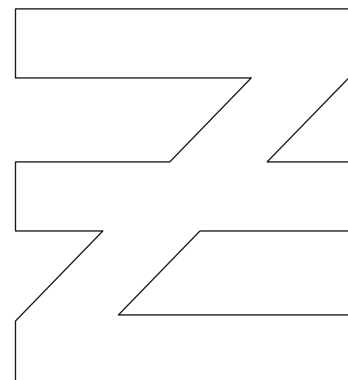


# Ellerston Global Mid Small Cap Fund



Monthly Newsletter, April 2021

## Investment Objective

To outperform the MSCI World Mid Cap NR (AUD) Index 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 Funds investment strategy is to construct a concentrated portfolio of global mid small cap 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	\$1.4659
Class A Net Asset Value	\$1.4622
Class A Redemption Price	\$1.4585
Class B Net Asset Value	\$1.3759
Class B Redemption Price	\$1.3725
Liquidity	Daily
No Stocks	20 - 40
Management Fee (Class A)	0.75%
Performance Fee	10%**
Buy/Sell Spread	0.25% on application 0.25% on redemption

\*\*10% of the investment return over the benchmark return (MSCI World Mid Cap Index NR (AUD)), after recovering any underperformance in past periods.

## Performance Summary

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception^^ (p.a.)
Class A^	1.11%	6.66%	23.07%	39.59%	17.78%	17.32%
Benchmark*	3.07%	10.14%	20.51%	30.85%	11.22%	12.60%
Alpha	-1.96%	-3.48%	2.56%	8.74%	6.56%	4.72%

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception*** (p.a.)
Class B^	1.02%	6.67%	23.75%	-	-	25.19%
Benchmark*	3.07%	10.14%	20.51%	-	-	21.23%
Alpha	-2.05%	-3.48%	3.24%	-	-	3.96%

^ The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance  
 \* MSCI World Mid Cap Index NR (AUD)  
 \*\*\*Class B Inception Date is 18 August 2020

## ESG in Focus

In early March, the UN Environment Programme released its 2021 Food Waste Index Report and while I think we all know that there is substantial leakage in our food supply chain, the enormity will likely come as a surprise. To put it in context, the report highlights that if food loss and wastage were a country, it would be the third largest source of greenhouse gas emissions globally and is "a major contributor to the three planetary crises of climate change, nature and biodiversity loss, and pollution and waste".

The UN report estimates that food waste from households, retail establishments and the food service industry totals 931 million tonnes each year. Nearly 570 million tonnes of this waste occurs at the household level and the global food wastage per capita is around 74kg – that's a lot of meat and veg going into the bin!

Sustainable Development Goal 12.3 (SDG 12.3) captures a commitment to halve food waste at the retail and consumer level and to reduce food loss across supply chains. This is incredibly important when you consider approximately 17% of all global food production is wasted each year.

## Portfolio Commentary

The Ellerston Global Mid Small Cap Fund increased 1.11% net during the month with positive equity performance of 1.66% impacted by a stronger Aussie dollar. The MSCI World Mid Cap (AUD) Index increased by 3.07% over the same period.

The portfolio's top three contributors Assurant, AZEK and Option Care Health added 99bps to performance while Flex Group, Bed Bath and Beyond and hedging detracted 63bps. The Fund had 17 portfolio companies reporting quarterly results or trading updates in April and while in aggregate we noted substantial earnings beats and upgraded guidance, the subsequent share price performance was generally muted on the day of release.

Our regional banks in the US, Comerica, BankUnited and Webster Group kicked off reporting season with significant earnings beats driven by loan loss reserve releases as the US economy rebounded convincingly. Cumulatively, our banks provisioned >\$850m in the first quarter of last year representing over 9% of September 2020 market value when we bought them. We are now seeing this reverse with book values and potential capital returns increasing.

Groupe SEB is one of the largest small domestic appliance and cookware companies globally owning international brands such as Tefal and Moulinex. In its Q121 trading update it highlighted 39% organic growth in its consumer business with total EBIT increasing to €198m compared with a pandemic impacted €18m in the same period last year. On the back of continued solid demand, Management now expects 10% revenue growth this year which compared well with market expectations closer to 6.0%. Despite a nice bounce since reporting, the business still only trades on forward PE and EBITDA multiples of 15.0 and 8.1x respectively.

Bureau Veritas is one of the larger testing, inspection and certification businesses globally and while it is still being impacted by pandemic limitations, the business grew >6% organically this quarter which was well ahead of market expectations at just over 1%. Bureau Veritas Assurance of CSR and Sustainability reporting services grew by more than 20%, driven by a strong demand for greenhouse gas emission verification and Wood Management Systems certification. Sustainability is at the heart of Bureau Veritas and is a key underlying driver to the group's future goals.

## STOCK IN FOCUS: Corbion (CRBN NA, €2.9b Market Cap)



Corbion is an ingredients solution business listed in Amsterdam with over 90 years experience in the fermentation industry primarily focused on the production and end use cases of lactic acid. It has over 40% market share in lactic acid production globally and as the lowest cost producer it is the only player with plants spread across all continents. Lactic acid is an incredibly versatile product used in natural food preservation, salt reduction, medical/pharma applications as well as a replacement for fossil fuel based plastics. Lactic acid is derived from the fermentation of renewable feedstock and in the case of Corbion, this is predominately sustainably sourced sugar cane.

