ELLERSTON CAPITAL

Ellerston Global Mid Small Cap Fund (Unhedged)

Performance Report | April 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year	Since Inception (p.a.)
Net^	5.40%	-11.04%	-1.39%	7.84%	8.19%	11.05%
Benchmark*	4.80%	-14.43%	-8.44%	-3.63%	2.54%	7.38%
Alpha	0.60%	3.39%	7.05%	11.47%	5.65%	3.67%

Source: Ellerston Capital Limited

^ 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)

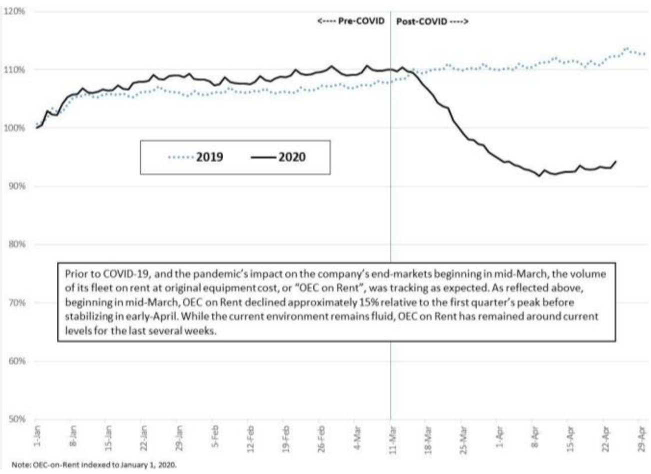
PORTFOLIO COMMENTARY

The Ellerston Global Mid Small Cap Fund (Unhedged) portfolio increased 5.40% net during the month of April.

The months of March and April were certainly a "Tale of Two Cities" as the dramatic decline experienced in March was met with a solid rebound in April. The violent swings in daily returns seem to have subsided as the market is gaining a glimpse of what the other side of COVID-19 may look like as China starts to re-open its economy. Additionally, we are getting further confirmations of infection rate curves flattening and trending lower while the unprecedented monetary response from most governments globally start to reach the intended recipients. All that is good and well and we know the market tends to trade on the rate of change in the underlying driver of the downdraft, however, it is still too early to really understand what the extent and duration of COVID-19 will be.

While markets have rebounded significantly off the lows, the divergence of returns remains pronounced. At the end of the month the tech heavy Nasdaq was only 7.4% off its all-time high and with the top 5 stocks in the S&P 500, Microsoft, Apple, Amazon, Google and Facebook, representing >20% of the index and not far from their all-time highs, the S&P ended the month only 14% from its recent high. Contrast this with the smaller cap companies in the Russell 2000 which are still >23% down from all-time highs – the returns have not been evenly disbursed.

Lack of earnings visibility is being reflected in the current reporting season as many companies are withdrawing full year guidance, cutting capex and drawing on existing lines of credit to "get to the other side". March quarter company reports are actually coming in better than expected as analysts had over extrapolated the headlines' impact on earnings despite the real impact being felt in the last two weeks of March and into early April; one of the most common headlines is "Better than Feared". Again, the rate of change is coming into play as many companies exited March at incredibly negative rates however we are getting several indications that post mid-April this rate of change has stabilised and the chart below seems to represent what the market is currently buying:



Source: Businesswire

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 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	$1.1718
Net Asset Value	$1.1689
Redemption Price	$1.1660
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.

The Ellerston Global portfolio had broad contributions from many positions with the top 3 contributors **Ciena, Cerence** and **XPO Logistics adding 304bps** to performance while **Equiniti** and **SIG Combibloc detracted 18bps**. We had six portfolio companies report during the month with the majority scheduled to update performance in May.

Anritsu reported its full year result with revenues and earnings coming in well ahead of market expectations and above the high end of its guidance. It's Test and Measurement business continues to benefit from 5G development demand and while COVID-19 has likely delayed rollouts by 6-8 months, the company indicated *"COVID-19 has made the Internet an essential fixture of societal life and telecommuting and has suggested that network expansion will become even more important for regional development and corporate growth."* We added more to our position post result.

Graphic Packaging reported Q120 results with organic growth of 5% well ahead of its 1-2% target. The business operates as basically a duopoly in the US consumer goods packaging market and while foodservice applications have been weaker due to shutdowns, demand for food and beverage packaging has more than offset this. While the company did remove full year guidance it indicated that if current conditions persist FY20 financial performance would fall within its previously guided range. As a sign of confidence and very different from many other companies, the Board remains committed to return of capital via dividends and buybacks.

