

Ellerston Global Mid Small Cap Fund

Monthly Newsletter, May 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	\$1.3542
Class A Net Asset Value	\$1.3508
Class A Redemption Price	\$1.3474
Class B Net Asset Value	\$1.1668
Class B Redemption Price	\$1.1639
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	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception^^ (p.a.)
Class A^	-2.83%	-9.22%	-9.01%	12.65%	10.82%	11.94%
Benchmark*	-1.03%	-5.44%	-2.64%	9.07%	8.36%	9.59%
Alpha	-1.80%	-3.78%	-6.37%	3.58%	2.46%	2.35%

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception*** (p.a.)
Class B^	-2.76%	-9.05%	-17.64%	-8.28%	-	9.15%
Benchmark*	-1.03%	-5.44%	-11.62%	-2.64%	-	10.24%
Alpha	-1.73%	-3.61%	-6.02%	-5.64%	-	-1.08%

^ 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

The European Union (EU) is receiving 40% of its natural gas imports and 25% of its oil from Russia. The EU's reliance on Russian fossil fuels is estimated to cost the European taxpayers ~€100 billion per year. This dependence has been used as a weapon by President Putin against the EU.

To achieve energy security and cease support for the Russian economy, the EU has committed to reduce gas imports from Russia by [two thirds](#) within a year. Recent surveys by the European Commission demonstrate that 85% of Europeans believe the EU should reduce its dependency on Russian oil and gas as soon as possible to support Ukraine.

The Russian invasion has highlighted the need to establish secure energy sources and investing in green hydrogen production is one of the key avenues in achieving this goal. While the energy transition remains a key priority for the EU, the drive for energy independence will require diverse energy sources including international sources of gas to secure supply while its economy continues to invest in decarbonisation.

Portfolio Commentary

If you looked at the markets at the start of May, went away and then looked at them at the end of the month, you would have thought that it was a fairly benign period. The S&P ended basically flat, the Nasdaq was lower by just under 2% while European indices were also pretty well behaved despite the continued Russia/Ukraine crisis.

While the final market outcomes were relatively stable, what really happened was incredible volatility throughout the month with violent swings in both directions. If we isolate the S&P 500, the index initially rallied as the US Federal Reserve (Fed) increased rates 50bps while indicating that a 75bps move was not on the cards (the market took this as a dovish outcome). Then it subsequently dropped over 10% until mid-May when a higher than expected inflation print put the risk of a 75bps move back on the table. The market continues to sell rallies rather than buy dips as it continues to grapple with a plethora of macro concerns. The index flirted with bear market territory of 20% down from its highs only to recover significantly in the final week to finish relatively unchanged.

The Ellerston Global Mid Small Cap Fund declined 2.83% net during the month while the MSCI World Mid Cap (AUD) Index was lower by 1.03% over the same period.

The portfolio's top three contributors **First Watch Restaurant Group, Olaplex Holdings and Sensata Technologies** added 91bps to performance while **Digital Bridge, Under Armour and Workiva Logistics** detracted 142bps.

The Fund had 11 portfolio companies reporting quarterly results during the month with generally positive outcomes and commentary. We will be following up with company calls over the coming weeks to keep our finger on the pulse of operating conditions in this uncertain environment.

STOCK IN FOCUS: Chart Industries (GTLS US, \$6.9bn 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 and security of energy supply. 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.



Specialty Markets TAM Continues to Grow

Market	End-use of Products	Near-term TAM ⁽¹⁾	2030 TAM	Drivers of Size Opportunity
Hydrogen & Helium	<ul style="list-style-type: none"> H₂/He Liquefaction Transports and storage Fueling stations and bunkering 	\$3,100M	\$25,000M	<ul style="list-style-type: none"> Development of "green hydrogen" industry Buildout of hydrogen fueling infrastructure Government stimulus packages
Carbon Capture	<ul style="list-style-type: none"> Industrial scale carbon capture Small scale applications (CICI®, ELM®) Distribution and storage 	\$850M	\$6,000M	<ul style="list-style-type: none"> CO₂ emission reduction targets CO₂ supply shortages Tax incentives, fuel standards, carbon trading systems
Over-the-Road Trucking	<ul style="list-style-type: none"> LNG as alternative fuel to diesel for heavy duty vehicles (lower emissions, engine noise, etc.) 	\$750M	\$2,000M	<ul style="list-style-type: none"> Regulations Tax incentives
Water Treatment	<ul style="list-style-type: none"> Improving water quality and wastewater treatment utilize liquid oxygen and CO₂ in purification process Technology for removal of wide range of contaminants including arsenic, PFAS and PFOS. 	\$1,500M	\$6,000M	<ul style="list-style-type: none"> Regulation on water treatment Population growth
Food & Beverage	<ul style="list-style-type: none"> Food preservation equipment Nitrogen dosing equipment 	\$500M	\$1,000M	<ul style="list-style-type: none"> Nitro-beverage changeover
Cannabis	<ul style="list-style-type: none"> Liquid CO₂ storage and supply / delivery systems Used in grow houses, CBD oil extraction and packaging 	\$250M	\$550M	<ul style="list-style-type: none"> Legalization of cannabis Regulatory approval for CBD.
Molecules By Rail	<ul style="list-style-type: none"> Gas by rail tender cars approved for use 	\$250M	\$500M	<ul style="list-style-type: none"> Legalization of LNG by train in the U.S. Expected growth in EU
Lasers	<ul style="list-style-type: none"> High purity liquid nitrogen (gas assist) provides a faster cut and superior edge, free of impurities 	\$200M	\$500M	<ul style="list-style-type: none"> Uptime requirements in manufacturing Reducing steps in production
Space	<ul style="list-style-type: none"> Cryogenic liquid propellants are used as fuel for rocket propulsion 	\$250M	\$1,000M	<ul style="list-style-type: none"> Proliferation of private space travel industry
Total		\$7,650M	\$42,550M	