The business is organised into three main segments:

<b>SUSTAINABLE FOOD SOLUTIONS</b>	<ul style="list-style-type: none"><li>• Preservation</li><li>• Functional systems</li><li>• Single ingredients</li></ul>
<b>LACTIC ACID &amp; SPECIALTIES</b>	<ul style="list-style-type: none"><li>• Lactic acid</li><li>• Lactic acid derivatives</li><li>• Biopolymers</li></ul>
<b>INCUBATOR</b>	<ul style="list-style-type: none"><li>• Omega – 3 (DHA)</li><li>• Algae protein</li><li>• Co-polymer platform</li></ul>
<b>TOTAL CORBION PLA JOINT VENTURE (50/50)</b>	<ul style="list-style-type: none"><li>• Poly Lactic Acid (PLA)</li></ul>

Source: Corbion 2020 Capital Markets Day

Sustainable Food Solutions is primarily targeted at natural preservation of the food supply chain while also providing consumers label transparency and traceability. With better preservation techniques delivered by natural ingredients based on lactic acid, food shelf life extension can really impact the problem of global food waste. People want to understand what they eat therefore traceability is also incredibly important. There is a big move from fossil-based synthetic preservatives in our food to natural alternatives such as fermentation-based products like lactic acid. As a result, the natural portion or the fermentation-based portion is growing at twice the market rate of the overall preservation market.

Lactic Acid and Specialties basically feeds the rest of the group as it houses the lactic acid production assets however it also contains a couple of other interesting growth arms. The main growth angle here is its joint venture with oil giant Total in PLA. The JV is the #2 player globally in the production of PLA, an alternative to fossil fuel based plastics, however it is targeting the #1 position with the construction of a new 100k tonne plant in France. It also has a strong biopolymer play here with 50% global share in resorbable polymers such as biodegradable sutures and screws used in hospitals.

A new market segment opening up for Corbion is in the green solvent market, again underpinned by the natural properties of lactic acid as customers look for more sustainable alternatives in antimicrobial and hygiene applications.

Based on strong core demand from food preservation, increasing demand from its PLA JV and nascent opportunities in other categories such as sustainable hygiene, Corbion is expanding on its existing market leading lactic acid footprint with a 125k tonne facility to be built over the next few years.

The Incubator includes a few initiatives which will graduate into one of the other divisions or standalone if size warrants. The main near term opportunity is around DHA omega-3 from algae, this solution is already in the market.

In its trading update released on the last day of April, Management indicated that it is benefiting from strong demand in Sustainable Food Solutions which delivered >12% organic growth. Lactic acid demand is expected to ramp through the year and will no doubt be driven by its PLA JV (which utilises internal lactic acid capacity) which grew revenues and EBITDA by 20% and 69% respectively. On the back of the strong start to the year, Management upgraded its organic growth expectations which are now expected to come in between 7-10% compared with its earlier forecast of close to 7%.

We see Corbion as a strong global player in natural food preservation, fossil-fuel based plastic replacement along with nascent optionality as it leverages its market leading capabilities into other verticals over the long term.

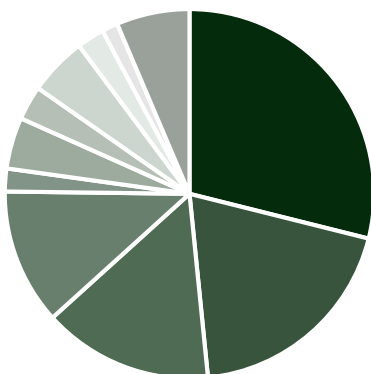
## Portfolio Characteristics

### Holdings

Top 10 Holdings	Country	Sector	%
PTC Inc.	United States	Information Technology	5.1%
Cellnex Telecom S.A.	Spain	Communication Services	5.1%
Sensata Technologies Holding PLC	United States	Industrials	5.0%
Flex Ltd.	United States	Information Technology	4.6%
Option Care Health Inc	United States	Health Care	4.5%
Bureau Veritas SA	France	Industrials	4.3%
SEB SA	France	Consumer Discretionary	3.9%
Tempur Sealy International Inc	United States	Consumer Discretionary	3.8%
Techtronic Industries Co., Ltd.	Hong Kong	Industrials	3.6%
XPO Logistics, Inc.	United States	Industrials	3.3%

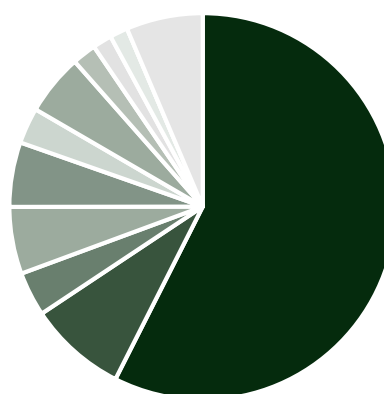
Source: Ellerston Capital.

### Sector Allocation



- Industrials, 28.9%
- Information technology, 19.5%
- Consumer discretionary, 14.9%
- Financials, 11.9%
- Consumer staples, 2.0%
- Health care, 4.5%
- Materials, 3.0%
- Communication services, 5.1%
- Real estate, 2.4%
- Other, 1.4%
- Cash, 6.4%

### Geographic Allocation



- United States, 57.4%
- France, 8.2%
- Japan, 3.7%
- Hong Kong, 5.6%
- United Kingdom, 5.4%
- Netherlands, 3.0%
- Spain, 5.1%
- Germany, 2.0%
- Sweden, 1.6%
- Switzerland, 1.5%
- Cash, 6.4%

Source: Ellerston Capital.

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## Find out more

Should investors have any questions or queries regarding the Fund, please contact our Investor Relations team on **02 9021 7701** or **[info@ellerstoncapital.com](mailto:info@ellerstoncapital.com)** or visit us at **[ellerstoncapital.com](http://ellerstoncapital.com)**

All holding enquiries should be directed to our register, Mainstream Fund Services on **02 8259 8550** or **[InvestorServices@MainstreamGroup.com](mailto:InvestorServices@MainstreamGroup.com)**

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