Similar to last month, with the current market volatility we thought it useful to provide brief paragraphs on the top 10 positions in the Fund. In connecting tomorrow's returns today, we typically gravitate towards quality businesses which demonstrate some or all of the following attributes: High or dominant market share, high recurring revenues, high revenue retention rates, secular tailwinds and exceptional Management team.

We consider these characteristics underpin pricing power, margin expansion, capital allocation optionality and increasing returns on invested capital. We want investors to be aware of and hopefully comfortable with the long-term opportunities held within the portfolio:

KEYSIGHT TECHNOLOGIES

Keysight is the global research and testing market share leader in several multi-year mega trends including 5G, electric and autonomous vehicles and next-gen batteries. When someone is trying to move up the speed of a network or they're trying to invent a new cloud, 5G cell phone or a base station there are basically only three players globally who can provide this expertise: Keysight, Anritsu and private German company Rohde & Schwarz (we own the two listed players). Keysight generated $4.3bn of revenue, >$1.1bn EBITDA and just under $900m of FCF last year and recently upgraded long term guidance in its Analyst Day in early March. While near term spending on R&D and next generation products will no doubt slow, the long-term need for innovation and especially 5G architecture has only increased in our view.

ciena

Ciena's business is driven by the growth in global data traffic and is the optical market share leader globally despite not operating within China. For countries to talk to each other you need fiber subsea cables and for data centers to talk to each other (within country or overseas) you need fiber interconnect. Ciena provides the optical hardware to "light up" this fiber and has over 50% market share globally in subsea cable and data center interconnect. It is benefiting from a number of secular growth drivers and has guided to >20% EPS growth over the next three years. We are seeing a significant increase in retail data traffic and telco operators around the world will be looking at accelerating network investment similar to Telstra's recent announcement around network and 5G spending increases. The business has a net cash balance sheet and generated >$300m of FCF last year.

cellnex

Cellnex Telecom is the largest independent owner of mobile phone towers in Europe and is benefiting from a long term outsourcing trend (as telcos sell towers to independent operators) and data growth associated with current and next gen technologies such as 5G. The business benefits from very high recurring revenues underpinning EBITDA margins close to 70%. Cellnex has made a number of strategic and value accretive purchases over the past couple of years and now commands a €44bn contracted revenue backlog providing excellent visibility. Cellnex will continue to augment its market positioning and still has €7bn of available liquidity for future M&A. The business currently generates a mid-single digit FCF yield in Europe where sovereign yields are negative and would represent a great pension asset.

DIGITAL REALTY

In our last newsletter we highlighted that Digital Realty had bid for one of our top data center holdings, Interxion, and we were likely to accept Digital Realty scrip in exchange for our position in Interxion. The deal was finalised, and we have now converted our shareholding into the larger company structure. Digital Realty is one of the largest public companies in the global data center space with c270 data centers operating across 20 countries. Interxion adds a strong foothold into the European data center market and the combined group will benefit from cross selling, operational and financing synergies over the coming years. With data growth expected to remain robust (and likely accelerate with cloud adoption and 5G), owning the digital factory where the cloud lives is very attractive to us.

Anritsu has all the same 5G drivers previously highlighted with Keysight and as mentioned we own two of the top three players in the space. Anritsu has a very strong balance sheet which we estimate net cash to represent 18% of its market cap next year. The test and measurement market will continue to benefit from the growth in 5G development and deployment and while the launches of new 5G smartphones will be delayed due to COVID-19, they are not going away. Conversely, the investment in 5G infrastructure (akin to Telstra's announcement) could accelerate as telco operators support work from home and video conferencing demands on bandwidth.

Amedisys is one of the largest pure play healthcare services companies in the US which provides care in the home through two main divisions, Home Health and Hospice. The secular drivers behind the "Aging in Place" thematic are profound as the 85 and older cohort is the fastest growing demographic in the US and these are closely followed by 78 million baby boomers. Nearly 90% of older adults want to age in their homes rather than in institutional settings and the cost/quality of life benefits around at home care are indisputable. Amedisys will provide significant outsourcing support to the US Health system as it grapples with COVID-19 demands on hospitals. Recent regulatory changes have strengthened its market position and long-term growth optionality.

Graphic Packaging operates in a duopoly in the US serving the packaging needs for large consumer goods companies such as Kellogg's, Coca Cola and Nestle to name a few. It produces 52% of all CRB (Coated Recycled Board which is used in consumer goods packaging) and 58% of all CUK (Coated Unbleached Kraft which is made from recycled materials and used to carry beverages). The business is benefiting from a shift in packaging preference from plastic to paper as well as quite high barriers to entry. Graphic Packaging, generates a double digit FCF yield and should be a beneficiary of increased at home food and beverage consumption.

