

Ellerston Global Mid Small Cap Fund

Monthly Newsletter, March 2022

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	\$1.4077
Class A Net Asset Value	\$1.4042
Class A Redemption Price	\$1.4007
Class B Net Asset Value	\$1.2113
Class B Redemption Price	\$1.2083
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^	-5.63%	-16.71%	-11.82%	-2.35%	15.68%	13.21%
Benchmark*	-2.09%	-9.79%	-5.87%	5.26%	10.33%	10.67%
Alpha	-3.54%	-6.92%	-5.96%	-7.61%	5.35%	2.54%

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception*** (p.a.)
Class B^	-5.58%	-16.53%	-11.49%	-1.64%	-	12.61%
Benchmark*	-2.09%	-9.79%	-5.87%	5.26%	-	13.67%
Alpha	-3.49%	-6.74%	-5.63%	-6.89%	-	-1.05%

^ 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 quarter ending March marked the worst period since the onslaught of the pandemic which occurred during the first quarter of 2020. We have had a plethora of negative influences on global markets including an aggressive rate hiking cycle signalled by the US Federal Reserve (Fed), Russia's invasion of Ukraine, continued COVID related shutdowns in China, elevated inflation and very little visibility on when global supply chains will repair. All are raising growth concerns.

Typically, in times of market duress, the Australian dollar depreciates and provides a hedging element to returns. In this period of rising energy and other commodity prices, especially those prevalent in Russia/Ukraine, the Aussie dollar has discarded its risk off characteristic and replaced it as an upward biased commodity play. If we look at March returns, the underlying positions declined 2.1% while the FX impact was much bigger at 3.5% (note the impact in February was even relatively bigger with FX undercutting returns by 2.7% compared with positions down 1.3%).

The Ellerston Global Mid Small Cap Fund declined 5.63% net during March compared to the MSCI World Mid Cap Index (AUD) which was lower by 2.09% over the month. The portfolio's top three contributors for the month Chart, WillScot and Option Care Health added 119bps to performance while PVH, Sensata and GXO Logistics detracted 162bps.

In times of uncertainty and volatility, understanding what you own, making changes when your thesis changes and taking a longer-term perspective in holding high quality businesses ultimately proves a winning strategy in generating capital growth.

As a long only portfolio, we are focusing on and well positioned in businesses with strong balance sheets, high recurring revenues, secular tailwinds and pricing power.

Given the current market volatility we will return to providing brief paragraphs on the top 10 positions in the portfolio. What you will hopefully take away is consistent attributes such as a high or dominant market share, high recurring revenues, high revenue retention rates, secular tailwinds and exceptional management teams.

We consider these characteristics underpin pricing power, margin expansion, capital allocation optionality and increasing returns on capital. We want investors to be aware of, and hopefully comfortable with, the long-term opportunities held within the portfolio. Note that valuations quoted are all at the time of writing:

WillScot Mobile Mini has over 40% market share in modular office leasing market in North America and is by far the dominant player in a space which should benefit from increased infrastructure spend associated with fiscal stimulus which has already passed (although more impact in 2023). Modular units are typically leased for almost 3 years providing excellent visibility associated with highly recurring revenues. It is delivering high-teens pricing growth as it re-prices returning units at higher rates and fits these out with value added products which drive both revenue and margins. With >115m ft² of rentable space (equivalent to >42 Empire State Buildings) currently only utilised at 70%, it has significant scope to grow earnings with marginal increases in capital. Management confirmed full year midpoint EBITDA of \$830bn placing it on track to achieve a \$500m FCF run rate by mid-2022, comparing well to its \$8.0bn market cap.

Assurant is a leading global provider of lifestyle and housing solutions that support, protect and connect major consumer purchases, primarily mobile phones and autos globally. It delivered full year EPS growth at the top end of its 10-14% guided range as it benefits from increased 5G phone trade ins and a strong used car market driving higher attach rates. Management guided FY22 EBITDA to grow another 8-10% despite significant investments in new programs recently won with AT&T and T-Mall as it builds out its in-store repair model. In its recent Investor Day, Management maintained its EBITDA guidance however unveiled expectations for 16-20% EPS growth this year with \$2.9bn of cash generation expected over the next 3 years. We have Assurant trading on 12.5x forward earnings with potential upside from rising rates benefiting its \$8bn investment float.

