

Ellerston Global Mid Small Cap Fund (Unhedged)

Performance Report | September 19

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year (p.a.)	Since Inception (p.a.)
Net [^]	1.74%	6.98%	15.34%	7.30%	12.97%	13.91%
Benchmark*	2.27%	3.99%	9.31%	6.66%	12.24%	12.73%
Alpha	-0.53%	2.99%	6.03%	0.64%	0.73%	1.18%

Source: Ellerston Capital

[^] The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

* MSCI World Mid Cap Index (AUD)

PORTFOLIO COMMENTARY

The Ellerston Global Mid Small Cap Fund (EGMS) (Unhedged) portfolio returned 1.7% during the month. Global equity markets turned in a decent month of performance despite the bull market in geopolitical noise reaching new highs. The Democrats launched impeachment proceedings against President Trump, UK politics and associated Brexit negotiations looked to be taking a turn for the worse while the US/Chinese trade negotiation uncertainty continued unabated. Markets are oscillating with every tweet or headline around phone calls or meeting timelines between the US and Chinese delegations – we continue to be mindful of the macro however focus on the micro.

Contributors to performance this month included **WillScot**, **PVH Group** and **Docusign**. Detractors from performance included **Premier**, **Liveperson** and **Ciena**. EGI had a relatively quiet reporting month with only Ciena and Docusign delivering results while Graphic Packaging presented its long-term outlook at its Capital Markets Day held in NYC.

WillScot was one of the larger detractors last month however surged almost 12% during September as speculation around a combination between it and its closest comparable, Mobile Mini, surfaced. Reuters reported that Elliott Management had been accumulating a stake in Mobile Mini to push for a sale of the company and particularly a merger with WillScot. While there has been no substantiation of a potential deal, we believe there would be substantial synergies and cross revenue opportunities for the combined group.

PVH Corp owns two very strong global brands Tommy Hilfiger and Calvin Klein however the business has been under pressure this year with weakening tourism trends into the US impacting sales as well as cost pressures associated with tariffs being put in place. The company reported results at the end of August and despite lowering guidance to reflect these pressures, the stock seems to be finding decent valuation support and increased >16% during September. On updated guidance it is currently trading on 9x PE and should generate close to \$500m FCF placing it on a high single digit FCF yield. We contend the long-term opportunity here remains attractive with its global brands and scale incredibly hard to replicate.

Ciena reported very strong third quarter results in the first week of September with revenues up 17.3% to \$960.6m which was well above the top end of its guided range of \$915-\$945m. Gross margins continue to outperform expectations up 130bps on pcg and driving GP 21% higher to \$424.4m. Operating leverage continued down the P&L with Adjusted EPS of 71cps up 38% on pcg and again well above market expectations of just over 57cps. All sounds good, however the short termism of the market prevailed with the stock declining on the day as it guided next year revenues only in line with expectations. Ciena is benefiting from many long-term trends underpinning data growth and as the global leader in optic solutions (excluding China where it does not compete), we contend the business is incredibly attractive at current levels. At \$37.25 it is trading on 14x PE despite >20% EPS growth expected over the next three years and with a net cash balance sheet generating strong FCF we have added to the position post results.

Graphic Packing held its Capital Markets Day at the end of September in NYC. It took the opportunity to upgrade earnings guidance for FY19 and highlighted its long-term volume growth opportunities as the world looks to replace plastic with sustainable paper-based alternatives. GPK showcased a \$5bn addressable market in North America and Europe for paperboard conversions from plastic as plastic cups, beverage packaging as well as foam cups and containers supply market share shift opportunities to the group. GPK's valuation remains very compelling at current levels trading on 12.8x PE with >10% FCF yield providing optionality.

Investment Objective

To outperform MSCI World Mid Cap NR (AUD) benchmark by 3% over a rolling 5 year period on a net of fees basis, with a focus on risk management and capital preservation.

Investment Strategy

The Fund's investment strategy is to construct a concentrated portfolio of global mid small securities using the Manager's distinctively contrarian high conviction, benchmark independent investment approach. The Manager believes that the trade-off between risk and potential returns at the portfolio level is improved by implementing highest conviction ideas from a filtered universe of securities that are in a period of "price discovery" and offer the best risk/reward.