QTS Realty is a US centric data center operator which we have owned over several years within Ellerston and past endeavours. QTS owns and operates 25 data centers across 14 US Metro areas and provides a one-stop shop for outsourced data center solutions. It provides customers custom wholesale data centers as well as hybrid co-location offerings with hybrid colo representing approximately 2/3rd of bookings. At the end of March, QTS provided a COVID-19 update which highlighted all facilities are operational and considered essential service. Usage of its Service Delivery Platform had accelerated during March as work from home mandates are driving significant network demand. We consider QTS' highly recurring and growing revenue stream as very attractive with no significant debt maturities until 2023.

LiveRamp is a business with strong network effects and basically makes it safer and easier for every company to use data more effectively online. It views itself as the Switzerland of data and provides the essential infrastructure to connect the offline and online worlds for more effective advertising. Think of a supermarket who has your email address (this is called first party data) but cannot effectively identify and deliver relevant ads to you when you are on your mobile phone, desktop or tablet. LiveRamp provides this conduit in a secure, private manner and as a result, publishers can generate a 10x yield increase because the ad is relevant to you. LiveRamp has guided revenues to grow 25-30% next year with gross margins trending to >70%. The business has a $2.0bn market cap with just under $800m of net cash on its balance sheet.

WillScot has over 40% market share in modular office leasing in North America and is by far the dominant player in a space which should benefit from increased infrastructure spend associated with any fiscal stimulus. Modular units are typically leased for over 30 months providing excellent visibility associated with highly recurring revenues. It is delivering mid-teens pricing growth as it re-prices returning units at higher rates and fits these out with value added products which drive both revenue and margins. WillScott has also announced an all scrip merger with Mobile Mini which has continually proven itself to be a leader in portable storage solutions with a rental fleet of approximately 200,000 units across 156 locations in the US, UK and Canada. The combined business will have significant scale and is truly transformative due to the complementary nature of the businesses.

Kind Regards,

Bill Pridham and Arik Star

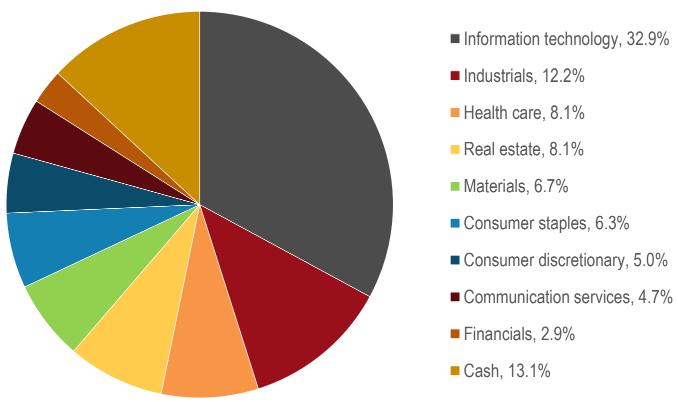
Ellerston Global Mid Small Cap Fund (Unhedged) Co-Portfolio Managers

PORTFOLIO CHARACTERISTICS

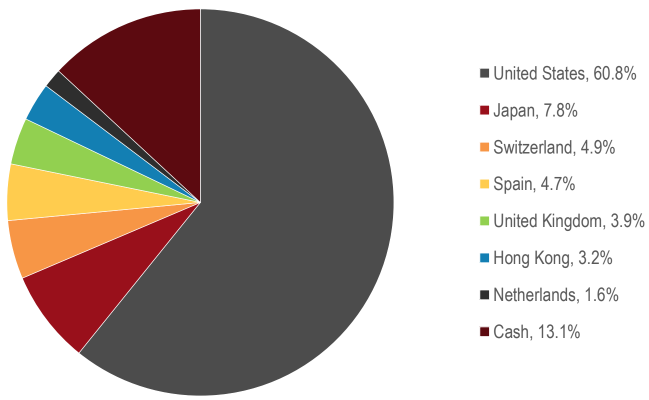
HOLDINGS

Top 10 holdings	Country	Sector	%
Keysight Technologies Inc	United States	Information Technology	5.9%
Ciena Corporation	United States	Information Technology	5.0%
Cellnex Telecom	Spain	Communication Services	4.7%
Digital Realty Trust	United States	Real Estate	4.4%
Anritsu Corporation	Japan	Information Technology	4.3%
Amedisys	United States	Health Care	3.9%
Graphic Packaging	United States	Materials	3.9%
QTS Realty Trust	United States	Real Estate	3.7%
LiveRamp Holdings	United States	Information Technology	3.6%
WillScot Corporation	United States	Industrials	3.6%

SECTOR ALLOCATION



GEOGRAPHIC ALLOCATION



Source: Ellerston Capital

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Should investors have any questions or queries regarding the fund,

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or visit us at https://ellerstoncapital.com/

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