

Ellerston Global Mid Small Cap Fund

Performance Report | November 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year	Since Inception (p.a.)
Class A	6.23%	8.79%	11.89%	12.67%	12.30%	14.82%
Benchmark*	8.96%	11.31%	12.19%	3.47%	8.39%	11.07%
Alpha	-2.73%	-2.52%	-0.30%	9.20%	3.90%	3.75%

Performance	1 Month	3 Months	6 Months	1 Year	3 Year	Since Inception (p.a.)
Class B	5.98%	8.75%	-	-	-	7.21%
Benchmark*	8.96%	11.31%	-	-	-	9.61%
Alpha	-2.98%	-2.56%	-	-	-	-2.40%

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

We experienced one of the most pronounced asset rotations within equities during the month of November as the market pivoted from growth to value and stocks benefiting from re-opening. We got a Democratic victory in the US elections however not as large as expected and thereby resulting in a political gridlock which is market friendly. Additionally, Pfizer announced that its vaccine for COVID-19 had a >90% efficacy rate and the combination of favourable elections and hopes of a vaccine rollout set the markets alight.

While we participated from an absolute level, the sectors which rallied the hardest were ones that we would typically have little exposure to. In the MSCI Mid Cap Index the Energy complex was up c39%, Cruise lines up >40% while Defense stocks were up over 25%. Not an excuse, but an observation.

The Ellerston Global Mid Small Cap Fund (Class A) increased 6.2% net during the month with positive equity performance of 10.2% offset by the strong AUD which cut 4.2% from the end result. While pleasing from an absolute perspective, relatively we underperformed the MSIC World Mid Cap (AUD) Index by 2.7%.

The portfolio's top three contributors **Cerence, TKH Group and PTC added 270bps** to performance while **Multipan, Rentokil and Cellnex Telecom detracted 61bps**. We had a very busy month with 14 portfolio companies reporting quarterly results or trading updates.

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 teams of clinicians providing quality care generally at home or alternatively in one of its infusion suites located across the country. The business generated 13% organic growth this quarter with EBITDA increasing an even more impressive rate as the model continues to generate EBITDA growth 2-3x revenue growth. Management upgraded full year earnings expectations and end year cash expectations as the business is performing ahead of plan despite the impact of COVID-19.

Multipan was a disappointment as a new entry into the Fund. The thesis around it appeared solid as it increased transparency and efficiency associated with out of network claims in the US Healthcare system while taking out significant costs. We considered its moat quite high as it had a national footprint and high usage on its platform. Where the thesis came unstuck was the realisation that UnitedHealth was building its own out of network payment network and this could have serious longer term implications for the business. We have exited the stock as the risks are deemed too high.

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	\$1.3015
Class A Net Asset Value	\$1.2983
Class A Redemption Price	\$1.2951
Class B Net Asset Value	\$1.2977
Class B Redemption Price	\$1.2945
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.

Cerence has been a solid performer for the Fund over the past year and as the leader in AI voice in your car, it continues to benefit from the strong connected car theme. Global auto production was down 19% during its financial year (September yr end) and despite this, it grew top line revenue close to 9% with EBITDA up over 21%. In a year devastating to the global auto market it actually beat pre COVID-19 guidance which is a testament to its model. Management also instituted FY21 revenue growth expectations of 12% midpoint with EPS expected up high teens despite continued weakness in the global automotive market and this was nicely ahead of expectations.



STOCK IN FOCUS: Flex (FLEX US, \$8.5bn Market Cap)

Flex is a global leader in providing outsourced manufacturing capacity while also owning the global #1 player in the highly attractive solar tracking business. Customers rely on Flex's expertise in design, manufacturing and supply chain services for a broad range of products, from medical devices, connected automotive systems and smart home appliances to cloud and data center infrastructures.

Two of Flex's new mission statements are to "make great products that contribute positively to the world" and "steward sustainable manufacturing and operations practices to minimize environmental impact." In the last year, it continued progress in creating circular economies, starting with products such as servers, computers, printers and other mobile devices that often end up in landfills. It is creating processes to help its customers design products and source materials that minimize the environmental impact, repair and refurbish, and then maximize value recovery through end-of-life parts harvest and recycling.

Many of the products it makes are essential, the importance of which was highlighted during the global pandemic. It initiated and ramped multiple ventilator programs, scaled up production of new, and highly accurate virus and antibody testing equipment, and rapidly increased production of other critical care products such as ventilators, personal protective equipment, oxygen concentrators, infusion pumps, and ICU beds to meet the growing demand.

Flex is seeing continued increases in product complexity, as many traditional industries look to incorporate more features utilizing leading-edge technologies, including expanded capabilities around connectivity, data collection and compute. Another secular driver is the increasing number of companies and governments looking for more adaptive supply chains, manufacturing capabilities and partners, as the crisis reveals many weaknesses to the supply chain status quo.

