

# Ellerston Global Mid Small Cap Fund (Unhedged)

Investment Update | June 19

## PERFORMANCE (%)

	1 Month	3 Months	6 Months	1 Year	2 Years p.a.	Since Inception p.a.
<b>Fund Net</b>	3.48%	7.82%	17.90%	4.88%	11.51%	12.21%
<b>Benchmark</b>	5.15%	5.12%	18.48%	7.42%	11.34%	12.29%
<b>Alpha</b>	-1.68%	2.70%	-0.58%	-2.55%	0.17%	-0.08%

## PORTFOLIO UPDATE

The Ellerston Global Mid Small Cap Fund (EGMS) (Unhedged) portfolio returned 3.5% during the month with equity returns of 4.1% offset somewhat by a 0.6% negative FX impact in line with the benchmark.

June saw global equity markets resume their upward trend as seen throughout 2019, prior to May, driven in part by an increasing easing bias among global central banks. The month concluded with news that US President Trump and Chinese President Xi agreed at the Osaka G20 summit to a “ceasefire” in the trade war and to resume discussions. The MSCI World Mid-Cap Index (Local) finished the month of June up 5.15%, as such the MSCI World Mid-Cap Index (Local) is now up 18.48% for the first half of calendar year 2019.

Contributors to performance this month included **TKH Group**, **Keysight** and **Ciena**. Detractors from performance included **Entertainment One**, **Nuance** and **DocuSign**.

Following a busy month of company reporting in May, June saw only two portfolio companies’ report earnings updates. **Ciena**, as discussed further below, reported particularly strong results. **DocuSign**, whilst reporting strong business-related metrics (+37% YoY revenue growth), saw its stock price fall 12% on the day of results as it failed to raise its full year billings guidance for the first time since IPO’ing in April 2018. We saw minimal justification for the move, given the fundamental operating performance of the business and remain long-term believers in the ecosystem that the expanding DocuSign product set is creating. During the month, we also spent two weeks in the US and Europe meeting with a number of current holdings as well as a range of potential portfolio additions.

**TKH Group** was the largest contributor to performance in the month as it upgraded its medium-term margin and ROCE targets as part of its “Simplify and Accelerate” Program unveiled at its Capital Markets Day which we attended in Amsterdam in early June. We had the opportunity to spend time with TKH’s CEO and CFO as well as divisional heads of each of its divisions. TKH has a long runway of growth ahead with past R&D spending now bearing fruit as innovative new products are being introduced into its growth markets of machine vision, wind power distribution and next generation tyre manufacturing systems.

**Ciena** reported outstanding Q2 2019 earnings results with both revenue and earnings coming in well ahead of both our and the markets expectations. Ciena also raised its 2019 full year revenue growth guidance from previously “upper end of the 6%-8% range” to 13%-14%, citing broad based demand across all customer segments, geographies and market verticals. Ciena continues to benefit from what it has described in recent quarters as a ‘flight to quality’ dynamic, where customers are more intently seeking out vendors who focus on innovation and who have the financial strength and sustainability to deliver on product roadmaps over the long-term.

**Entertainment One** was a material detractor to monthly performance in June on the back of rumours that ETO’s Chief Content Officer for Film & Television, Mark Gordon, was set to leave the company. The market took a ‘shoot first, ask questions later’ approach however prior to market opening the following day, ETO released a brief statement indicating Mark Gordon will continue to be part of the eOne team now and into the future. Despite impacting June performance, the stock has continued to recover in the early part of July.

## Key Facts

<b>Fund Inception Date</b>	1 March 2017
<b>Management Fee</b>	0.75%
<b>Performance Fee*</b>	10%
<b>Buy/Sell Spread</b>	0.25%
<b>Target Number of Stocks</b>	20-40
<b>Firm AUM</b>	Over \$5bn
<b>Application Price</b>	\$1.1635
<b>Redemption Price</b>	\$1.1577
<b>Fund Benchmark</b>	MSCI World Mid Cap Index (AUD)

\*10% of the investment return over the Benchmark return (MSCI World Mid Cap Index (AUD)), after recovering any underperformance in past periods.

## MARKET COMMENTARY

**Global equity markets** rallied strongly in June, delivering their second best monthly gain in a decade, as major central banks signalled an easing bias. Developed Markets rose 6.6% and outperformed Emerging Markets by 0.3% (in US\$ terms). The main geopolitical event at month's end was the G20 summit in Osaka. The summit concluded with news that US President Trump and Chinese President Xi agreed to a "ceasefire" in the trade war between their two countries. Markets which anticipated a conciliatory outcome, have interpreted this as good news and have continued to rally in early July.

The **S&P 500 Index** and the Dow Jones Industrial Average Index were sharply higher in June, returning +7.1% (reaching a record high) and +7.3% respectively. The NASDAQ performed even better, +7.5%, with Uber Technologies raising US\$8.1 billion in its IPO. Key US economic activity indicators for May were mixed: manufacturing ISM missed, falling to 52.1 (consensus: 53.0, previous: 52.8), non-farm payrolls also missed, but composite non-manufacturing ISM beat expectations, rising to 56.9 (consensus: 55.4). An easing bias indicated by the Fed was enough to lift markets.