Cellnex Telecom is the largest independent owner of mobile phone towers in Europe and is benefiting from a long-term outsourcing trend (as telcos sell towers to independent operators) and data growth associated with current and next gen technologies such as 5G. The business benefits from very high recurring revenues underpinning EBITDA margins in the high 70% range. Cellnex has made a number of strategic and value accretive purchases over the past couple of years and still has close to €8bn of additional firepower for accretive acquisitions. The majority of its contracts are linked to inflation (with the rest at fixed escalators) and with close to 90% of its debt at fixed rates it actually benefits from a rising rate environment. Management recently confirmed FY25 EBITDA of €3.4bn with subsequent recurring free cash flow of €2.1bn placing it on a high single digit yield. The business has incredibly high earnings certainty and would represent a great pension asset.

Webster Financial has recently completed its merger with Sterling Bank which will result in a regional bank powerhouse in Northeast US – think the Boston and New York regions. It will benefit from an expanded balance sheet which enables greater access to larger loan originations (at very little incremental cost) and as one of the larger HSA Banks in the US it will have significant cross revenue opportunities going forward. In its last earnings call, Management was confident on delivering 8-10% loan growth over the next couple of years and this will come at expanding net interest margins as rates ratchet up over the coming months. As a combined group, Webster is trading on 8.1x PE while generating about \$400m of excess capital per year which will be returned to shareholders or reinvested to drive further growth.

Digital Bridge is a leading global digital infrastructure REIT which invests in and owns assets across the digital ecosystem including cell towers, data centers, fibre, small cells and edge infrastructure. Management (led by industry veteran Marc Ganzi) has transformed the business over the past couple of years as it sold non-core assets to invest in its digital strategy. The last of its major asset sales completed at the end of February and now investors will be able to analyse the business as a pure play investment in digital infrastructure. It currently has \$45bn of digital assets under management and \$18bn of fee earning equity under management (FEEUM) which is expected to increase by \$4-5bn annually over the next several years. We contend that tangible assets, and especially those able to pass through pricing such as digital infrastructure, become increasingly valuable in an inflationary environment.

Sensata is a global leader in mission critical sensors which are primarily used in the automotive, heavy vehicle and industrial markets. The business benefits from increased sensor content per unit as safety requirements/regulations expand and clean energy applications increase over time. Typically, it outgrows its end markets by 4-6% which basically means even if its end markets are flat, it will still grow mid-single digit. Management recently held an Electrification Teach-in webcast in which it highlighted sensor content per vehicle more than doubling as we move from internal combustion engines to electric. Consequently, it sees a \$15bn addressable market by 2030 and expects electrification revenue to grow at a 50% compound rate and come in around \$2bn by 2026. To put this in context, we expect Sensata to generate just over \$4bn of revenue in 2022 so the opportunity is very material to revenue and earnings growth over the next several years. Sensata is trading on 10.5x PE while generating over half a billion of FCF.

Option Care Health is the largest independent provider of at home infusion services in the US (reaching 96% of the US population) and recently delivered FY21 revenue growth of 13.4% while EBITDA increased almost 31% despite continued impacts on labour associated with COVID. It continues to benefit from the shift of infusion from the hospital setting to the more convenient and significantly less costly at home setting. Chronic therapies (long term treatments) grew high teens while acute (shorter term just out of hospital typically) grew low single digit as elective surgery remained curtailed. Management indicated it will accelerate its M&A strategy as its balance sheet is in great shape and the business is generating accelerating free cash flow. Additionally, it will increase the number of infusion suites available (stop in on your way home) which will help with labour efficiency. FY22 EBITDA guidance of \$320m midpoint looks conservative with further upside from accretive M&A likely through the year.

Graphic Packaging operates in a duopoly in the US serving the packaging needs for large consumer goods companies such as Kellogg's, Coca Cola and Nestle to name a few. Organic growth is benefiting from the push to sustainable fiber packaging away from plastic. It produces 49% of all CRB (Coated Recycled Board which is used in consumer goods packaging) and 60% of all CUK (Coated Unbleached Kraft which is made from recycled materials and used to carry beverages). The business is now benefiting from significant pricing initiatives and efficiencies from a recently completed new plant. Graphic Packaging recently guided FY22 EBITDA at \$1.5bn midpoint driven by recent acquisitions and >\$300m of net pricing benefits offsetting inflation. Its Vision 2025 playbook calls for \$9.5bn revenue, \$1.85bn EBITDA and >\$2.85 per share of earnings. Based on these metrics the business is trading on 7.0x PE with mid-teens free cash flow yield.

TKH Group is a leader in 2D and 3D machine vision and security vision systems, number one player in next generation tyre manufacturing systems and a leader in providing medium voltage energy cables to the renewable energy sector. It is participating in a number of global megatrends and is finetuning its portfolio to provide investors with a pure look through to these opportunities. It aims to grow revenues to >€2bn with margins approaching 17% by 2025 as it focuses on its high value add capabilities. TKH reported its full year results on March 8th and delivered an impressive 15.9% organic sales growth while EBITDA grew 32.5%. Management remains confident in delivering on its strong order book and participating in the secular drivers of its end markets with further growth expected in FY22. TKH is trading on a forward PE of 12.5x and just over 7.5x EBITDA.

