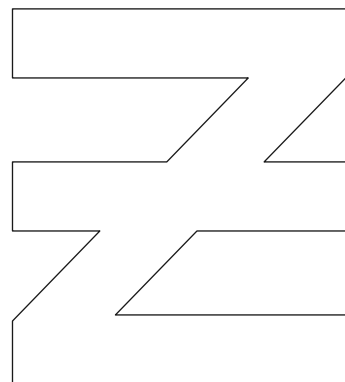


Ellerston Global Mid Small Cap Fund



Monthly Newsletter, December 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	\$1.6901
Class A Net Asset Value	\$1.6859
Class A Redemption Price	\$1.6817
Class B Net Asset Value	\$1.4512
Class B Redemption Price	\$1.4476
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^	2.38%	5.86%	9.07%	32.23%	26.67%	18.33%
Benchmark*	1.44%	4.34%	8.01%	24.84%	18.83%	13.65%
Alpha	0.94%	1.52%	1.06%	7.39%	7.84%	4.68%

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception*** (p.a.)
Class B^	2.44%	6.04%	9.46%	33.87%	-	30.65%
Benchmark*	1.44%	4.34%	8.01%	24.84%	-	25.03%
Alpha	0.99%	1.69%	1.45%	9.03%	-	5.61%

^ 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

The Ellerston Global Mid Small Cap Fund increased 2.38% net during December comparing well to the MSCI World Mid Cap Index (AUD) which expanded 1.44% over the month.

For the calendar year ending December, the Fund increased 32.23% net representing 7.39% outperformance when compared with the same index which expanded 24.84% over the same period.

While CY21 was not nearly as volatile as that seen in the prior year, there was no shortage of issues to consider when positioning the portfolio for the most optimal outcome. We consider a balanced investment approach as the best way to participate in the market as we focus on both capital growth and capital preservation.

Right now, we have the highly transmissible Omicron variant rampaging around the world, however thankfully it appears the current COVID strain is much less lethal than that of Delta. The US Fed finally conceded that inflation is looking more structural than transitory, and as such provided a very hawkish outlook as it winds down its Quantitative Easing (QE) (likely ending in March) and subsequently raising interest rates once this is complete. The question will be when does it reduce its balance sheet (quantitative tightening) as this would reduce financial liquidity further. President Biden's Build Back Better (BBB) plan was rejected as it was deemed unnecessary, especially when considering the potential inflationary impact as the economic supply/demand set up is currently very stretched. We would not discount a trimmed down version over the coming months. Supply chains remain fragile with lead times still very stretched and not likely to be repaired until second half 2022. That said, we are hearing about small green shoots as we are now past peak demand season which should give the system a chance to breathe. Labour costs are escalating as wage inflation continues to build on a declining unemployment rate. We expect the deflationary impact of supply chain repair to be replaced with wage inflation in 2022.

The portfolio's top three contributors for the month **Azek, Option Care Health and Sensata added 154bps** to performance while **Chart Industries, First Watch and Under Armour detracted 84bps**. We only had two portfolio companies reporting results in December and will briefly touch on them here:

Ciena reported a very strong finish to its year (October Year End) as it is benefiting from increased network spending from pretty much every cohort including web-scalers, service providers and enterprise. It ended the year with its highest ever backlog at \$2.2bn which was double that of the same time last year. Management guided for 11-13% FY22 revenue growth which compared well to the market which was expecting something closer to 8% while also implementing a \$1bn buyback. Overall, secular demand remains very strong, driven by increasing bandwidth needs, the shift to the cloud, and also the focus on edge applications as well as digital transformation and a growing need for network automation.

PVH reported its third quarter results with its Tommy Hilfiger and Calvin Klein brands delivering significantly ahead of guidance. Third quarter margins benefited from strong pricing power and much lower promotional activity although continued elevated freight costs and delayed shipping times remain an operational headache. Management expects revenues to come in at the top end of its prior guidance however with FY21 EBIT margins now expected to come in above pre-pandemic levels, it increased its EPS expectation to \$9.25 up from \$8.50 previously. We should note that PVH started out FY21 expecting EPS of \$6.00 per share and have been upgrading throughout the year.

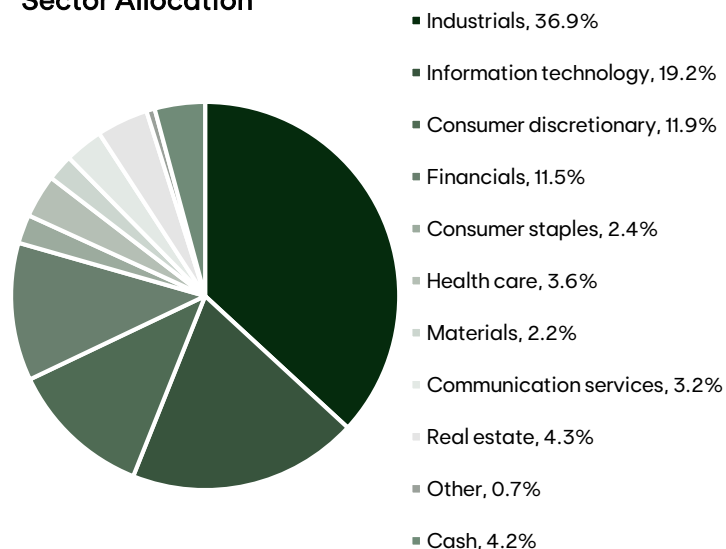
Portfolio Characteristics

Holdings

Top 10 holdings	Country	Sector	%
Tempur Sealy	United States	Consumer Discretionary	4.71%
Sensata	United States	Industrials	4.70%
PTC Inc.	United States	Information Technology	4.51%
DigitalBridge Group	United States	Real Estate	4.28%
Flex Ltd.	United States	Information Technology	4.22%
Webster Financial	United States	Financials	3.98%
XPO Logistics	United States	Industrials	3.86%
Option Care Health	United States	Health Care	3.58%
WillScot Mobile Mini	United States	Industrials	3.55%
Bureau Veritas	Europe	Industrials	3.53%

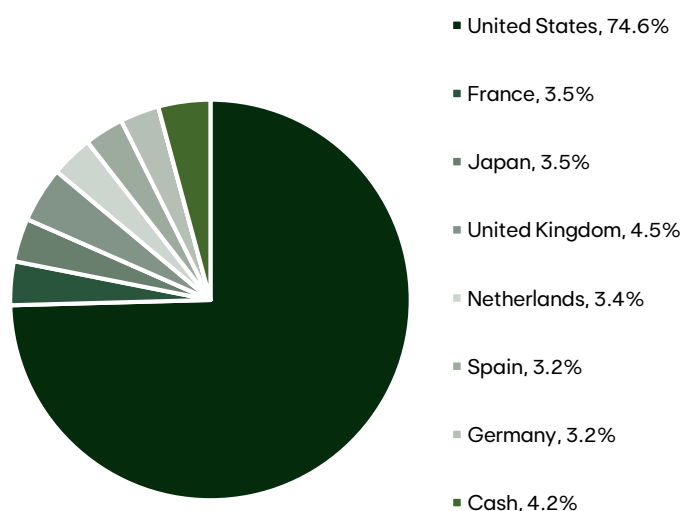
Source: Ellerston Capital.

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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