Ellerston Australian Micro Cap Fund

Monthly Newsletter, April 2021

Investment Objective

To provide investors with long term capital growth by investing in a portfolio of quality Australian & New Zealand Micro Cap companies. The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term.

Investment Strategy

The Fund employs an active, research-driven investment approach which seeks to identify and invest in companies that are believed to have the potential to deliver significant upside over the medium term and where there is a reasonable margin of safety to mitigate downside risk. Positions are actively managed within the Fund.

Key Information

Strategy Inception ^^	1 May 2017
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	$2.0819
Net Asset Value	$2.0767
Redemption Price	$2.0715
Liquidity	Daily
No Stocks	56
Management Fee	1.20% p.a.
Performance Fee	20%
Buy/Sell Spread	0.25% on application 0.25% on redemption

Performance Summary

Performance	1 Month	3 Months	6 Months	1 Year	3 Year (p.a).	Since Inception (p.a.)^^
Net^	4.71%	5.58%	18.84%	61.00%	22.20%	25.10%
Benchmark*	4.98%	7.44%	21.44%	39.78%	9.10%	11.37%
Alpha	-0.27%	-1.86%	-2.60%	21.22%	13.10%	13.73%

^ The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance
* S&P/ASX Small Ordinaries Accumulation Index

Commentary

The Ellerston Australian Micro Cap Fund returned 4.71% in April verses the S&P/ASX Small Ordinaries Accumulation Index return of 4.98%, supported by a strong rally in resources. Highlighting this point was the fact that the small resources sector index was up 9.5% for the month, on the back of a broad-based rally with iron ore surging a further c15% to $190/t. We also saw base metals like copper reach fresh decade highs and the battery raw material space strengthened, supported by the merger of Galaxy Resources and Orocobre Limited to create a $4bn merger of equals, and a top 5 global lithium chemical company.

Also in April, investors' attention focused on the performance of the economy with the end of Job Keeper in March. We will continue to keep a close eye on this over the coming months to ensure our investments that are exposed to more consumer sentiment trends remain robust. We remain reasonably confident on the consumer given that we saw in April that unemployment recipients dropped by 46k for the fortnight to 16th of April and job ads remain near record highs which all bode well for Australia's unemployment rate to trend lower.

The S&P/ ASX Small Ordinaries Index is now trading on a one-year forward PE of 18.7x which is at a 14% premium to its 5 year average. Looking at the small industrials index, the one year forward PE is at 20.4x which is at a 16.5% premium to 5 year average. In our view, we do not find the premium to the 5 year average as surprising given the current interest rate and potential inflation environment which we are in.

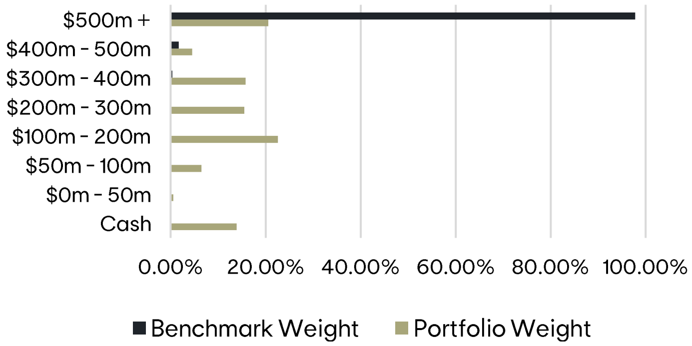
Two stocks that did well in April were Japara Healthcare and Kelly Partners.

Japara Healthcare was a solid performer during April, increasing by 36%. The company is a residential aged care provider with over 4,000 residents across 50 homes throughout Australia. Japara received a takeover offer from Little Company of Mary Health Care (Calvary), an Australian not-for-profit Catholic healthcare and aged care provider. The cash price offered was $1.04 per share, a 30% premium on the prior close. Despite being a welcome development, we think the timing is somewhat opportunistic given the proximity to the upcoming Federal Government Budget, of which we think Japara will likely be a beneficiary. We think the budget will provide much needed additional funding to the aged care sector, while supply reductions and improving demand should boost utilisation and profitability.

Chartered accounting network Kelly Partners increased by almost 40% during April. The business continues to be recognised as being high quality, boasting industry leading margins at cash conversion at nearly 100%. The highly fragmented market is ripe for consolidation, and to-date, Kelly's execution has been flawless. We have long been fans of its owner-driver partnership model, which drives alignment and retention of partners, while providing them with the support, systems, and resources of a renowned brand. The balance sheet is in excellent shape, with net debt/EBITDA below 1x, which sees the company well placed to execute on its $15-20m acquisition pipeline.

PORTFOLIO CHARACTERISTICS

Market Capitalisation



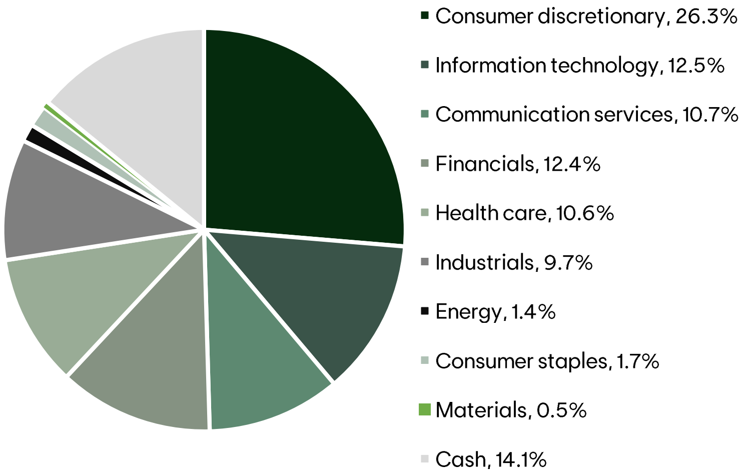
Source: Ellerston Capital.

Key Portfolio Metrics

FY21e	Fund	Benchmark
Price/Earnings	20.3x	21.6x
Dividend Yield	2.3%	2.6%
Net Debt/EBITDA	0.1x	1.2x

Source: Ellerston Capital.

Sector Allocation



Source: Ellerston Capital.

Contact Us

Sydney

Level 11, 179 Elizabeth Street,
Sydney, NSW 2000
+612 9021 7701
info@ellerstoncapital.com

Melbourne

Level 4, 75-77 Flinders Lane,
Melbourne, VIC 3000
+612 9021 7701
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** or visit us at **ellerstoncapital.com**

All holding enquiries should be directed to our register, Mainstream Fund Services on **02 8259 8550** or **InvestorServices@MainstreamGroup.com**

Ellerston Capital