scheme implementation deed with listed Indonesian company Pyridam to acquire 100% of PBP stock for a consideration of \$3.00 of cash per share as well as access to dividends. PBP has been a core position for the Micro Cap portfolio as we were attracted to its staple like characteristics given it is a manufacturer, marketer and distributor of over-the-counter pharmaceuticals, complementary medicines and specialty ingredients.

Other stocks which performed admirably during the month were RPMGlobal Holdings (RUL AU); Qoria (QOR AU, formerly FamilyZone or FZO AU) and Duratec (DUR 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.

DUR is a provider of asset maintenance services within Australia, focusing on extending the useful life of a range of assets and asset refurbishment. DUR operates within the Defence, Resources, Industrials and Buildings and Facades segments. During December, its share price rose by 26% after it hosted an investor day which was well received by the market and provided a 1Q trading update confirming a disciplined approach to tendering, ensuring margins are protected. We believe DUR remains well placed to continue to benefit from the increase in infrastructure and defence spend over coming years.

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.

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 Micro Cap Fund ARSN 619 727 356 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.