

Ellerston Australian Emerging Leaders Fund

Monthly Report as at 31 January 2024

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 [^]	3.63%	19.08%	14.03%	13.56%	-5.01%
Benchmark [*]	0.90%	15.80%	3.70%	2.10%	-4.08%
Alpha	2.73%	3.28%	10.33%	11.46%	-0.93%

[^]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%
Performance Fee ¹	20.00%
Buy/Sell Spread	0.25% / 0.25%

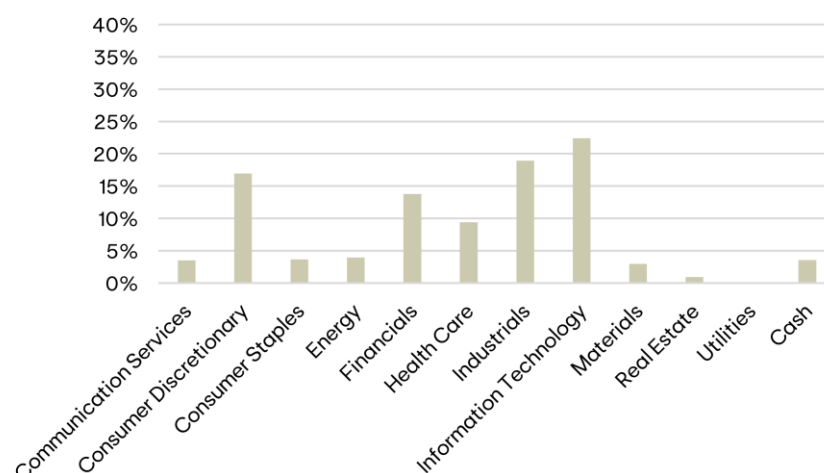
¹Of the investment return above the benchmark, after recovering any underperformance in past periods.

Top Holdings*

Company	Sector
Cettire	Consumer Discretionary
Life360	Information Technology
MMA Offshore	Energy
Propel Funeral Partners	Consumer Discretionary
Zip Co	Financials

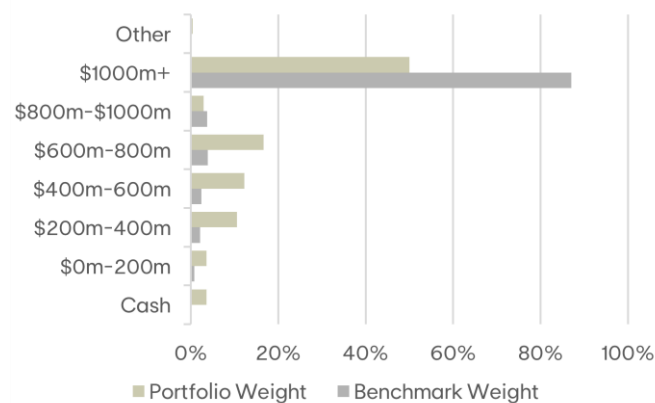
*In alphabetical order.
Source: Ellerston Capital.

Sector Allocation



Source: Ellerston Capital.

Market Capitalisation Exposure



Source: Ellerston Capital.

Key Portfolio Metrics

FY24e	Fund	Benchmark
Price/Earnings	17.99x	20.35x
Dividend Yield	2.91%	2.90%
Net Debt/EBITDA	0.23x	1.42x

Source: Ellerston Capital.

COMMENTARY

The Ellerston Australian Emerging Leaders Fund delivered 3.63% (net) in January, relative to the S&P/ASX Small Ordinaries Accumulation Index which returned 0.90%. Early January saw the market stay relatively flat, before a late month rally dragged the index higher. We continued to see Large Caps outperform Small Caps and a divergence in commodities, with Energy up strongly while Mining was weak on the back of China sentiment and a stronger US dollar.

While January is usually a quiet month as the market comes back from the Christmas break and prepares for the February reporting season, it wasn't the case this year. We saw numerous trading updates including Propel Funeral Partners (PFP AU); Generation Developments (GDG AU) and Zip Co Ltd (ZIP AU).

PFP put out a solid trading update, highlighting almost 20% EBITDA growth in 1H24, tracking well towards its unchanged full year guidance. The company also acquired New Zealand based operator, Southern Funeral Home, consistent with its M&A Strategy. More noteworthy was the company executing a long-awaited capital raise, raising \$90m at a very modest discount. This acquisition was well supported by the market and the company reduced net leverage to 1.5x, down from approximately 3.0x, leaving the company with over \$150m of available funding capacity. With a replenished balance sheet, we think the company is best placed to consolidate the fragmented funeral operator space. We like the business because it's highly cash generative, with resilient earnings, a healthy pipeline of acquisitions and the potential for ASX 300 inclusion.

GDG also performed well, putting on around 7% after publishing a solid quarterly with over \$150m of quarterly inflows, representing over 50% market share. This strong result was bolstered by the positive market movement, bringing the FUM balance to just shy of \$3 billion. The Lonsec Investment Solutions division continues to achieve strong growth and while still small, we are optimistic about the outlook for the lifetime annuity product. The company recently announced a distribution life with MetLife which should open doors with its existing super fund clients and accelerate sales of the annuity product.

ZIP, one of the more recent additions to our portfolio had a solid month, putting on over 18%. This is a name that has long been on our radar, after declining significantly since the COVID high. The business has recently gone through a major transformation, including: a new CEO, consolidating from 14 geographies down to 3, simplifying the product suite down to a couple of core products, and most noteworthy, a material headcount reduction. These factors all contributed to the recent trading update, which was stronger than expected and saw the stock rally. The company indicated that 1H24 cash EBITDA was expected to come in between \$29 and \$33m, which was significantly ahead of market expectations. This strong performance reflected solid momentum in the US business, low bad debts, strong transaction margins and excellent cost control. The outlook remains strong with the recent launch of its ZIP Plus product and should benefit materially from operating leverage in the coming years. The company also boasts an improved balance sheet with the convertible notes outstanding reducing from approximately \$500m down to just over \$60m and is still reducing. ZIP is a clear case in point where it pays to keep circling back on our investment universe with an open mind and seeing where business models have changed and improved.

Looking forward to reporting season, we think the market is likely to focus on several key factors:

- 1. Topline outpacing industry conditions:** We think companies that can demonstrate revenue growth that is higher than expectations are likely to be rewarded, particularly in unloved sectors and names.
- 2. M&A:** Despite current market conditions, balance sheets are reasonably robust and private equity firms have refilled their war chests and can now price debt. As such, we believe M&A activity will remain elevated as companies seek out inorganic growth opportunities.
- 3. Earnings outlook commentary/guidance:** While outlook commentary and guidance are always a key focus for the market, we think given the volatility in the market and the nervousness of investors, the companies which provide quantitative outlooks will be rewarded.

All reporting seasons are slightly different with what the market wants to focus on and is normally heavily influenced by the prevailing macro conditions at the time. However, as we always do, we will continue to stress-test our positions and our investment thesis, and we remain confident of our process and portfolio.

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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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