

Ellerston Global Mid Small Cap Fund

Performance Report | September 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year	Since Inception (p.a.)
Net [^]	-0.59%	3.45%	16.05%	9.62%	11.84%	12.69%
Benchmark*	1.15%	3.39%	12.66%	-1.15%	7.59%	8.67%
Alpha	-1.74%	0.06%	3.39%	10.77%	4.25%	4.02%

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

Global equity markets were generally weak during the month of September with the S&P 500 and Nasdaq down 3.8% and 5.1% respectively while in Europe the French and German markets were also lower by 2.8% and 1.4%. The Ellerston Global Mid Small Cap Fund declined 59bps (Class A) net during the month as unhedged currencies cushioned the weaker market for equities.

Although broader markets were subdued in September, the MSCI World Mid Cap Index performed quite solidly increasing 1.15%, thereby outperforming the Fund this month.

The pressure on equities in September stemmed from a few factors including a delay in the next fiscal package, continued US election uncertainty as well as increasing cases of Covid-19, particularly in the UK and Europe. The market is now pencilling in a delay to another US support package until after the elections and while recent communications seem to point to some deal being achieved it is unlikely to be effective before the election.

The portfolio's top three contributors **Option Care Health, Anritsu and Sensata added 90bps** to performance while **Ciena, Multiplan and Scotts Miracle Gro detracted 164bps**. We had a relatively quiet reporting month with one result being announced while four companies provided updated guidance ahead of some industry conferences.

Ciena's business model is based on increasing demand for data at higher speeds and while both of which are being augmented by increasing work from home (WFH) dynamics, Covid-19 has placed considerable pressure on medium to small enterprise demand. As a result, service providers such as Verizon and AT&T have delayed some network rollouts and while they are running their networks "hot" for a period of time at some point they will need to continue investing as data growth maintains its 25-30% annual pace. Ciena indicated that the spending delay could last a few quarters and understandably disappointed the market which sold the stock of significantly. We maintain our position and long term positive fundamental view on the business as capacity investment will be delayed, not foregone, and Ciena remains well positioned as the global leader in the space at a very attractive valuation.

Reynolds provided Q3 performance ahead of the Barclays Global Consumer and Staples Conference and highlighted revenue up high single digits while expanding margins should see EBITDA up low double digit – both slightly ahead of expectations. The company maintained that the full year should come in at the upper end of its guidance range.

Sensata raised its Q3 guidance ahead of the Citigroup Technology Conference as stronger North American and European auto markets should see revenue and EPS ahead of midpoint estimates by 9% and 26% respectively. Interestingly it seems as though the global auto market is bouncing back a little stronger than expected.

Before presenting at the Raymond James North American Equities Conference, **Scotts Miracle Gro** increased sales growth to >30% from its previous 26-28% guide while EPS is now expected at \$7.25 per share which is a little over 7% ahead of previous expectations. US Consumer and its Hawthorne hydroponics business continue to generate solid results.

Tempur Sealy was not presenting at a conference however based on stronger than expected order trends in the third quarter it now expects revenues up more than 30% on last year. Management indicated that the growth was broad-based across geographies and channels with the higher margin Tempur-Pedic line providing outsized growth relative to the other brands.

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	\$1.1901
Class A Net Asset Value	\$1.1871
Class A Redemption Price	\$1.1841
Liquidity	Daily
No Stocks	20 - 40
Management Fee	0.75%
Performance Fee	10%*
Buy/Sell Spread	0.25%/0.25%

