

Ellerston Global Mid Small Cap Fund (Unhedged)

Performance Report | August 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year	Since Inception (p.a.)
Net [^]	2.72%	2.85%	2.98%	12.18%	14.23%	13.20%
Benchmark*	1.52%	0.79%	-3.65%	-0.06%	8.39%	8.53%
Alpha	1.20%	2.06%	6.63%	12.24%	5.84%	4.67%

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 increased 2.72% net during the month of August outperforming the MSCI World Mid Cap Index (AUD) by 1.20% over the same period. Underlying stock positions returned 5.68% which were partially offset by 239 bps of FX due to the appreciating A\$ during the month.

The portfolio's top three contributors **LivePerson**, **Willscot** and **Assurant** added **230bps** to performance while **Anritsu**, **QTS Realty** and **portfolio hedging** detracted **46bps**. We had another busy reporting month with 11 companies delivering results or trading updates in August.

LivePerson is a global leader in Conversational AI as it connects your favourite brands with your preferred messaging app at scale. It reported exceptional results with the share price reacting accordingly. The business is clearly benefiting from the customer satisfaction dislocation associated with traditional voice call centers trying to deliver adequate service as agents started working from home. This has prompted many large enterprises to accelerate the shift to messaging, and in particular automated AI messaging, to deliver improved customer outcomes. Management indicated that in the second quarter alone it had processed over 100m individual messages per month compared with only a couple million per month at the end of 2019. Interestingly it is seeing new verticals open up including Government and Healthcare as the call volumes overwhelm existing capabilities. One new US State contract is now deploying proactive messages for direct outreach to its citizens. As COVID-19 changes business models, LivePerson looks set to benefit as contactless commerce, curbside pickup and virtual store agents are enhanced with its messaging capability. Chipotle just launched "Pepper" powered by LivePerson which facilitates direct ordering through Facebook Messenger, there will be many more of these in the future.

Reynolds was highlighted in our June 2020 newsletter and as a reminder it is a market-leading consumer products company with a presence in 95% of households across the United States. It has dominant market positions across its portfolio with **70% market share in aluminum foil**, **close to 60% market share in wax**, **freezer paper and oven bags** and **just under 40% market share in trash bags**. Reynolds reported solid results with EBITDA up >14% on pcp with Management indicating full year results will be at the **upper end** of previous guidance. Sounds good, especially in this environment, right? The stock was off close to 9% and ended the month pretty much where it started. While this was disappointing the share price move did not change our investment thesis which has actually strengthened since we bought the stock. How is this for a stat – about one-third of its consumers are using foil at least once per day up from a pre-COVID benchmark of 6%. On Sept 8th it preannounced Q3 results ahead of a conference with revenues and EBITDA up high single and low double digit respectively which were ahead of expectations and the share price actually ticked up.

The investing landscape has certainly changed post Covid-19 with some business models being impaired while others are accelerated like LivePerson and Reynolds. We have been sharpening our focus and investments into businesses which have entrenched long term tailwinds and have proven essential, not only to customers but also to supporting the overall economy.

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
Application Price	\$1.1971
Net Asset Value	\$1.1941
Redemption Price	\$1.1911
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: Option Care Health (OPCH US, US\$2.1bn Mkt Cap)



Option Care Health is the only scaled national provider of post-acute infusion therapy covering 96% of the US population with close to 3,000 highly skilled team of clinicians providing quality care generally at home or alternatively in one of its infusion suites located across the country.

If you needed infusion therapy (referred by a hospital or physician) to treat infections or nutritional support you can do this at your home rather than going into a hospital for treatment; this is called acute therapy and is generally quite high margin but not for an extended time. Chronic therapy could last for months or potentially a lifetime when treating immune disorders or other chronic conditions and while it is lower margin than acute, its recurring nature results in very predictable revenues.

Option Care Health at a Glance

45

states

96%

of U.S. population covered

\$2.7bn+
combined 2019 revenue¹

~2,900
skilled clinicians

Top 10
payers all in-network

500+
frontline selling resources

- Nation's largest independent provider of home and alternate site infusion services, licensed in all 50 states
- Clinical leadership and technology-enabled patient-centered model

National Footprint



2Q'20 Results
(in millions)



Option Care Health is reimagining the infusion care experience for patients, customers and employees

Source: Option Care Health Q2 Presentation

The total US Infusion market is estimated at \$100bn with approximately 13% of this currently administered at home growing 5-7% per year. We expect infusion therapy will continue to migrate from a hospital or physician office setting to the home as patients prefer its convenience and reduced risk of infection while payers such as United Health, Humana or Aetna benefit from the significant cost savings associated with at home treatment which have been demonstrated at up to 70% for specific treatments.

