

Ellerston Global Mid Small Cap Fund (Unhedged)

Performance Report | July 20

PERFORMANCE SUMMARY

| Performance | 1 Month | 3 Months | 6 Months | 1 Year | 3 Year | Since Inception (p.a.) |
|------------------|---------|----------|----------|--------|--------|------------------------|
| Net [^] | 1.30% | 7.82% | -4.09% | 10.79% | 13.11% | 12.66% |
| Benchmark* | 0.69% | 4.70% | -10.41% | -1.86% | 8.06% | 8.27% |
| Alpha | 0.61% | 3.12% | 6.32% | 12.65% | 5.05% | 4.39% |

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 1.3% net during the month of July outperforming the MSCI World Mid Cap Index (AUD) by 0.6% over the same period.

We are predominately through the second quarter reporting season which, according to Barclays, delivered the best earnings surprise relative to expectations since 2009. Dispersion around estimates, better than expected top line growth coupled with strong earnings leverage resulted in >20% EPS upside in aggregate compared to a typical 4-6% beat rate.

The portfolio's top three contributors **Willscot, Kion Group and Scotts Miracle-Gro** added 207bps to performance while **Health and Happiness, Churchill Capital and portfolio hedging** detracted 92bps. We had a very busy reporting month with 16 companies delivering results or trading updates in July.

Scotts Miracle-Gro results demonstrated how quality brands with dominant share in essential end markets are becoming more valuable and sought after by consumers. It has approximately 60% market share of the lawn and garden market in the US which is benefiting from "consumption at home" and delivering 15% revenue growth YTD. Based on its current run rate it expects its US consumer segment to increase revenues by 20-22% for the full year. It also owns Hawthorne which is one of the leading hydroponics businesses globally and benefiting from the continued legalisation of cannabis in North America. Hawthorne has grown sales by 59% YTD with full year guidance increased to 55-60% as recently approved markets like Michigan and Oklahoma drive penetration. Management raised EPS guidance by \$1.00 per share to \$6.75 and also declared a \$5.00 per share special dividend while also raising its regular quarterly dividend payment by 7%.

PTC is a global player in computer aided design (CAD) and product life management (PLM) software and the leading provider of software serving high growth industrial IoT and augmented reality markets. The business has transitioned from product licences to now 95% subscription which has insulated it well in the current downturn. In its result at the end of July PTC delivered 10% ARR growth and 20% revenue growth despite the impact of COVID-19. While near term bookings have been impacted by COVID-19, the pandemic has also provided long term tailwinds as industrial customers recognise the need to accelerate digital transformation with remote monitoring and optimization of products and factories. Management marginally increased revenue, EPS and cash flow guidance as operating conditions are coming in better than expected while expense growth remains muted.

Cellnex Telecom has been in the portfolio for over two years now and remains a top position in the Fund. It delivered another set of solid results in July driven by better than expected organic growth and the inclusion of recent acquisitions. Management updated guidance which was marginally ahead of the market however more importantly announced a €4bn rights issue to address a new opportunity pipeline of €11bn as incumbent telcos continue to outsource mobile tower assets to independent owners such as Cellnex. We have subscribed for our full allocation in the rights issue and look forward to further accretive M&A.

Amedisys is one of the largest home health and home hospice players in the US and was featured in our December 2019 update. We had been adding to our position during the COVID-19 sell down as highlighted in our March newsletter as fundamentals did not warrant the share price move. Management delivered a solid set of results and with volumes already back to pre COVID-19 levels as it wins market share and new referral sources (strong getting stronger), the

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 | \$1.1648 |
| Net Asset Value | \$1.1619 |
| Redemption Price | \$1.1590 |
| 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.

company provided full year guidance which was nicely ahead of expectations. While the outlook is solid and durable, the share price has had a solid run over the past few months and as such we have taken it down to a core sized position as the share price has re-rated to a fair value level.



STOCK IN FOCUS: Assurant (AIZ US, US\$7.8bn Mkt Cap)

Assurant is classified as a Property and Casualty Insurance company, but it is much more than that. Assurant protects, connects and supports major consumer purchases in partnership with industry leading brands. Major consumer purchases could include a house, a car, mobile phone and increasingly other connected devices.

Assurant partners with the leading consumer companies selling those products and has built leadership positions in every market that it participates in with >300m customers worldwide utilising its services and delivering a recurring revenue stream.

It reports results in three major segments:



Source: Assurant Q2 Presentation

Global Lifestyle is the largest of the three segments and is really driven by the mobile phone and automotive markets globally. As mobile phone customers continue to hold on to their phones longer, carriers such as T-Mobile or Verizon or looking for ways to improve sales and performance. Assurant partners with the large carriers and currently covers about 54m handsets. When you buy or trade in your mobile phone, Assurant will provide the handset protection as well as other services such as Apple Care, repair/logistics and financing. It currently handles most of T-Mobile's dealer business and with the recently announced merger with Sprint, we should see subscriber numbers increase materially over the next few years. Assurant covers about 48m cars globally with service warranties covering both new and used cars (about a 50/50 mix). If you take extended warranty on your new car, it is Assurant providing the coverage once the manufacturing warranty expires while a used car warranty starts earning right away. With car dealerships under increasing pressure for revenues, Assurant's products provide a great attachment option for them to sell and share in the profits.

