

Ellerston Global Mid Small Cap Fund

Performance Report | October 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year	Since Inception (p.a.)
Class A	3.02%	5.20%	13.42%	11.85%	11.49%	13.30%
Benchmark*	1.00%	3.71%	8.58%	-0.59%	6.53%	8.76%
Alpha	2.01%	1.49%	4.84%	12.44%	4.97%	4.54%

Performance	1 Month	3 Months	6 Months	1 Year	3 Year	Since Inception (p.a.)
Class B	3.32%	1.16%	-	-	-	1.16%
Benchmark*	1.00%	0.60%	-	-	-	0.60%
Alpha	2.31%	0.57%	-	-	-	0.57%

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)

Class B Inception Date is 18 August 2020

PORTFOLIO COMMENTARY

Leading up to the early November US Elections, global equity markets were generally weak during the month of October with the S&P 500 and Nasdaq down 2.7% and 2.3% respectively while increasing COVID-19 cases in Europe saw the French and German markets down by 4.4% and 9.4%.

The Ellerston Global Mid Small Cap Fund (Class A) increased 3.0% net during the month with positive equity performance of 136bps augmented by FX gains associated with being unhedged from an AUD perspective.

Most of the US election noise is now (hopefully) behind us and while the players at the top have changed, it looks likely that the political gridlock of a divided government will remain in place. While this does reduce the potential for aggressive fiscal stimulus, it also takes aggressive Democratic tax policy changes off the table in the near term. The growth and economic recovery narrative has not changed and we consider strong fiscal measures remain a matter of when and not if.

The portfolio's top three contributors **LiveRamp, Willscot and Advantest added 186bps** to performance while **Multiplan, TKH Group and Health and Happiness detracted 152bps**. We had a very busy month with 17 portfolio companies reporting quarterly results or trading updates.

Tempur Sealy (TPX) as a global leader in mattress and bedding products is going from strength to strength with third quarter revenue up 38% and strong operating leverage driving EBITDA up 86% to \$279m. It delivered record quarterly free cash flow of \$328m which is greater than the entirety of its previous full year result. Management indicated it will initiate a dividend while resuming its share buyback as gearing declined from 3.2x to 1.9x. TPX trades on <12x forward PE and double digit FCF yield providing a great margin of safety for strong capital growth going forward.

Groupe SEB is the global leader in small domestic equipment which covers both cookware and small electric appliances owning strong brands such as Tefal and Moulinex. It delivered 4.4% like for like Q3 revenue growth which was ahead of market expectations and marked a strong turnaround from the negative 12.6% performance of the first half. Its consumer business of cookware and small domestic appliances grew 10% as it benefits from the favourable trends of "homemade over processed" and "Health and Wellness". The business represents great value at <9.0x forward EBITDA which is an 8-point discount to its listed peers.

Sensata (ST) is a global leader in sensor technology and sensor-based solutions used in mission critical applications underpinned by megatrends such as vehicle electrification, smart and connected fleets, clean, efficient and autonomous vehicles. ST provided upgraded Q3

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
Class A Application Price	\$1.2260
Class A Net Asset Value	\$1.2229
Class A Redemption Price	\$1.2198
Class B Net Asset Value	\$1.2245
Class B Redemption Price	\$1.2214
Liquidity	Daily
No Stocks	20 - 40
Management Fee (Class A)	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.

guidance in September however reported numbers exceeded this guide by quite a margin with EBIT of \$154.8m well ahead of its \$132.0-\$142.0m guide. The business continues to grow much faster than its underlying auto and heavy vehicle end markets which are currently under extreme pressure as demand for its emission, electrification and safety related sensor technology continues to provide increased content per vehicle. Sensata currently generates about \$50 of content per electric vehicle which is close to 30% more than traditional internal combustion engines and therefore will benefit from electrification of the global auto fleet. On the back of this, progress in its electrification megatrend continues to advance with several business wins in smart grid infrastructure sensing.



STOCK IN FOCUS: Bureau Veritas (BVI FP, €9.0bn Market Cap)

BVI is a global leader in the €200bn testing, inspection and certification (TIC) market which is being driven by its client's needs to reduce risk and improve performance through BVI's expertise in quality, safety, health, environment and social responsibility. Its stated mission is to reduce risk, improve its clients' performance and help them innovate to meet society's challenges with confidence. As a business to business to society service company it establishes an unbiased, independent relationship of trust between consumers, governments and businesses.

