

Ellerston Global Mid Small Cap Fund

Monthly Newsletter, November 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	\$1.6508
Class A Net Asset Value	\$1.6467
Class A Redemption Price	\$1.6426
Class B Net Asset Value	\$1.4167
Class B Redemption Price	\$1.4132
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^	3.70%	-0.16%	10.92%	31.22%	23.81%	18.10%
Benchmark*	2.26%	-0.00%	10.15%	23.42%	16.57%	13.56%
Alpha	1.43%	-0.16%	0.77%	7.80%	7.24%	4.53%

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception*** (p.a.)
Class B^	3.75%	0.01%	11.36%	32.98%	-	30.47%
Benchmark*	2.26%	-0.00%	10.15%	23.42%	-	25.44%
Alpha	1.49%	0.01%	1.21%	9.56%	-	5.03%

^ 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

There was a very topical article in the [AFR](#) in early December outlining potential greenwashing risks associated with new entrants to the market. While it was aimed at new IPOs, the context of the article could easily be ascribed to many companies touting an ESG strategy and/or net zero targets. Current disclosure seems murky, or at best very subjective, although what is clear is that we need a common platform or language on which companies can provide transparent and comparable reporting on climate matters.

One of the outcomes of the UN Climate Change Conference (COP26) was the formation of the International Sustainability Standards Board (ISSB) which will provide standards to cover important sustainability topics associated with ESG principles and develop both thematic and industry-based requirements.

The initiative has support from G20 countries as it lays the foundation for a global baseline of sustainability disclosure. From the ISSB website *"It is expected there will be a great deal of overlap between the information needs of investors and broader stakeholder groups on sustainability matters. However, the focus of the ISSB will be on meeting investors' needs, as the Foundation's remit and expertise is to set standards that provide information for the capital markets."*

The format will take some time to develop and implement as the ISSB will carry out a consultation process during 2022 to develop standards that can be mandated, while meeting regional requirements. Therefore, it seems likely it will be late 2022 or early 2023 before we get an ESG accounting framework. That said, this is clearly a strong step in the right direction in meeting the information needs for a broad set of stakeholders concerned about ESG disclosure.

Portfolio Commentary

Global markets had quite a volatile month during November with a strong start totally offset by the one-two punch of Fed Chairman Powell becoming more hawkish around inflation risks and the disturbing news that a new COVID variant called Omicron had emerged out of South Africa.

Consequently, there was a flight to safety with bond yields declining and risk assets coming under pressure late in the month. The S&P 500 reversed a +2% intramonth gain into a 70bps decline while the more economically sensitive Russell 2000 finished the month down 4.2%. Other overseas markets followed a similar trend with Japan down 3.7%, Germany lower by 3.8% and the UK down 2.2%.

The Ellerston Global Mid Small Cap Fund (Class A) increased 3.70% net during the month outperforming the MSCI World Mid Cap Index (AUD) which expanded 2.26% over the same period (both benefiting from the weaker Aussie dollar). The market narrative continues to be concentrated on the Omicron variant impact on growth, inflationary and supply chain concerns and, as always, the Fed.

The portfolio's top three contributors for the month DigitalBridge, WillScot Mobile Mini and Ciena added 197bps to performance while XPO Logistics, Cerence and PTC detracted 125bps. We ran through the majority of our September quarter earnings updates [last month](#) although a couple of our new positions, Olaplex and First Watch Restaurants reported inaugural results (new IPOs) which both came in ahead of expectations.

