Ellerston Australian Micro Cap Fund

Monthly Newsletter, October 2022

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	$1.1582
Net Asset Value	$1.1553
Redemption Price	$1.1524
Liquidity	Daily
No Stocks	62
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 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.)^^
Net^	4.31%	-3.36%	-16.15%	-28.75%	7.07%	10.15%	14.01%
Benchmark*	6.46%	-4.91%	-14.36%	-18.31%	1.46%	4.16%	5.69%
Alpha	-2.15%	1.55%	-1.79%	-10.44%	5.61%	5.99%	8.33%

^ 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 Microcap Fund delivered 4.3% in October while the Small Ordinaries Accumulation Index rallied strongly up 6.5%, rebounding from September's weakness. The month was full of central bank news with the RBA and BOC being more dovish than the market had anticipated with smaller hikes announced. The market saw glimmers of hope that inflationary pressure might have been easing with shipping costs retreating and US rents starting to roll. While we are not macro investors, we are watching inflation closely and believe it will be weighing on our portfolio companies for a while to come. Looking to Asia, China had a rough month with the Hang Seng finishing down 14.7% on the back of concerns around Chinese property and CCP Congress which saw weaker iron ore prices and the AUD/USD sell off heavily early in the month before finishing roughly flat. We continue to see M&A being a key theme in the market with a number of additional bids occurring predominately focused on the tech space with Nitro, ReadyTech and Pushpay all getting bids.

October was also full of news flow for our portfolio companies and the general market with both AGMs ramping up and wave of broker conferences. Trading updates were mixed but general themes came as no surprise with cost inflation and consumer demand being discussed ferociously. Turning to the portfolio, several our stocks had solid trading updates which helped support October's performance.

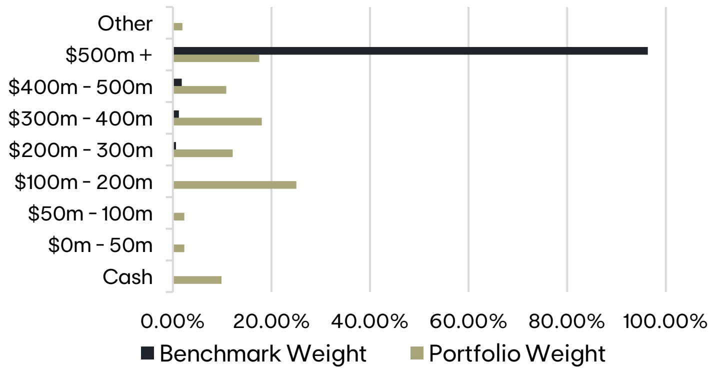
Smartpay (SMP AU) offers payment solutions in Australia and New Zealand by providing EFTPOS systems predominately to SME customers. During October, SMP announced its 2Q23 result which showed that transacting terminals accelerated strongly and finished the quarter at 12,546 terminals which was well above consensus estimates. Pleasingly we saw all key metrics for the group ramp including revenue per terminal, number of terminals added and transaction revenue. We look forward to SMP's 1H result (March YE) in late November and believe the group will demonstrate operating leverage kicking in and margins continuing to expand despite ongoing investment in marketing. SMP remains a core holding for the portfolio given its growth profile, undemanding valuation and attractive business model to global players.

RPM Global (RUL AU) delivered a strong return in October, rising 25% over the month. The company provides advisory consulting, technology and software solutions to the mining industry. RUL provided an update at its AGM late in the month, noting the group had added $2.5m of ARR over the first four months, bringing the total ARR to $51m. On the back of this strong start, RUL reconfirmed its FY23 guidance for >A$100m of revenue and A$14.2m EBITDA - a significant increase on the prior year. We believe RUL is well placed to benefit from the continued digitisation of mine sites and the increased penetration of RUL's software across its key customers globally. The group continues to be a stand-out in the technology sector, with a combination of strong top-line growth and operating leverage, as well as the announced buy-back underway.

Estia Health (EHE AU) was one of our stronger performers, putting on 16% during the month. This reflected the accretive acquisition the company made, which add another 409 relatively new beds to its portfolio, at a material discount to what they would cost to build. In addition, both listed aged care operators released positive trading updates which showed improving spot occupancy and declining COVID-related costs. Looking beyond the trading updates, we think EHE will benefit from several tailwinds including the ageing population (and consequential supply shortage), tightening occupancy, increased government funding, and improved staff availability with immigration starting to come back online. Combine these tailwinds with solid balance sheets and healthy RAD inflows, EHE is well placed to continue growing both organically and execute opportunistic acquisitions when they present themselves.

PORTFOLIO CHARACTERISTICS

Market Capitalisation



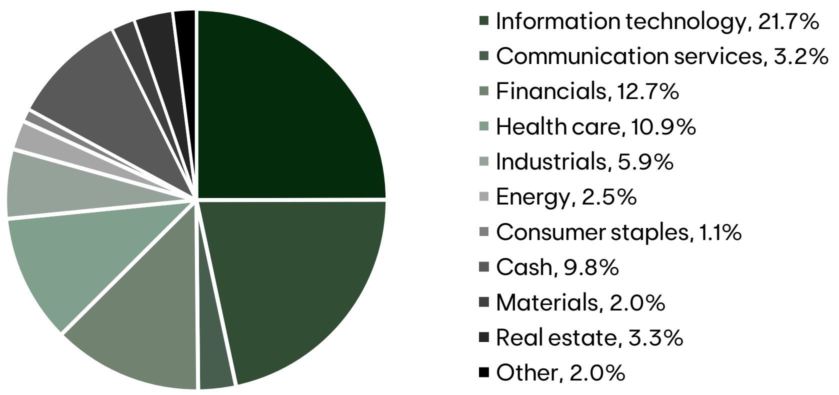
Source: Ellerston Capital.

Key Portfolio Metrics

FY22e	Fund	Benchmark
Price/Earnings	13.7x	18.6x
Dividend Yield	2.1%	3.5%
Net Debt/EBITDA	0.1x	1.3x

Source: Ellerston Capital.

Sector Allocation



Source: Ellerston Capital.

Contact Us

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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 or visit us at ellerstoncapital.com

All holding enquiries should be directed to our register, Link Market Services on 1800 992 149 or ellerston@linkmarketservices.com.au

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