

Ellerston Global Mid Small Cap Fund (Unhedged)

Performance Report | June 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year	Since Inception (p.a.)
Net [^]	-1.16%	12.18%	-1.74%	13.36%	12.13%	12.56%
Benchmark*	-1.40%	8.97%	-7.67%	-0.58%	7.21%	8.26%
Alpha	0.24%	3.21%	5.93%	13.94%	4.92%	4.30%

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 declined 1.2% net during the month of June taking FY 2020 net performance to 13.4% which represented 13.9% outperformance compared with the MSCI World Mid Cap Index (AUD) over the same period.

As markets continue to rebound strongly off the late March lows we seem to be in a bit of Goldilocks scenario where news around a resurgence in COVID-19 prompts more speculation of increased fiscal and monetary support, or at the minimum extensions, while better economic progress or positive vaccine news supports those looking for a V-shaped recovery. JP Morgan cites government sources which recently highlighted about 40% of the US has halted or reversed reopening with the majority of this concentrated in four States. We have also seen this domestically with COVID-19 flare ups in Victoria resulting in delayed openings and renewed lockdowns. While this does increase market anxiety around resurgence risk it seems that liquidity in the system is currently more than compensating for this concern.

As we move towards the June quarter earnings season it will be interesting to see how much is already priced into the market and we consider there could be quite a divergence between single names on the back of the varied COVID-19 reopening pace globally.

We also continue to believe that operating leverage coming out of this economic vacuum may be underestimated by the market as many of the companies we have talked to have indicated new productivity initiatives have been discovered/accelerated and not all costs that have been taken out are coming back. Digital technologies have come to the rescue during the pandemic with many companies highlighting two years of digital advancement has been condensed into the past two months. It does seem anything digital or digital infrastructure that is empowering a distributed workforce has been embraced and this is creating new cost saving and productivity opportunities right now.

The Ellerston Global Mid Small Cap Fund (Unhedged) portfolio's top 3 contributors **Cerence, Anritsu and National Vision added 201bps** to performance while **LiveRamp, Keysight and Willscot detracted 126bps**. Most of our companies reported results in May so the Fund had a much quieter month in June with only Ciena reporting results.

Ciena's results demonstrated its industry leading financial performance as it delivered revenue growth with expanding margins even as it experienced supply chain and operating disruptions associated with COVID-19. Over the medium to long term the rise of remote everything will accelerate the drive towards cloud-based models with customers increasingly seeking trusted, financially sound partners such as Ciena. With a business model driven by growth in data and bandwidth requirements generating strong cash flow with just over \$300m of net cash on its balance sheet, Ciena is in a strong operating and financial position.

Willscot announced that it had completed its merger with Mobile Mini (MINI) on July 1st and while there has been some weakness in the stock leading up to the announcement (which we can only put down to arb activity) the combined group will become the leader (by a factor) in the North American modular office and portable storage solution markets. We consider that while there are significant cost synergies associated with the merger, the revenue opportunities are far more exciting after seeing several sites in the US (before the travel restrictions) with one of each or both of these companies being utilised by the same customer set. Accordingly, we have been adding to our position to take advantage of the share price weakness.

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	\$1.2472
Net Asset Value	\$1.2441
Redemption Price	\$1.2410
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.

STOCK IN FOCUS: Reynolds Consumer Products (REYN US, US\$7.3bn Mkt Cap)

Reynolds is a relatively new IPO which listed in the US at the end of January 2020 at \$26.00 per share and at the time of writing it is trading at just under \$35.00. We received a small allocation in the IPO and subsequently bought the bulk of our position in the open market after it listed with an average just over \$29.00. Our view was that it was a very strong franchise with dominant market shares being listed and then subsequently trading at a several point discount to listed comparables and represented very compelling value.

It is a market-leading consumer products company with a presence in 95% of households across the United States. It produces and sell products across three broad categories: cooking products, waste & storage products and tableware and as the chart below demonstrates, it has dominant market positions across its portfolio:

Our brands have #1 positions across nearly all our categories

Category	Brand	Position	Brand share of total category
Aluminum foil (U.S.)		#1	64%
Aluminum foil (Canada)		#1	72%
Parchment paper		#1	51%
Wax paper		#1	59%
Slow cooker liners		#1	77%
Oven bags		#1	93%
Freezer paper		#1	94%
Slider bags		#1	34%
Party cups		#1	22%
Foam dishes		#1	43%
Trash bags		#2	20%

Source: Nielsen xAOC last 52 weeks ended September 28, 2019.