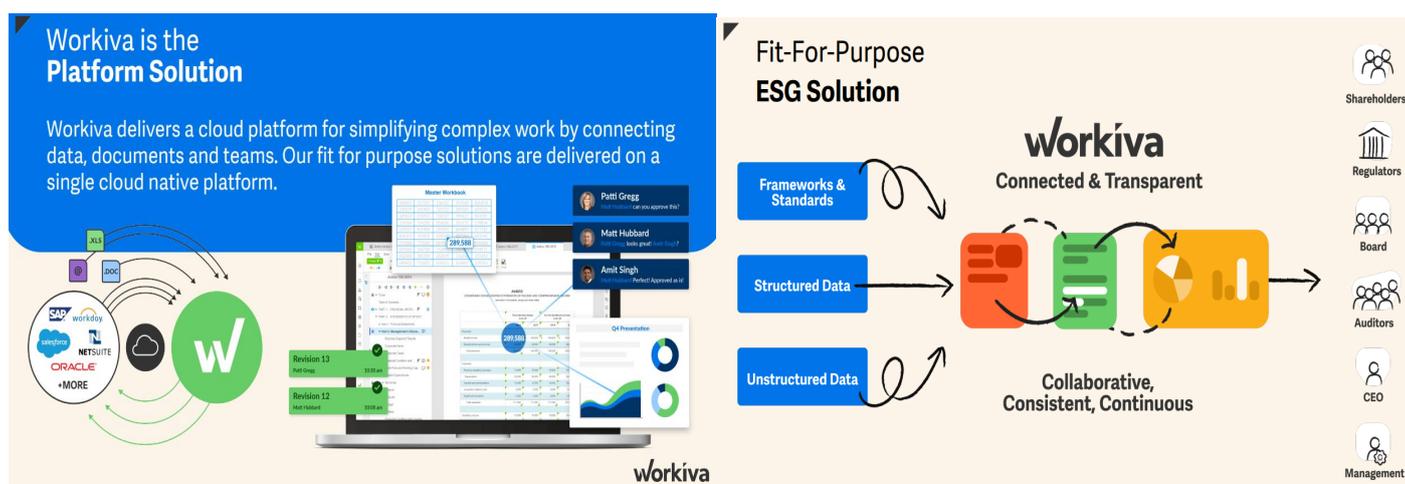
Stock in Focus: Workiva (WK US, \$7.2bn Market Cap)



Workiva simplifies complex work for thousands of organizations around the world, including 75% of the Fortune 500. It is the world's leading connected reporting and compliance software platform, offering collaboration, data assurance and control at scale. It simplifies regulatory, financial and operational reporting by automating tedious functions associated with complex reporting. Financial and operational reporting requires data from multiple systems of record, with multiple contributors and must be certified and transparent. The Workiva platform is a fit for purpose solution that works alongside a lot of the general ledger and ERP companies and has relationships with Oracle and SAP. The company also provides fit for purpose solutions for ESG reporting, ESEF (new European regulatory framework), risk, and in particular, financial services reporting.

Its subscription based, cloud native software connects over 70 third party application providers onto one platform that seamlessly coordinates and organises this disparate data into usable documents such as presentations, reports, SEC filings etc. It can support many users working on the same document at the same time with changes tracked in real time into one end document, say an SEC filing such as a 10-K, statutory insurance filing, and now ESG disclosure.

Workiva is targeting a \$25bn total addressable market (TAM), has incredibly high customer retention rates of >96% and net revenue retention of over 110% when including new business with existing customers. It is targeting long term compound revenue growth greater than 20% as it works towards achieving its long-term operating margins of 22%+.



Source: Workiva.

At the end of its most recent quarter, it had over 4,100 customers on its platform which represented a 16% increase on the same period last year. Revenues increased almost 28% as it sells more products to its existing customer base. Annual recurring revenue associated with larger contract deals of >\$300k has increased at a 40% compound rate over the past couple of years as its "land and expand" strategy takes hold. Currently >75% of its existing user base are spending approximately \$100k/yr highlighting the strong upsell opportunity in front of the business.

With the increased focus on ESG reporting, a new market has opened up for Workiva with Management conservatively estimating a \$3.0bn ESG TAM associated with its fit for purpose solutions. While still early, the ESG reporting opportunity is clearly being supported by regulatory bodies with the ISSB now in preliminary stages of developing standards. ESG reporting is incredibly complex as it requires ingestion of both financial and non-financial data from many disparate sources with significant collaboration between users required as well.