Key Information

Strategy Inception	1 March 2017
Portfolio Manager	Bill Pridham & Arik Star
Application Price	\$1.1845
Net Asset Value	\$1.1815
Redemption Price	\$1.1785
Liquidity	Daily
No Stocks	20 - 40
Management Fee	0.75%
Performance Fee	10%*
Buy/Sell Spread	0.25%/0.25%

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

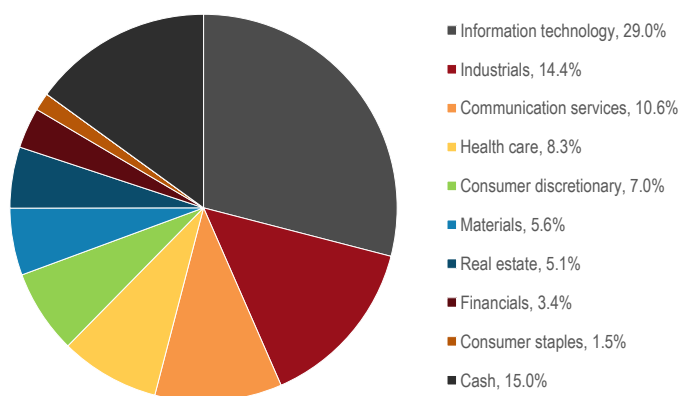
Kind Regards,
Bill Pridham and Arik Star
Co-Portfolio Managers

PORTFOLIO CHARACTERISTICS

HOLDINGS

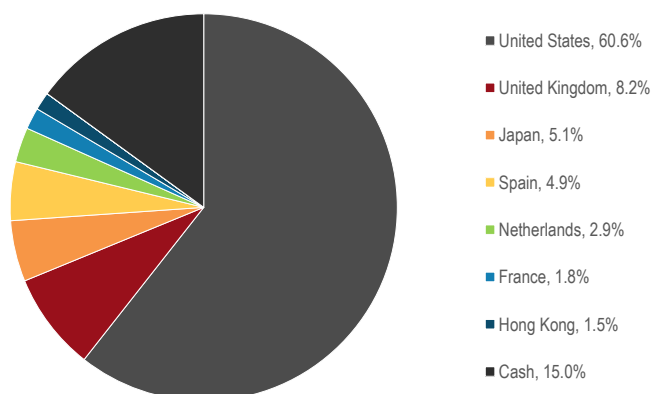
Top 10 holdings	Country	Sector	%
Graphic Packaging Holding Co	United States	Materials	5.6%
Ciena Corporation	United States	Information Technology	5.4%
WillScot Corporation	United States	Industrials	5.1%
Cellnex Telecom	Spain	Communication Services	4.9%
Nuance Communications Inc	United States	Information Technology	4.2%
Entertainment One Ltd	United Kingdom	Communication Services	4.0%
Tempur Sealy International Inc	United States	Consumer Discretionary	3.6%
PVH Corp.	United States	Consumer Discretionary	3.4%
Assurant, Inc.	United States	Financials	3.4%
Interxion Holding	United States	Information Technology	3.3%

SECTOR ALLOCATION



Source: Ellerston Capital

GEOGRAPHIC ALLOCATION



All holding enquiries should be directed to our registrar, [Link Market Services](https://linkmarketservices.com.au) on 1800 992 149 or ellerston@linkmarketservices.com.au

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

SYDNEY OFFICE
Level 11, 179 Elizabeth Street,
Sydney NSW 2000

MELBOURNE OFFICE
Level 4, 75-77 Flinders Lane,
Melbourne VIC, 3000

DISCLAIMER

This report has been prepared by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, as trustee of the Ellerston Global Mid Small Cap Fund (Unhedged) ARSN 609 725 868 without taking account the objectives, financial situation or needs of individuals. Before making an investment decision about the Fund persons should read the Fund's Information Memorandum which can be obtained by contacting info@ellerstoncapital.com and obtain advice from an appropriate financial adviser. Units in the Fund are issued by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000. This information is current as at the date on the first page.

This material has been prepared based on information believed to be accurate at the time of publication. Assumptions and estimates may have been made which may prove not to be accurate. Ellerston Capital undertakes no responsibility to correct any such inaccuracy. Subsequent changes in circumstances may occur at any time and may impact the accuracy of the information. To the full extent permitted by law, none of Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, or any member of the Ellerston Capital Limited Group of companies makes any warranty as to the accuracy or completeness of the information in this newsletter and disclaims all liability that may arise due to any information contained in this newsletter being inaccurate, unreliable or incomplete. Past performance is not a reliable indicator of future performance.