Reynolds is also very focused on innovation with an objective to generate 20% of its revenue each year from new products introduced within the prior three years. All of its key product lines include newly developed innovative products such as Hefty Ultra Strong™ trash bags, Reynolds KITCHENS® Slow Cooker Liners, Parchment Pop Up Sheets and 75% Unbleached Compostable Parchment Paper.

In its most recent result Management indicated that its categories experienced an increase in both purchase and usage in March and April, driven mainly by COVID-19 shelter in place requirements, as well as the Easter and Passover holidays. The purchase behaviour was seen with increases in dollar sales across all channels and elevated in-home usage.

Also, recent polling highlighted that well over half its consumers are cleaning, cooking, baking, doing yard work and organizing more often than compared to three months ago with about two-thirds predicting they will maintain this higher level of engagement. Additionally, 80% of consumers indicate they are cooking more meals and the majority say they are generating more trash and using disposable tableware to ease the burden of cleaning dishes.

Revenue and EBITDA grew 9.8% and 22.7% respectively in the first quarter with Management upgrading full year guidance based on the first quarter strength and strong consumer follow through as it benefits from work from home and consume at home trends. We consider the upgraded guidance could prove conservative as it continues to benefit from more at home cooking, delayed restaurant openings and operating cost tailwinds from lower commodity prices.

Reynolds has proven to be a strong category leader with dominant market shares in consumer categories which will see elevated demand for some time as secular changes in our consumption activity post COVID-19 likely remain entrenched. It has a relatively high degree of earnings visibility and is one of the few companies in the market that actually raised profit guidance last quarter.

Kind Regards,

Bill Pridham and Arik Star

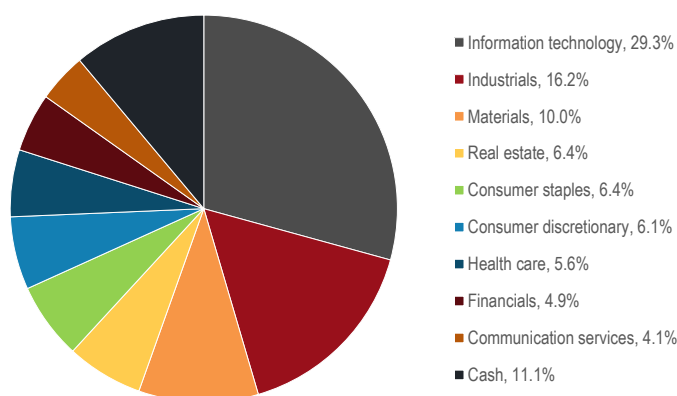
Ellerston Global Mid Small Cap Fund (Unhedged) Co-Portfolio Managers

PORTFOLIO CHARACTERISTICS

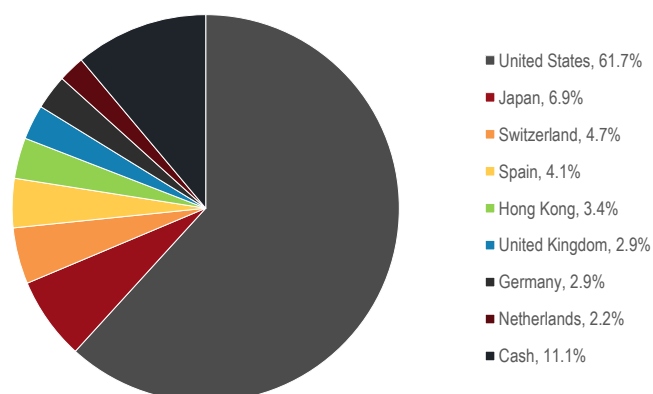
HOLDINGS

Top 10 holdings	Country	Sector	%
Keysight Technologies Inc	United States	Information Technology	4.1%
Cellnex Telecom	Spain	Communication Services	4.1%
Ciena Corporation	United States	Information Technology	3.8%
Amedisys	United States	Health Care	3.7%
Graphic Packaging	United States	Materials	3.7%
Anritsu Corporation	Japan	Information Technology	3.6%
LiveRamp Holdings	United States	Information Technology	3.6%
Assurant	United States	Financials	3.6%
WillScot Mobile Mini Holdings Corp.	United States	Industrials	3.5%
Health and Happiness Int. Holdings Ltd	Hong Kong	Consumer Staples	3.4%

SECTOR ALLOCATION



GEOGRAPHIC ALLOCATION



Source: Ellerston Capital

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:investorrelations@ellerstoncapital.com) on 02 9021 7701 or info@ellerstoncapital.com or visit us at <https://ellerstoncapital.com/>

DISCLAIMER

This report has been prepared by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, as the responsible entity 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.

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

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