As the leader in "Investment Grade" reporting, Workiva is uniquely positioned to deliver its customers a platform that will generate consistent and concise ESG disclosure that all stakeholders can rely upon. While standards and regulations are still being formulated, Workiva has seen companies already begin the ESG journey as they embrace change and set their own internal targets to get ahead of the new regulation. Many of its customers are now working with advisory firms who are assisting with ESG transformation projects. This is opening up a much larger partner opportunity set for Workiva as advisory firms utilise the Workiva ESG platform in implementing ESG strategies for their customers.

Workiva is a new entrant into the Fund as pricing became very attractive after it got caught up in the tech selling pressure in mid-November at which point we initiated a position. We view the investment opportunity as one characterised by strong 20%+ multiyear revenue growth compounding on expanding margins with a Management team that we have found to be very forward thinking yet incredibly conservative.

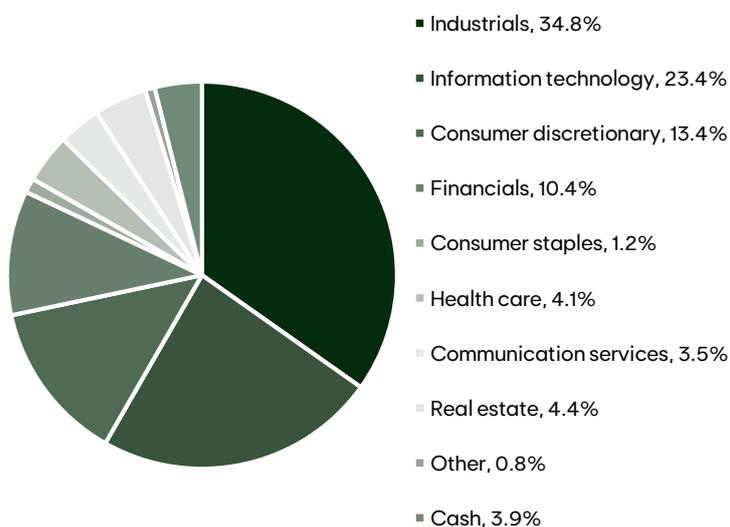
Portfolio Characteristics

Holdings

Top 10 holdings	Country	Sector	%
Tempur Sealy	United States	Consumer Discretionary	4.66%
Sensata	United States	Industrials	4.61%
DigitalBridge Group	United States	Real Estate	4.45%
PTC Inc.	United States	Information Technology	4.43%
Flex Ltd.	United States	Information Technology	4.28%
Webster Financial	United States	Financials	4.17%
Option Care Health	United States	Health Care	4.12%
PVH Corp	United States	Consumer Discretionary	4.07%
WillScot Mobile Mini	United States	Industrials	4.03%
XPO Logistics	United States	Industrials	3.93%

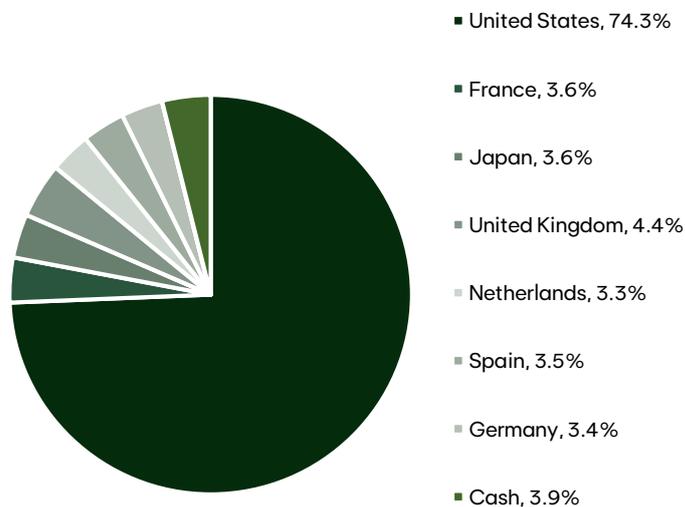
Source: Ellerston Capital.

Sector Allocation



Source: Ellerston Capital.

Geographic Allocation



Source: Ellerston Capital.

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Find out more

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

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