

Ellerston Global Mid Small Cap Fund

Monthly Newsletter, August 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 | \$1.6535 |
| Class A Net Asset Value | \$1.6494 |
| Class A Redemption Price | \$1.6453 |
| Class B Net Asset Value | \$1.4166 |
| Class B Redemption Price | \$1.4131 |
| 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 [^] | 6.19% | 11.10% | 19.03% | 42.99% | 19.60% | 19.23% |
| Benchmark [*] | 3.12% | 10.16% | 19.58% | 37.38% | 12.55% | 14.37% |
| Alpha | 3.07% | 0.94% | -0.55% | 5.61% | 7.05% | 4.86% |

| Performance | 1 Month | 3 Months | 6 Months | 1 Year | 3 Years (p.a.) | Since Inception ^{***} (p.a.) |
|------------------------|---------|----------|----------|--------|----------------|---------------------------------------|
| Class B [^] | 6.26% | 11.35% | 19.42% | 44.60 | - | 38.72% |
| Benchmark [*] | 3.12% | 10.16% | 19.58% | 37.38 | - | 32.17% |
| Alpha | 3.14% | 1.19% | -0.16% | 7.22 | - | 6.55% |

[^] 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

Portfolio Commentary

Similar to the popular Ben Graham quote "in the short run, the market is a voting machine but in the longer run, it is a weighing machine", weather can vary day to day, week to week, while over the long term the averages of these observations give us a good picture of what is going on in our climate. We believe there is strong evidence that it is clearly changing and impacting our ecosystems.

There are two ice sheets on Earth today that cover most of Greenland and Antarctica which together, contain more than 99% of the freshwater ice on Earth and [cover roughly the same area as the United States and Mexico combined](#). We recently came across a headline none of us wanted to see – "[Rain Fell On The Peak Of Greenland's Ice Sheet For The First Time In Recorded History](#)" which is a prime example of what is going on in our climate, and that is one of increasing global temperatures.

Researchers have [observed](#) that increases in greenhouse gas (GHG) concentrations were unequivocally caused by human activities and that each of the last four decades has been successively warmer than any decade that preceded it since the 1850's. The research also concluded that it was very likely that human influence has contributed to the observed surface melting of the Greenland Ice Sheet over the past two decades (although less so for the Antarctic ice sheet) as human induced warming added about 1°C to pre-industrial global temperature levels by 2017.

Portfolio Commentary

The Ellerston Global Mid Small Cap Fund increased 6.19% net during the month comparing well to the MSCI World Mid Cap Index (AUD) which expanded 3.12% over the same period. The market narrative continues to be concentrated on the Delta variant impact on growth, inflationary and supply chain impacts and, as always, the Fed.

The portfolio's top three contributors for the month **Option Care Health, GXO Logistics and Chart Industries added 236bps** to performance while **Bed, Bath & Beyond, SEB and PTC detracted 32bps**. The Fund had 11 portfolio companies reporting quarterly results during the month which pretty much rounded out our reporting season. We ran through many of them last month however here are a couple more recent releases:

TKH Group is a leader in 3D machine vision technology, next generation tyre manufacturing systems and subsea high voltage cables for renewable energy (especially offshore wind farms). The business generated 5.8% organic revenue and >22% earnings growth which was well ahead of expectations. On the back of its strong order book (+50% yoy), Management indicated full year normalised NPAT should come in between €106-€112m or over 35% above market consensus at the time. The stock has performed strongly post result however we still see good upside ahead.

Azek basically operates in a duopoly with Trex in the US composite decking market with close to 75% combined share. Revenue of \$327m was up 46% yoy and well ahead of the \$295m expected by the street. Adjusted EBITDA was also well ahead of expectations and guidance. Management raised full year guidance (this was its Q3 result) and now expects revenues to expand 28-30% with similar EBITDA growth. It is significantly expanding capacity to service strong end markets and will also benefit next year from the full year impact of recent pricing actions as it expects to exit this year with mid-teens pricing growth.