**European equities** also delivered positive returns, with the Euro Stoxx 50 rising 6.0% in June, led by the Basic Resources and Chemicals sectors. Leadership confusion continued in the UK post Theresa May's resignation, with Boris Johnson in a strong position to take over as the UK's next prime minister. The Europeans began to publically voice disagreements on who would steer the European Commission, the European Council and the ECB. Uncertain political leadership dovetailed with moderating activity indicators: the flash Eurozone manufacturing PMI for June came in at 47.8, missing consensus expectations of 48.0. But the ECB indicated that it was preparing fresh stimulus measures, buoying equity markets, with the FTSE 100 returning +4.0%, France's CAC 40 returning +6.8%, and Germany's DAX doing +5.7%.

**Asian equities** also delivered very strong returns in the period. The prospect of additional stimulus – the PBoC announcing further measures to boost the economy and the BoJ altering its bond buying – together with hopes of a resolution to the US-China trade encouraged equity markets. Political tensions and riots in Hong Kong had no impact on the Hang Seng, with the Index rallying by 6.7%, while Japan's Nikkei 225 was up 3.5%, Korea's KOSPI Composite Index was up 4.4% and the Chinese SEE Total Market Index was up 5.6%.

The **S&P/ASX 200 Accumulation Index** ended the month up 3.7%, capping off an impressive 1H return of +19.7%, the best since 1991 and closing within 2% of its all-time high. While business confidence bounced in May after the surprise re-election of the Coalition government, 1Q GDP data showed that the economy grew at a listless 0.4% on the back of weak domestic demand. After holding rates steady for three years, the RBA cut the cash rate to a historic low of 1.25% in June. The RBA claimed that it took the decision to support employment growth and provide confidence that inflation will be consistent with its medium-term target.

If you have any questions regarding any aspect of the Fund, please feel free to contact us at [info@ellerstoncapital.com](mailto:info@ellerstoncapital.com).

Regards,

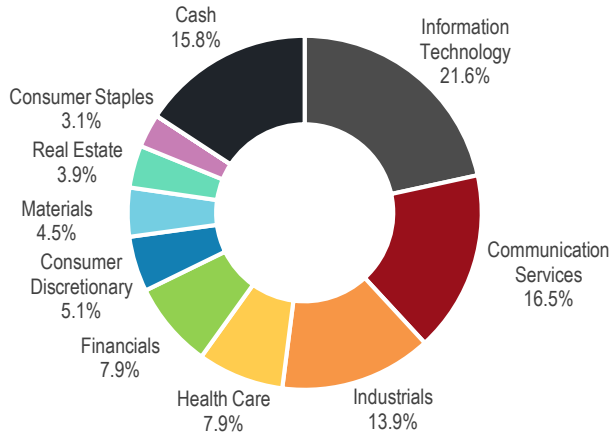
Bill Pridham and Arik Star  
Ellerston Global Mid Small Cap Fund Co-Portfolio Managers

## TOP 10 HOLDINGS

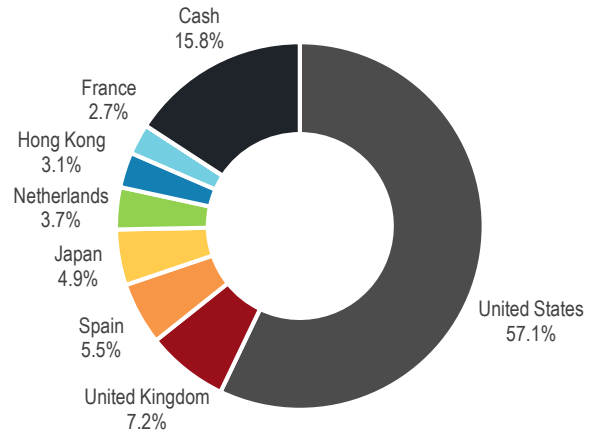
Top 10 holdings	Sector	%
Premier Inc. Class A	Health Care	5.77
Cellnex Telecom SA	Communication Services	5.52
Entertainment One Ltd.	Communication Services	5.21
Graphic Packaging Holding Company	Materials	4.46
WillScot Corporation Class A	Industrials	4.40
Nuance Communications, Inc.	Information Technology	3.71
TKH Group	Industrials	3.69
Ciena Corporation	Information Technology	3.44
Interxion Holding N.V.	Information Technology	3.21
Keysight Technologies, Inc.	Information Technology	3.16

## SECTOR & GEOGRAPHIC ALLOCATIONS

### Sector Exposure



### Geographic Exposure



Source: Ellerston Capital

## CONTACT US

Should investors have any questions or queries regarding the fund, please contact our **Investor Relations team** on 02 9021 7797 or [info@ellerstoncapital.com](mailto:info@ellerstoncapital.com) or visit us at <https://ellerstoncapital.com/>

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