While investing in healthcare stocks can be tricky due to potential changes in government reimbursement or fee policies, Option Care Health has very little "pen stroke" risk as just under 90% of revenues are derived from commercial payers rather than the government. Payers are looking to narrow their networks, preferring to partner with larger care providers with broad coverage rather than smaller regional players and this fits right into Option Care's wheelhouse. In the future there could be an opportunity for more government participation as it is working in partnership with bipartisan support for better reimbursement for home infusion either as part of the CARES Act or COVID response.

Option Care Health was spun out of Walgreens in 2015 and sold to PE player Madison Dearborn who subsequently spent significantly on building out its technology and operational capabilities from purchase. In August 2019 it became public through a reverse merger with Bioscrip which was a listed counterpart and the combination is delivering substantial cost and revenue synergies to the group. At the time of transaction, Management expected to generate \$60m of run rate synergies within 18-24 months post merger, however this has been realised much faster with full synergies realised within one year and over achievement of its synergy target expected from here.

It has many of the attributes of Amedisys that we have owned for some time with at home treatment taking share from the hospital setting, large addressable markets and significant benefits for patients as well as payers, basically a win/win as its service lowers the cost of healthcare in the US.

At the time of writing, Option Care Health is trading at \$11.25 which represents a 12-point EBITDA discount to Amedisys which has similar attributes but actually higher "pen stroke" risk. Madison Dearborn recently sold down 10m shares however still owns >70% of the group and this is creating an overhang on the stock as the market anticipates further sell downs. With the business performing well operationally, we look forward to further sell downs as in our experience this creates additional liquidity while concurrently reducing the overhang risk, both of which result in a higher multiple and capital appreciation to us as shareholders.

Kind Regards,

Bill Pridham

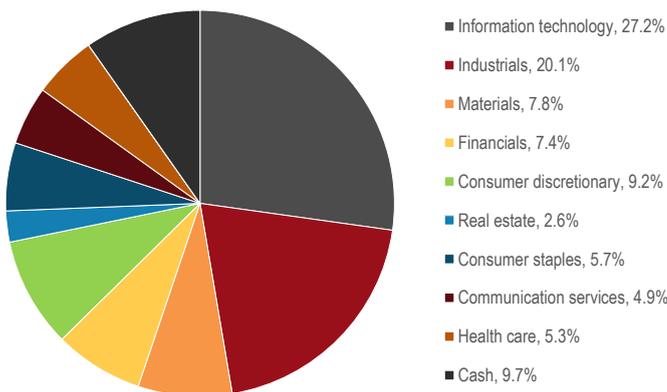
Ellerston Global Mid Small Cap Fund Portfolio Manager

PORTFOLIO CHARACTERISTICS

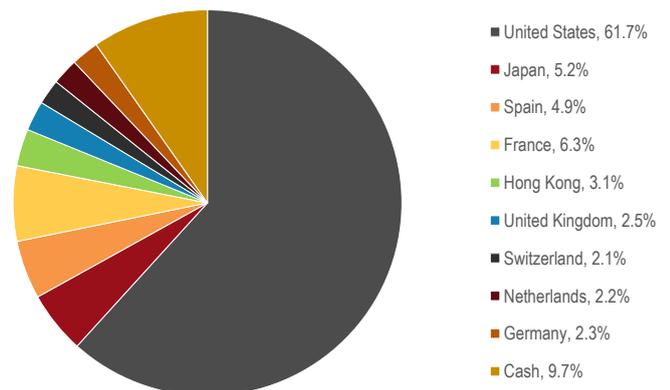
HOLDINGS

Top 10 holdings	Country	Sector	%
Cellnex Telecom	Spain	Communication Services	4.9%
PTC	United States	Information Technology	4.7%
Keysight Technologies Inc	United States	Information Technology	4.5%
Assurant	United States	Financials	4.1%
Ciena Corporation	United States	Information Technology	3.9%
Scotts Miracle-Gro	United States	Materials	3.9%
WillScot Mobile Mini	United States	Industrials	3.8%
Bureau Veritas	France	Industrials	3.7%
Sensata Technologies	United States	Industrials	3.6%
LiveRamp	United States	Information Technology	3.5%

SECTOR ALLOCATION



GEOGRAPHIC ALLOCATION



Source: Ellerston Capital

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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 **<https://ellerstoncapital.com/>**

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