GXO Logistics was recently spun out of XPO Logistics and is the largest global pure play contract logistics provider, operating in an industry which is being driven by ecommerce, warehouse automation and outsourcing trends. Its stated focus is on moving goods through supply chains with critical efficiency and reliability. In its FY21 result, management delivered 15% organic growth with mid to high 90% customer revenue retention rates which have increased over the past several months. It guided to 8-12% revenue growth for FY22 with new contract wins (which have already been booked) adding \$830m of incremental revenue or about 10% - basically next year's revenue is already accounted for. GXO is currently trading on just under 9x next year's EBITDA which we view as a several point discount to its fair value.

Portfolio Characteristics

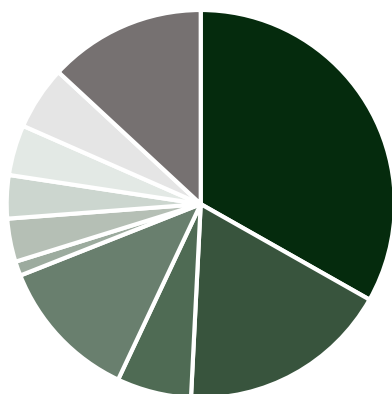
Holdings

Top 10 holdings	Country	Sector	%
Willscot Mobile Mini	United States	Industrials	4.33%
Assurant	United States	Financials	4.26%
Cellnex Telecom	Spain	Communication Services	4.20%
Webster Financial	United States	Financials	3.87%
DigitalBridge	United States	Real Estate	3.80%
Sensata Technologies	United States	Industrials	3.79%
Option Care Health	United States	Health Care	3.63%
Graphic Packaging	United States	Materials	3.57%
TKH Group	Netherlands	Industrials	3.56%
GXO Logistics	United States	Industrials	3.47%

Source: Ellerston Capital.

Sector Allocation

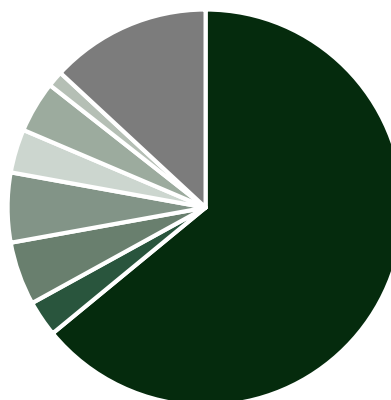
- Industrials, 33.2%
- Information technology, 17.6%
- Consumer discretionary, 6.2%
- Financials, 12.0%
- Consumer staples, 1.2%
- Health care, 3.6%
- Materials, 3.6%
- Communication services, 4.2%
- Real estate, 5.3%
- Cash, 13.1%



Source: Ellerston Capital.

Geographic Allocation

- United States, 64.1%
- France, 3.0%
- Japan, 5.2%
- United Kingdom, 5.7%
- Netherlands, 3.6%
- Spain, 4.2%
- Germany, 1.3%
- Cash, 13.1%



Source: Ellerston Capital.

Contact Us

Sydney

Level 11, 179 Elizabeth Street,
Sydney, NSW 2000
+612 9021 7701
info@ellerstoncapital.com

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** or visit us at **ellerstoncapital.com**

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

This report has been prepared by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, as the responsible entity of the Ellerston Global Mid Small Cap Fund Class A and Ellerston Global Mid Small Cap Fund Class B ARSN 609 725 868 without taking account the objectives, financial situation or needs of individuals. Before making an investment decision about the Fund persons should read the Fund's Product Disclosure Statement and the Fund's Target Market Determination (TMD) which can be obtained from the Manager's website www.ellerstoncapital.com or by contacting info@ellerstoncapital.com and obtaining advice from an appropriate financial adviser. Units in the Fund are issued by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000. This information is current as at the date on the first page.

This material has been prepared based on information believed to be accurate at the time of publication. Assumptions and estimates may have been made which may prove not to be accurate. Ellerston Capital undertakes no responsibility to correct any such inaccuracy. Subsequent changes in circumstances may occur at any time and may impact the accuracy of the information. To the full extent permitted by law, none of Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, or any member of the Ellerston Capital Limited Group of companies makes any warranty as to the accuracy or completeness of the information in this newsletter and disclaims all liability that may arise due to any information contained in this newsletter being inaccurate, unreliable or incomplete. Past performance is not a reliable indicator of future performance.