The business generated about €5.1bn of revenue and over €600m of FCF last year with operations around the globe and in many diverse industries. It has dominant market share in ensuring safety at sea through ship and offshore platform classification services, ensuring the safety, reliability and integrity of industrial assets throughout their life cycle and providing assurance that property assets and infrastructure in service or under construction are safe, energy efficient and comply with applicable regulations. It also has #2 or #3 positions in certifying standards compliance of large companies, testing and certifying consumer products and improving transparency of the commodity supply chain.

In its last conference call Management highlighted 3 megatrends providing considerable opportunities and all driven by sustainability. With its global testing, inspection and certification capabilities it can fully support energy players transition to renewables, ensure quality, safety and traceability of products sourced through fragmenting supply chains and lastly as the leader in building and infrastructure, the European Green Deal will deliver revenue opportunities associated with green buildings, sustainable mobility and clean energy.



Source: BVI Q3 Trading Update Presentation

Like many companies, results in the first half of 2020 will be atypical and with approximately 17% of revenues from China, BVI felt the global pandemic early in the piece with group revenues down 11% in the half. BVI released its third quarter trading update near the end of October and provided an encouraging turnaround in organic revenue growth which was down 4.4% compared with market expectations for a decline greater than 8%. Additionally, it "upgraded" its base case scenario to a slow and gradual recovery from its previous base case of a muted recovery which subsequently resulted in market upgrades to earnings.

At the time of writing, BVI is trading at €20.98 which represents a nice uplift from when we entered the stock following its first half result which was weaker than expected causing the stock to decline double digits. The business is currently trading on about 10x forward EBITDA which is a 5-point discount to its listed comparables and 20-30% discount to its recent history.

We consider that BVI represents compelling value and is well placed in an environment of increasing supply chain complexity, heightened regulations and increasing business risk associated with safety and reliability of products and services.

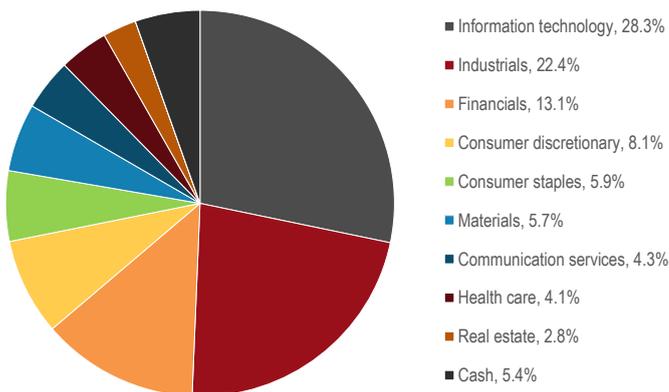
Kind Regards,
Bill Pridham

PORTFOLIO CHARACTERISTICS

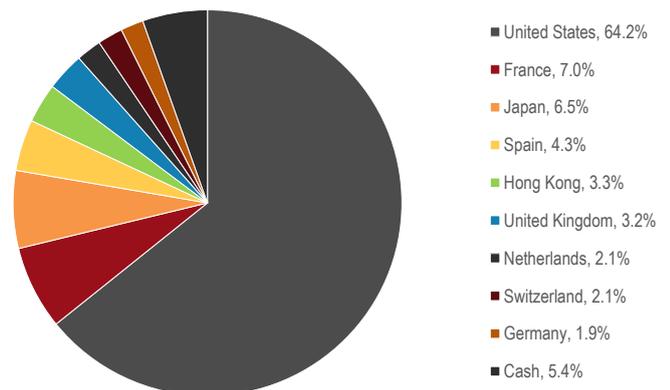
HOLDINGS

Top 10 holdings	Country	Sector	%
Assurant	United States	Financials	4.9%
Cellnex Telecom	Spain	Communication Services	4.3%
Keysight Technologies Inc	United States	Information Technology	4.2%
WillScot Mobile Mini	United States	Industrials	4.1%
Option Care Health	United States	Health Care	4.1%
Anritsu Corporation	Japan	Information Technology	3.8%
Sensata Technologies	United States	Industrials	3.7%
Bureau Veritas	France	Industrials	3.7%
Scotts Miracle-Gro	United States	Materials	3.5%
Tempur Sealy International	United States	Consumer Discretionary	3.4%

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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