STOCK IN FOCUS: Chart Industries (GTLS US, \$7.0bn Market Cap



Chart Industries (Chart) is a global leader and independent global manufacturer of highly engineered equipment servicing multiple applications in the Clean Energy and Industrial Gas markets. Chart is a leading provider of technology, equipment and services related to liquefied natural gas, hydrogen, biogas and carbon capture applications. Its equipment is also used in the food and beverage, medical and life sciences and water treatment industries, among other sectors. Its portfolio of products and services are used in every phase of the liquid gas supply chain including industrial engineering, in field service/repair and more recently an expanded leasing business.

The business is structured into 4 main product categories and is exposed to every energy transition fuel (with the exception of wind and solar) thereby rendering the business agnostic to the successful application or fuel molecule (hydrogen, biogas, ammonia etc) that will be paramount in addressing the urgent need to reduce global greenhouse gas (GHG) emissions. Its Specialty division will drive the lion's share of growth over the coming decade with growth coming from strong end markets as well as M&A.

Chart recently purchased AdEdge which is a leader in water treatment processes and products that support clean power (electrolysis), clean water (drinking), clean food (ozonated water to wash produce) and clean industrials (ultra pure water for semiconductors). On the back of the purchase, Management updated its potential 2030 revenue opportunity highlighting a dramatic increase in its water TAM to \$5bn taking total TAM to just over \$39bn.

Specialty Near-Term & 2030 Addressable Markets

| # | Specialty Area | Near-Term TAM (\$M) | 2030 TAM (\$M) | Source of GTLS TAM in 2030 |
|----|------------------------|---------------------|-----------------|--|
| 1 | Hydrogen & Helium | \$2,950 | \$24,000 | • Per new Hydrogen Council report on increasing investment rate and our current market share applied |
| 2 | Carbon Capture | 850 | 5,600 | • Assumes 30 small commercial 200tpd systems, 30 large industrial systems 2000tpd, 10 large utility systems, small-scale CIC® and utilization/DAC |
| 3 | Over-the-Road Trucking | 750 | 2,000 | • Based on HLNG adoption for OTR trucking at 10% in India and Europe, 1% Japan and 0.1% in U.S. + associated fueling stations • This TAM equates to 46,100 LNG trucks |
| 4 | Water | 1,000 | 5,000 | • Penetration in and growth in odor control (10%), disinfection (12%), pH adjustment (25%) and aeration (15%), PFAS/PFOS (++) |
| 5 | Food & Beverage | 500 | 1,000 | • European adoption, replacement systems due to age, increased conversion to microbulk CO2 + market growth = 11% CAGR |
| 6 | Cannabis | 250 | 550 | • Federal legalization & FDA approvals for CBD in F&B • Assumes a 15.8% CAGR in this period in greenhouses, extraction and packaging |
| 7 | Space | 200 | 400 | • Increased space exploration (both government and private sector) • Ease of access to broader population for space exploration |
| 8 | Lasers | 200 | 400 | • Increased industrial applications globally |
| 9 | Molecules By Rail | 200 | 250 | • Limited expansion of the molecules by rail market with the exception of hydrogen expectations which would be included in the H2/He |
| 10 | CHART TOTAL | \$6,900 | \$39,200 | |

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As you can see, hydrogen features as the bulk of the optionality within its Specialty division and we have seen numerous hydrogen project announcements globally over the past several months. The [Hydrogen Council report](#) which was released several months ago highlighted that over 30 countries have released hydrogen roadmaps with >200 hydrogen projects announced worldwide. Approximately 85% of global projects are originating in Europe, Asia, and Australia, with activity in the Americas, the Middle East and North Africa accelerating as well. It was expected that if all projects came to fruition, spending would exceed \$300bn through 2030 – **this has already been increased to >\$500bn**. The global shift to decarbonise our energy ecosystem which is manifested in the Paris Agreement (which the US has re-entered) has strong government financial and regulatory support and therefore one of the strongest secular tailwinds we have seen for some time.

