

# Ellerston Australian Micro Cap Fund

Monthly Report as at 29 February 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.) <sup>^^</sup>
Net <sup>^</sup>	2.40%	12.49%	12.53%	-1.00%	11.74%	12.75%
Benchmark*	1.72%	10.05%	7.84%	1.39%	4.42%	6.27%
Alpha	0.68%	2.44%	4.69%	-2.39%	7.32%	6.48%

<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 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	56
Minimum Investment	Initial investment - \$10,000 Additional investment - \$5,000
Distribution Frequency	Half-Yearly (where available)
Management Fee	1.20%
Performance Fee <sup>1</sup>	20.00%
Buy/Sell Spread	0.25% / 0.25%

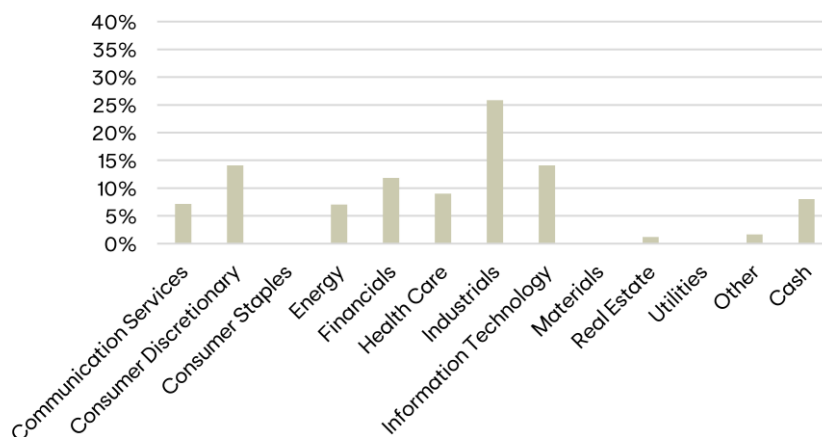
<sup>1</sup>Of the investment return above the benchmark, after recovering any underperformance in past periods.

## 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

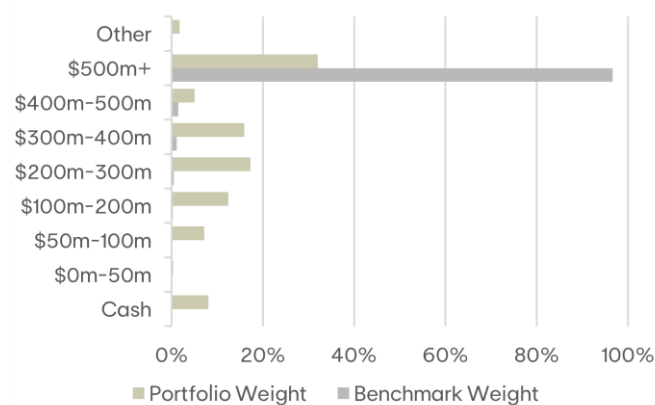
\*In alphabetical order.  
Source: Ellerston Capital.

## Sector Allocation



Source: Ellerston Capital.

## Market Capitalisation Exposure



Source: Ellerston Capital.

## Key Portfolio Metrics

FY24e	Fund	Benchmark
Price/Earnings	15.67x	19.76x
Dividend Yield	2.85%	2.97%
Net Debt/EBITDA	-0.62x	1.41x

Source: Ellerston Capital.

## COMMENTARY

The Ellerston Australian Microcap Fund delivered 2.40% (net) in February, relative to the S&P/ASX Small Ordinaries Accumulation Index which returned 1.72%. Offshore, we saw the S&P500 pass through 5,000 points reaching record highs and the Nasdaq focus remaining squarely on AI. Interest rates were topical both domestically and offshore, with consensus estimates winding back aggressive rate cut expectations to a more realistic cadence. Resources were weak during the month with iron ore really taking a hit due to fears around a weakening Chinese economy.

Stepping away from the macro news, February was also reporting season, resulting in a highly catalyst rich / news flow heavy period. In January, we outlined several themes which we thought would play out, including those companies that could show that their topline outpaced industry conditions being rewarded; M&A; and outlook statements / guidance being well received. As an overarching statement, we think Australian corporates shrugged of another reporting season and navigated what was expected to be slowing demand and a higher interest rate environment in reasonable fashion.

In retail, we saw the divergence in share price performance between companies that had high expectations going into the result, versus the leverage seen by some under-loved / low expectations companies, or highly shorted names like Temple & Webster, Lovisa and Adairs. In some of the high growth / crowded names, we saw some wild share price moves as companies with high expectations missed key metrics, such as Breville, Data3 and GUD Holdings. As we had anticipated, M&A remained elevated with a number of bids announced, including Altium, APM limited, Boral and Aussie Broadband's bid for Superloop. What was more unexpected during February was the level of management turnover, with Bapcor losing pretty much all key management and Fletcher Building losing the Chair and CEO to name a few.

Overall, reporting season felt like it was coming back towards more normal cycles, with share price performance reflecting fundamental earnings updates. This should mean we are back into a stock pickers market which plays into our strengths.

Turning to stocks, Aussie Broadband (ABB AU) was a standout performer this month, putting on almost 20% following a catalyst rich period. The company reported a solid 1H24 result, with strong subscriber growth momentum prompting an upgrade to their full year guidance. This combined with the approval of the Symbio acquisition drove material upgrades in analyst expectations. The next move caught the market off guard, with Aussie lobbing a takeover bid for rival listed telco Superloop (SLC AU). From a strategic standpoint, we think the acquisition stacks up, and would put ABB at approximately one million subscribers and a market share over 11% with material synergies to be unlocked. While SLC rejected the proposal, we suspect ABB will try again at some point; it makes too much sense not to. ABB is an excellent case study for our investment process, where we identified a high-quality business with a strong management team and a clear plan for growth; invested in the company before it was listed; and have stayed on the journey, adding to our position along the way.

RPM Global (RUL AU) had a strong month, delivering a 24% return in February. The business reported a strong 1H result, delivering revenue growth of 20% year-on-year and reported its total contracted value now sits at A\$142m. Furthermore, the business noted it has a strong pipeline of software deals, which bodes well for its key selling period into financial year-end. The group reiterated its FY24 revenue and earnings guidance, which represents meaningful growth and operating leverage to flow through over the 2H.

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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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