

Ellerston Australian Micro Cap Fund

Monthly Report as at 31 January 2024

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 [^]	0.62%	17.26%	9.96%	-1.48%	12.55%	12.52%
Benchmark*	0.90%	15.80%	2.10%	1.33%	5.44%	6.08%
Alpha	-0.28%	1.46%	7.86%	-2.81%	7.11%	6.44%

[^] 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	59
Minimum Investment	Initial investment - \$10,000 Additional investment - \$5,000
Distribution Frequency	Half-Yearly (where available)
Management Fee	1.20%
Performance Fee ¹	20.00%
Buy/Sell Spread	0.25% / 0.25%

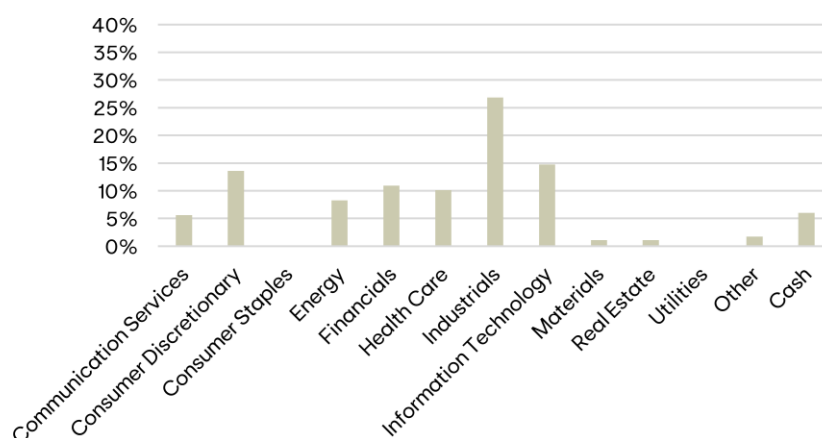
¹Of the investment return above the benchmark, after recovering any underperformance in past periods.

Top Holdings*

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

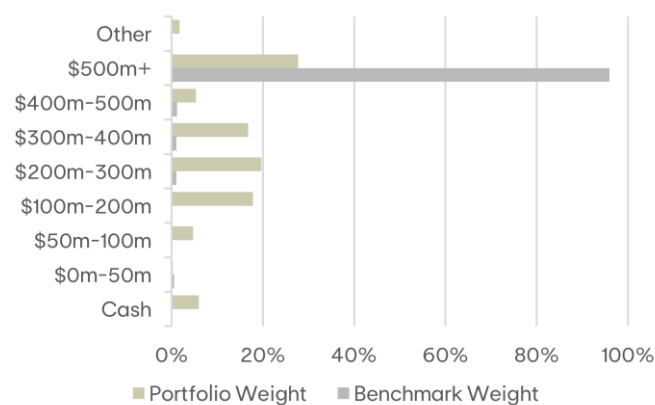
*In alphabetical order.
Source: Ellerston Capital.

Sector Allocation



Source: Ellerston Capital.

Market Capitalisation Exposure



Source: Ellerstun Capital.

Key Portfolio Metrics

FY24e	Fund	Benchmark
Price/Earnings	14.52x	20.35x
Dividend Yield	3.14%	2.92%
Net Debt/EBITDA	-0.62x	1.42x

Source: Ellerstun Capital.

COMMENTARY

The Ellerstun Australian Microcap Fund delivered 0.62% (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) and Generation Developments (GDG 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.

Another stock that had a strong rally was Veem (VEE AU). VEE is a manufacturer and distributor of stabilisation systems and propulsion products and services to the marine, defence and mining industries. VEE is a market leader in the marine propulsion space, and is currently rolling out disruptive technology in the form of gyrostabilisers which significantly reducing the sway of offshore vessels in choppy conditions. This allows for smaller vessels to be used in place of what would traditionally require a larger vessel to handle the sea conditions, saving both on potential fuel and capital. The real game changing technology, we believe, lies within the newly acquired rights to certain sizing of Sharrow propellers. These propellers, developed by Sharrow Marine, could potentially be one of the largest developments in the marine propeller space in decades - offering numerous advantages over traditional propellers such as reduced fuel consumption, noise, slippage and an increase in speed and performance. While proven on smaller vessels, we currently await the readout of the results when the larger propellers are fitted to the larger offshore vessels with inboard motors, of which VEE hold the global rights to. Our current holdings reflect the risk from this event, as the company anticipates going full steam ahead with its go-to-market strategy upon positive results.

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 are 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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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.

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