

# Ellerston Australian Micro Cap Fund

Monthly Report as at 30 June 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 <sup>^</sup>	3.10%	4.60%	21.87%	0.21%	11.77%	13.74%
Benchmark*	-1.39%	-4.46%	9.34%	-1.55%	3.70%	5.99%
Alpha	4.50%	9.06%	12.52%	1.76%	8.07%	7.75%

<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. ^^ 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	51
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%

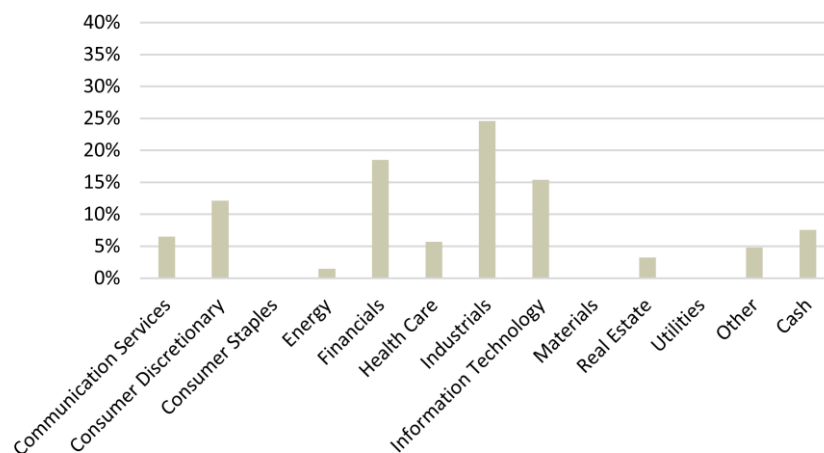
<sup>1</sup>Of the investment return above the benchmark, after recovering any underperformance in past periods.

## Top Holdings\*

Company	Sector
Generation Development Group	Financials
GenusPlus Group Ltd.	Industrials
OFX Group Ltd.	Financials
Southern Cross Electrical Engineering	Industrials
Universal Store Holdings Ltd.	Consumer Discretionary

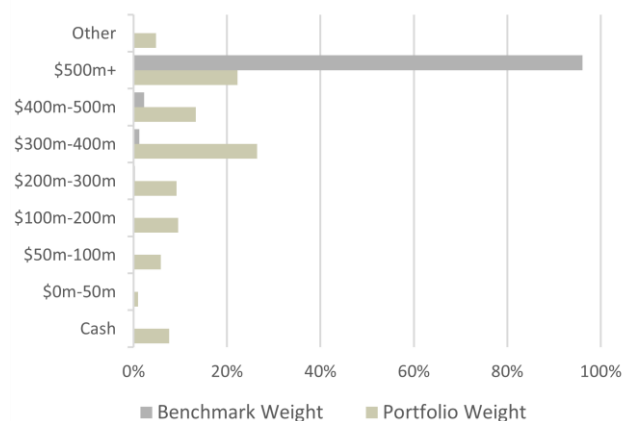
\*In alphabetical order.  
Source: Ellerston Capital.

## Sector Allocation



Source: Ellerston Capital.

## Market Capitalisation Exposure



Source: Ellerstion Capital.

## Key Portfolio Metrics

FY25e	Fund	Benchmark
Price/Earnings	16.78x	20.47x
Dividend Yield	2.76%	3.03%
Net Debt/EBITDA	-0.54x	1.53x

Source: Ellerstion Capital.

## COMMENTARY

The Ellerstion Australian Microcap Fund delivered 3.10% (net) in June relative to the S&P/ASX Small Ordinaries Accumulation Index which returned -1.39%. A higher than anticipated CPI print pushed out the likelihood of rate cut in Australia, as the market grappled with inflation being more persistent than expected. Small Resources came under pressure in the month, falling over 8% on the back of concerns around China's growth. Consumer stocks were the focus with negative updates out of Cettire (CTT AU); Katmandu (KMD AU); City Chic (CCX AU); Motorcycle Holdings (MTO AU) and AP Eagers (APE AU), to name a few.

More broadly, June was a busy month for the team as we hit the pavement and assess our positions before companies go into blackout ahead of fiscal 2024 results. We think there will be a number of companies that update the market in July, before officially reporting in August, given the dynamic macro environment currently. We continue to be focused on higher quality companies that display characteristics of strong pricing power, flexibility in the cost base and revenue streams which are less macro-dependent. We continue to stress test each of our assumptions and remain vigilant in upweighting the quality of our portfolio and looking for opportunities that present a three-to-one risk/reward.

Looking at the financial year overall, the S&P/ASX Small Ordinaries Accumulation Index finished up 9.34% compared to the Ellerstion Australian Microcap Fund which delivered 21.87% in the same period. Over the last two to three years, there has been a clear disparity between the performance of Australian large-cap companies relative to the small-cap end of the market. The last six to nine months have shown the first signs of recovery across the small-cap end of the market and we expect this trend to accelerate over the coming 12 months. Further to this, we would expect the next stage of the rally to broaden out across more of the small-cap market and expand into the micro-cap market. We are excited with what FY25 will bring and look forward to wearing out the shoe leather and finding new ideas.

Turning to the Portfolio two stocks that outperformed during June were Capital Health (CAJ AU) and Generation Developments (GDG AU).

We have been talking about the increase in M&A activity and always believe CAJ was perfectly placed to be consolidated into a larger radiology player. While it has been many years in the making, Integral Diagnostics (IDX AU) and CAJ announced that they are looking to merge in an all scrip offering valuing CAJ at ~\$0.32 per share which was a 33% premium to the last close. The combined group would be a clear number 3 player in the market and would offer meaningful synergies (>\$10m), which should be realised relatively easily. While there still a lot of water to flow under the bridge with due diligence to be undertaken, the combined group could deliver \$750m+ in revenue and over \$160m in EBITDA making it an attractive and much larger stock for the market to own.

GDG had a solid June finishing up almost 20%. During the month the company undertook a capital raise and announced they would be acquiring the remaining stake in the Lonsec business for just under \$200m. Lonsec has performed extremely well since GDG initially invested in the business in FY21, with a revenue CAGR of 24% over the period. This acquisition increases the business' exposure to the high-growth managed accounts market, which is predicted to grow at a 17% CAGR over the next 5 years. While the company relinquished its Pooled Development Fund (PDF) status in the process, we think it was a worthwhile trade given the potential upside from full ownership of Lonsec. The investment bond business also continues to perform strongly, taking market share while growing the category. The stock remains one of our high conviction positions.

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## Contact Us

### Sydney

Level 11, 179 Elizabeth Street,  
Sydney, NSW 2000  
+612 9021 7701  
[info@ellerstoncapital.com](mailto: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](mailto:info@ellerstoncapital.com) or visit us at [ellerstoncapital.com](http://ellerstoncapital.com).

All holding enquiries should be directed to our registry, Automic Group on 1300 101 595 or [ellerstonfunds@automicgroup.com.au](mailto:ellerstonfunds@automicgroup.com.au).

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