In **Global Housing** it is the industry leader in lender placed insurance with close to 75% market share of loans tracked in the US. Lender placed insurance is a very countercyclical hedge as the business protects lenders and consumers by ensuring homeowner's insurance remains in place in the event of a severe housing downturn in the US. Additionally, it partners with 9 of the top 10 property management companies in the US in providing rental and sharing economy content insurance cover in its multifamily segment. Multifamily has a lot of upside as the channel is not very penetrated and with its new point of lease product which makes it easy for a property manager to attach its products when an apartment is rented.

Global Preneed is the smallest of the three divisions with Assurant partnering with the largest player in the market in offering pre-funded funeral expense solutions.

Assurant has a large investment portfolio of \$12.6bn predominately in fixed corporate securities. It has seen yields decline in this low interest rate environment and this is not expected to change in the foreseeable future. In the event that inflation and rates do start to pick up, it should be in a good position to benefit.

Assurant reported its second quarter results in the first week of August and delivered much better than expected EPS growth of 27% as its large installed customer base, significant client partnerships and embedded growth in Global Lifestyle offset lower investment income during the quarter. On the back of the strong result, Management reinstated and increased its full year guidance with earnings now expected to increase 12%-16% compared with its previous forecast of 10%-14%.

It expects to resume and complete its capital return policy with an objective of returning \$1.35bn to shareholders via buyback and dividends between 2019 and 2021.

At the time of writing Assurant is trading at just under \$125.00 which is a nice increase from its \$80.00 COVID-19 low in March. On the back of earnings upgrades and good momentum into next year we see the business trading on 10.9x PE despite the share price re-rating. As such we maintain it in our top 10 positions with hopefully good upside still left in the shares.

Kind Regards,

Bill Pridham and Arik Star

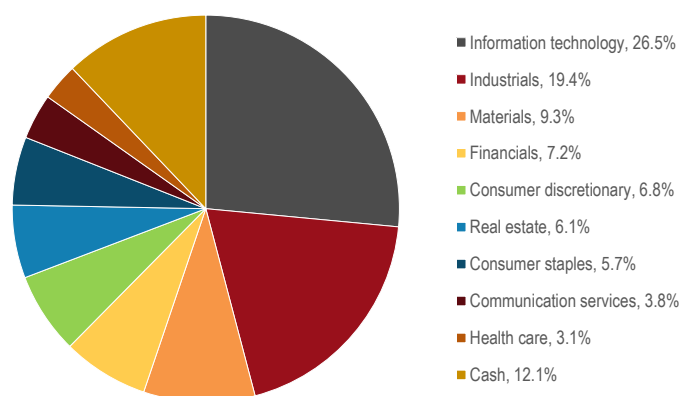
Ellerston Global Mid Small Cap Fund (Unhedged) Co-Portfolio Managers

PORTFOLIO CHARACTERISTICS

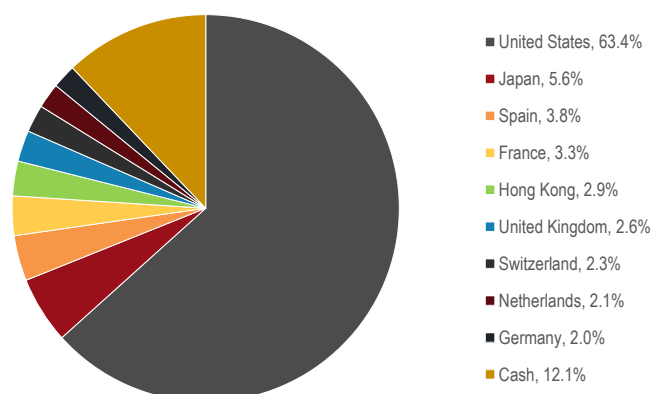
HOLDINGS

| Top 10 holdings | Country | Sector | % |
|-------------------------------------|---------------|------------------------|------|
| WillScot Mobile Mini Holdings Corp. | United States | Industrials | 4.7% |
| PTC | United States | Information Technology | 4.2% |
| Ciena Corporation | United States | Information Technology | 4.0% |
| Keysight Technologies Inc | United States | Information Technology | 3.9% |
| LiveRamp Holdings | United States | Information Technology | 3.7% |
| QTS Realty Trust | United States | Real Estate | 3.6% |
| Cellnex Telecom | Spain | Communication Services | 3.5% |
| Scotts Miracle-Gro | United States | Materials | 3.5% |
| Assurant | United States | Financials | 3.5% |
| Graphic Packaging | United States | Materials | 3.5% |

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/>

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