

# Ellerston Australian Emerging Leaders Fund

Monthly Report as at 31 July 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.) <sup>^^</sup>
Net <sup>^</sup>	3.31%	6.62%	17.22%	33.66%	1.02%
Benchmark <sup>*</sup>	3.49%	2.00%	5.39%	9.29%	-1.70%
Alpha	-0.18%	4.62%	11.82%	24.37%	2.72%

<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.

<sup>\*</sup>S&P/ASX Small Ordinaries Accumulation Index. <sup>^^</sup>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	46
Minimum Investment	Initial investment - \$10,000 Additional investment - \$5,000
Distribution Frequency	Half-Yearly (where available)
Management Fee	1.10% (p.a.)
Performance Fee <sup>1</sup>	20.00%
Buy/Sell Spread	0.25% / 0.25%

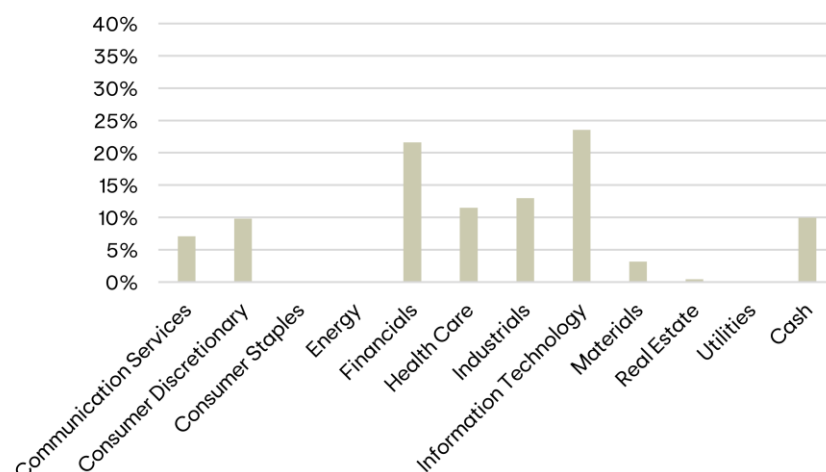
<sup>1</sup>Of the investment return above the benchmark, after recovering any underperformance in past periods.

## Top Holdings\*

Company	Sector
Alliance Aviation Services Limited	Industrials
Generation Development Group Limited	Financials
Life360, Inc.	Information Technology
Monash IVF Group Ltd	Health Care
Zip Co LTD.	Financials

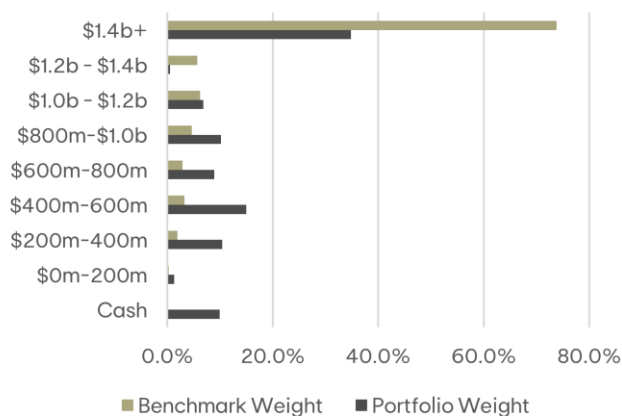
<sup>\*</sup>In alphabetical order.  
Source: Ellerston Capital.

## Sector Allocation



Source: Ellerston Capital.

## Market Capitalisation Exposure



Source: Ellerstion Capital.

## Key Portfolio Metrics

FY25e	Fund	Benchmark
Price/Earnings	18.86x	19.70x
Dividend Yield	2.31%	3.20%
Net Debt/EBITDA	0.00x	1.53x

Source: Ellerstion Capital.

## COMMENTARY

The Ellerstion Australian Emerging Leaders Fund delivered 3.31% (net) in July relative to the S&P/ASX Small Ordinaries Accumulation Index which returned 3.49%. A softer CPI print in Australia helped support the view that the RBA would not hike interest rates further, while in the US expectations around a Fed cut accelerated. Consumer discretionary sector caught a bid during the month as investors started to position for an expectation around improvement in consumer spending. While a fall in bond yields (on the back of expectations around interest rate cuts) supported Gold stocks. However, the Energy sector was hit hard on the back of the negative uranium momentum.

In July the market digested a lot of stock specific news flow with quarterlies in full swing and companies pre releasing their full year results. We saw trading updates from Aussie Broadband (negative); Austin Engineering (positive); Accent Group (positive); Generation Development (positive); Lifestyle Communities (negative); Supply Networks (positive); SiteMinder (mixed); and Zip Co (positive).

Turning to stocks, two names which provided strong trading updates in July were Universal Store Holdings (UNI AU) and ZIP Co Limited (ZIP AU).

Universal Stores (UNI AU) delivered 17% in July. Universal provided a FY24 trading update ahead of market expectations. The 2H24 showed an acceleration in sales, with strong profit margins delivering a beat versus consensus expectations. Pleasingly, sales growth continued to accelerate into July with group sales +15% year on year. Management are executing well in a difficult consumer environment, with inventory remaining clean. We continue to like UNI given strong execution, upside from footprint growth and market share gains, whilst trading at a reasonable valuation.

ZIP continued its strong momentum, putting on almost 30% this month after a strong quarterly trading update, ASX200 inclusion and well-received capital raise. The company indicated 4Q24 cash EBITDA was likely to come in at \$22-25m and upgraded full year guidance to between \$67-70m. This reflected ongoing strength in North America, healthy transaction margins and operating leverage. Concurrently, the company launched a capital raise to repay its expensive \$150m debt facility. The capital raise was well supported by the market and the balance sheet is now in pristine condition, after having undergone a major cleanup operation in the past year. This combined with the sustainable earnings momentum, saw the market upgrade FY25 EBITDA estimates by over 40% on average. We think this momentum is sustainable, and the stock remains a key position in the portfolio.

The first week of August has been exceptionally volatile, with some of the largest daily equity moves that we have seen in some time both domestically and globally. As we have said previously, volatility does create opportunities and, in these times, we see a disconnect between fundamentals valuations and short-term market movements. We use these opportunities to increase our exposure to mispriced names or add in new names which had previously not met our valuation criteria. Moving to reporting season we continue to assess our positions and we have tried to focus the portfolio on higher quality companies which have pricing power, solid balance sheets and ability to grow outside the economy. 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 three to one risk reward.

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## 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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