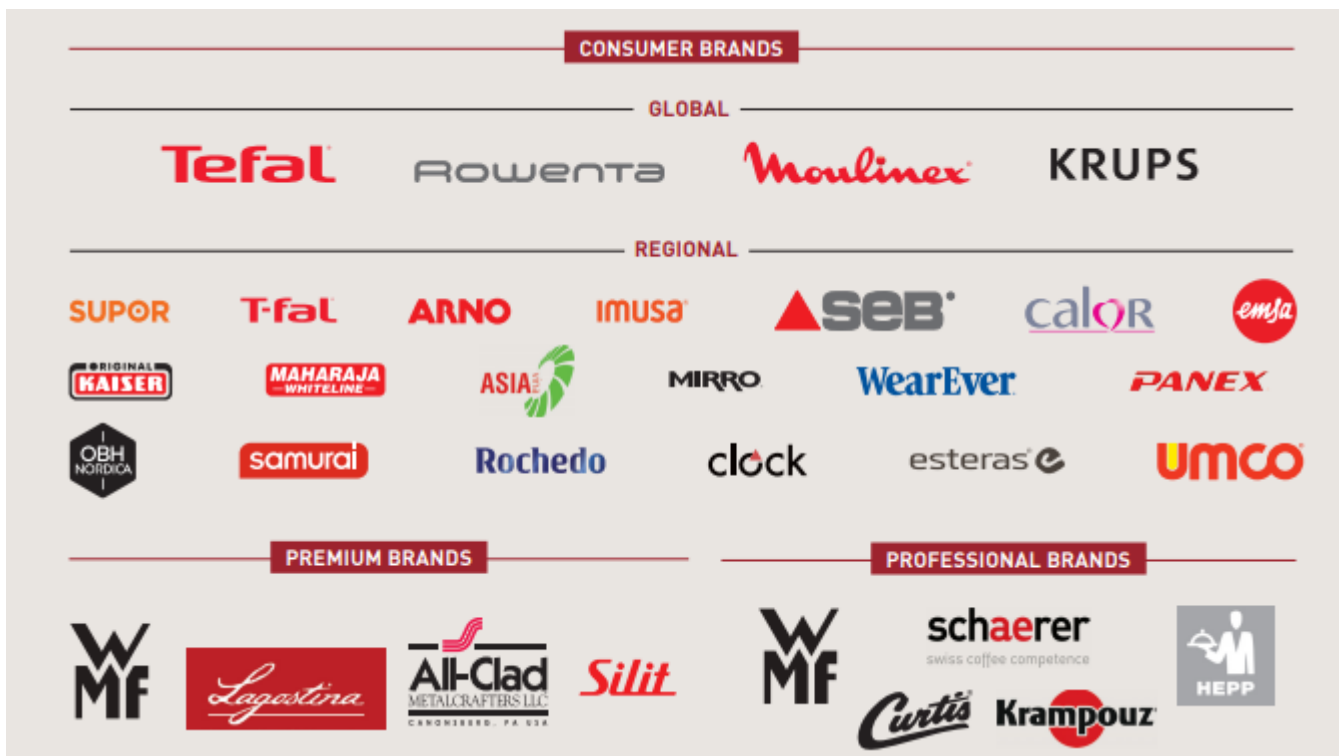


STOCK IN FOCUS: Groupe SEB (SK FP, €7.5bn Market Cap)

Groupe SEB is the global leader in small domestic equipment which covers both cookware and small electric appliances, a steadily growing global market, estimated at around €80bn in 2019 - c€47bn for small electrical appliances, €24bn for Cookware and €9bn for the professional Coffee market. Its mission is making consumers' everyday lives easier and more enjoyable and contributing to better living all around the world. The Small Domestic Equipment sector has demonstrated its resilience during periods of crisis and solid growth within a neutral or positive economic environment. We consider that in a Covid-19 world, home consumption has increased to a new level with the long-term trends of "homemade over processed", "Health and Wellness" being accelerated.

The business operates in >150 countries with leadership positions in Western Europe, Central Europe, Russia, Turkey, China, Japan, Colombia, Mexico, etc. This "multi-local" presence thus allows the Group to seize opportunities for profitable growth in the countries in which it has a presence, and to diversify its exposure to different economies. In 2019, the Group did 55% of sales in mature markets and 45% in emerging markets with a very balanced Consumer business and greater exposure to mature markets in the B2B segment in which it is the leader in commercial coffee equipment.