We have recently seen Reliance Industries (RIL) announce that it will "aggressively pursue" its target of bringing down the cost of green hydrogen following on from its Green Energy Giga Complex update in its June AGM where it outlined plans for its green hydrogen electrolyser factory. Air Products (listed in the US and large customer of Chart) announced in June a multi-billion dollar plan to build a landmark new net-zero hydrogen energy complex in Edmonton, Alberta and set the stage for Air Products to operate the most competitive and lowest-carbon-

intensity hydrogen network in the world. Closer to home, Dalrymple Bay Infrastructure (DBI AU) announced in August that it was studying the potential for a green hydrogen production, storage and export facility at Hay Point in Queensland. **There are many many more we could highlight but the key takeaway here is that the hydrogen thematic is global, early stage and Chart is the dominate player in the space.**

Chart is a relatively new entrant into the Fund as we initiated our position in mid-June and added to the position after its second quarter results in late July taking it into a top 10 position in the portfolio. Since then, the stock has done materially better in the near term than we imagined and given our strict risk management processes centered around risk/reward vis a vis our estimate of intrinsic value, we have trimmed the positioned materially. That said, given the incredibly strong secular clean energy thematic driving the business, we believe the stock will be part of the Fund at various weightings, potentially over the next decade.

Kind Regards,

Bill Pridham

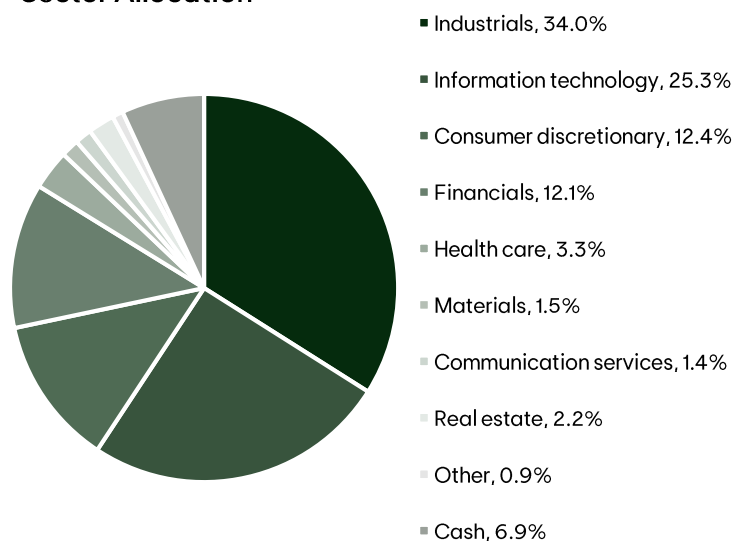
Portfolio Characteristics

Holdings

| Top 10 holdings | Country | Sector | % |
|----------------------|----------------|------------------------|-------|
| Sensata Technologies | United States | Industrials | 5.43% |
| Flex Ltd. | United States | Information Technology | 4.63% |
| Tempur Sealy | United States | Consumer Discretionary | 4.34% |
| XPO Logistics | United States | Industrials | 4.22% |
| WillScot Mobile Mini | United States | Industrials | 4.14% |
| Webster Financial | United States | Financials | 4.08% |
| Bureau Veritas | France | Industrials | 3.88% |
| Advantest | Japan | Information Technology | 3.87% |
| Travis Perkins | United Kingdom | Industrials | 3.77% |
| PTC | United States | Information Technology | 3.76% |

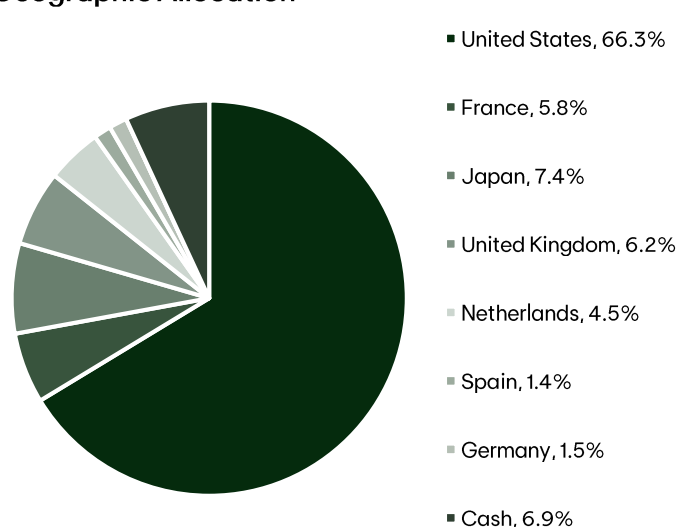
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Sector Allocation



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Geographic Allocation



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Find out more

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