Flex Agility Solutions Segment

Revenue up low to high single digits Q/Q

 <p>Lifestyle</p> <ul style="list-style-type: none"> Steady demand in multiple premium product categories 	 <p>Communications, Enterprise & Cloud</p> <ul style="list-style-type: none"> Sustained strength in 5G and critical infrastructure products Enterprise IT spending soft consistent with macro fundamentals 	 <p>Consumer Devices</p> <ul style="list-style-type: none"> Meaningful recovery in emerging markets on increased demand for mobile devices
---	--	---

Flex Reliability Solutions Segment

Revenue up low to mid single digits Q/Q

 <p>Automotive</p> <ul style="list-style-type: none"> All major geographies recovering Expecting overall global production will be down high teens for the year 	 <p>Health Solutions</p> <ul style="list-style-type: none"> Certain COVID-related products beginning to flatten/ramp down Elective procedure demand yet to recover 	 <p>Industrial</p> <ul style="list-style-type: none"> Strong renewable energy demand Core industrial capex beginning to return
---	---	--

Source: FLEX Q3 Result Presentation

The untapped value within the business evolves around its ownership in Nextracker which is the largest player in the global solar tracking market with about 30% market share. Flex also owns TruCapture which is a software platform focused on smart monitoring of large solar fields. Solar tracking penetration outside the US (where Nextracker has larger share) is relatively low and thus provides strong revenue and earnings growth prospects going forward.

In a recent conference call Management indicated that Nextracker was generating revenues in excess of \$1bn while generating double digit operating margins. IHS Market anticipates the global solar tracking market to grow at 17% CAGR between 2020-24, driven by installations of new ground-mounted solar generation as well as increasing penetration of tracker use in projects vs. fixed mounts.

We have recently seen two new solar tracking companies come to market, US listed Array Technologies and Spanish listed Soltec. These companies are currently trading on 27x and 20x forward EBITDA respectively and if we apply a conservative (especially given it is the largest player) 20.0x multiple to Flex's Nextracker business, we are paying just over 3x EBITDA for the remaining assets.

At the time of writing, Flex is trading at \$16.25 which represents a nice uplift from when we first bought the stock in late October however we still see considerable upside in the name. Flex is currently trading on a forward PE of 11x, EV/EBITDA of 5.6x, >10% FCF yield with a prospective net cash balance sheet. Management has been active in the past in maximising shareholder value and we would anticipate this embedded value to be realised in the not too distant future.

Kind Regards,

Bill Pridham

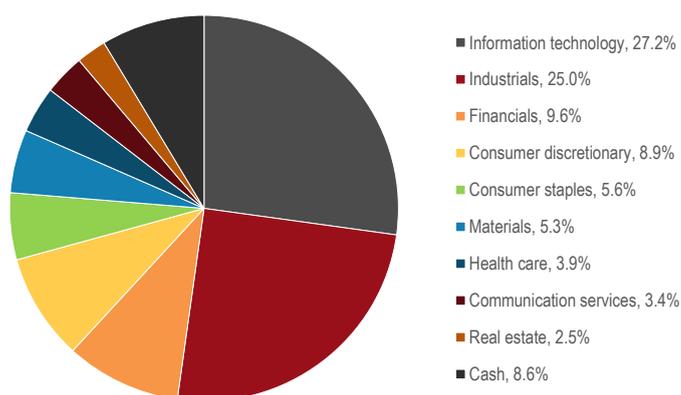
Ellerston Global Mid Small Cap Fund Portfolio Manager

PORTFOLIO CHARACTERISTICS

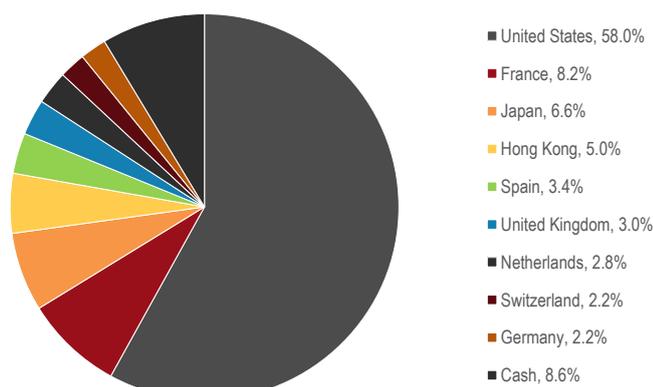
HOLDINGS

Top 10 holdings	Country	Sector	%
Bureau Veritas	France	Industrials	4.3%
Flex Ltd	United States	Information Technology	4.1%
SEB	France	Consumer Discretionary	4.0%
Option Care Health	United States	Health Care	3.9%
Sensata Technologies	United States	Industrials	3.8%
Assurant	United States	Financials	3.7%
Anritsu Corporation	Japan	Information Technology	3.7%
PTC	United States	Information Technology	3.6%
Tempur Sealy International	United States	Consumer Discretionary	3.5%
Cellnex Telecom	Spain	Communication Services	3.4%

SECTOR ALLOCATION



GEOGRAPHIC ALLOCATION



Source: Ellerston Capital

SYDNEY OFFICE

Level 11, 179 Elizabeth Street,
Sydney NSW 2000

MELBOURNE OFFICE

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

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/**

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 Class A and Ellerston Global Mid Small Cap Fund Class B 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 Product Disclosure Statement 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.