Groupe SEB's expansion is based on a strategy of steady organic growth, driven by a strong product innovation policy, a global presence, an unrivalled brand portfolio within the industry and a capacity to work with all distribution channels. It owns >30 brands which is the largest in its industry with both regional champions such as Arno in Brazil or Supor in China (in which it owns 82% of the listed Chinese entity) combined with global powerhouse brands such as Tefal and Moulinex.



Source: SEB Half Year Report

Like many companies, results in the first half of 2020 will be atypical and with approximately 25% of revenues from China, SEB felt the global pandemic early in the piece with Chinese revenues down >15% in the first half. That said, the exit rate out of the second quarter reflected double digit comps in China so we would expect a significantly stronger second half and very easy compares for a couple of quarters. Additionally, as the global leader in professional Coffee equipment, the group should now benefit from the re-opening of hotels, restaurants and cafes after a nuclear winter in the first half which saw sales down 28% and profits basically eradicated.

At the time of writing, Groupe SEB is trading at €149.0 which represents forward PE and EBITDA multiples of 17.8x and 9.1x respectively based on conservative assumptions. When looking at listed counterparts such as De'Longi, Joyoung and locally listed Breville Group, we find that Groupe SEB trades on >30% PE discount and c50% EBITDA discount which seems very excessive given its global presence underpinned by strong local and international brand names in its portfolio.

Kind Regards,

Bill Pridham

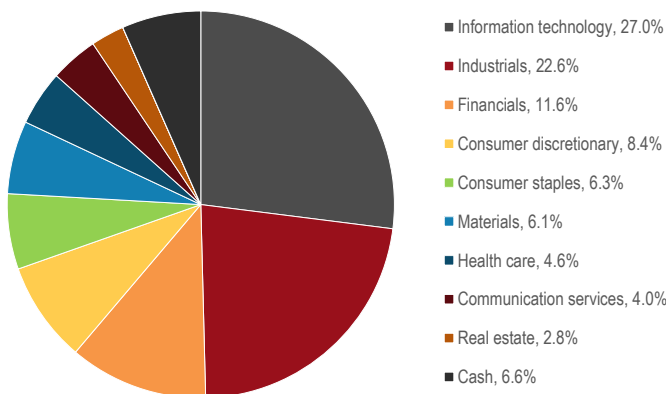
Ellerston Global Mid Small Cap Fund Portfolio Manager

PORTFOLIO CHARACTERISTICS

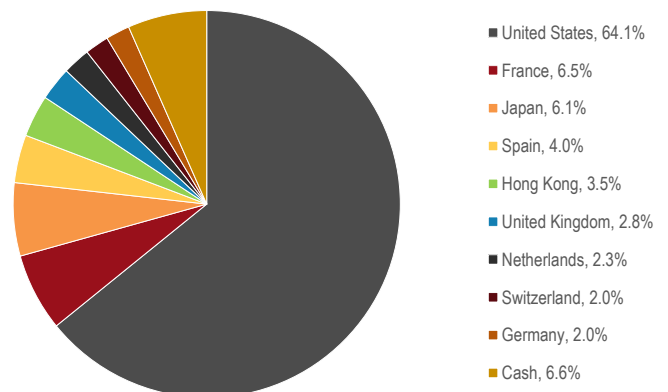
HOLDINGS

Top 10 holdings	Country	Sector	%
Assurant	United States	Financials	4.7%
Option Care Health	United States	Health Care	4.6%
Keysight Technologies Inc	United States	Information Technology	4.6%
WillScot Mobile Mini	United States	Industrials	4.0%
Cellnex Telecom	Spain	Communication Services	4.0%
Scotts Miracle-Gro	United States	Materials	4.0%
PTC	United States	Information Technology	3.9%
Anritsu Corporation	Japan	Information Technology	3.9%
Sensata Technologies	United States	Industrials	3.9%
LiveRamp	United States	Information Technology	3.7%

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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