Source: Potential Market Size are Chart Management estimates.

(1) Reflects Total Addressable Market (TAM) for current and potential application of Chart technology and products.

GTLS: GAS TO LIQUID SYSTEMS®

Chart Industries, Inc. 2022 Investor Day

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Source: Chart Industries

Chart's hydrogen business includes liquid hydrogen storage and transport trailers. Chart is the market leader in cryogenic liquid hydrogen storage with over 800 tanks in service across aerospace, FCEV fuel stations, forklift fueling and industrial applications. Chart has leading market share in core hydrogen storage and transport equipment and liquefaction in the EU (~40%) and US (~60%). As the hydrogen industry matures, order activity is moving from gaseous to liquid requirements or a combination due to its more compact and energy dense nature. This is a clear opportunity for Chart to help facilitate the energy transition with its market leading technology.

Management has identified its near term hydrogen and helium addressable market as ~\$3.1bn, growing to ~\$25bn by 2030. It is clear that urgent investment is needed for the EU to secure its energy supply over the near and long term. Companies such as Chart are uniquely positioned to facilitate the EU in reducing their reliance on Russian gas imports as the US enters another investment cycle. Alongside this, Chart will continue to help customers transition to renewable energy sources such as green hydrogen.

We are approaching our first year of ownership in Chart. During that time Management has provided solid market outlooks, continued to expand its operating capabilities via small tuck in acquisitions and provided a very comprehensive Investor Day in early May which covered not only the hydrogen opportunity but also carbon capture, water treatment and a solid earnings growth outlook out to 2025.

STRATEGIC FINANCIAL PLAN	2022 Target	3-Year Target (incl-Big LNG)
Revenue	\$1.725 – 1.85 billion	> 17% CAGR
Gross Margin	Exiting at 30%	33-36%
Earnings per share	\$5.35 – 6.50	> 25% CAGR
Net Leverage	Under 2.5x	Under 1.0x

Note: 3-Year targets represent FY23 through FY25

Source: Chart Industries

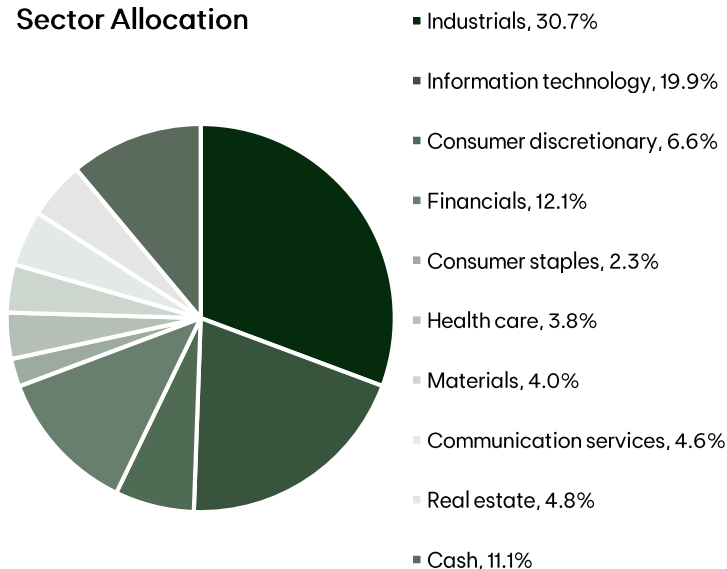
Portfolio Characteristics

Holdings

Top 10 holdings	Country	Sector	%
Cellnex Telecom	Spain	Communication Services	4.64%
Sensata Technologies	United States	Industrials	4.60%
WillScot Mobile Mini	United States	Industrials	4.56%
Assurant	United States	Financials	4.51%
Flex	United States	Information Technology	4.28%
GXO Logistics	United States	Industrials	4.06%
Graphic Packaging	United States	Materials	4.02%
Option Care Health	United States	Health Care	3.85%
Webster Financial Corporation	United States	Financials	3.66%
Advantest Corp.	Japan	Information Technology	3.66%

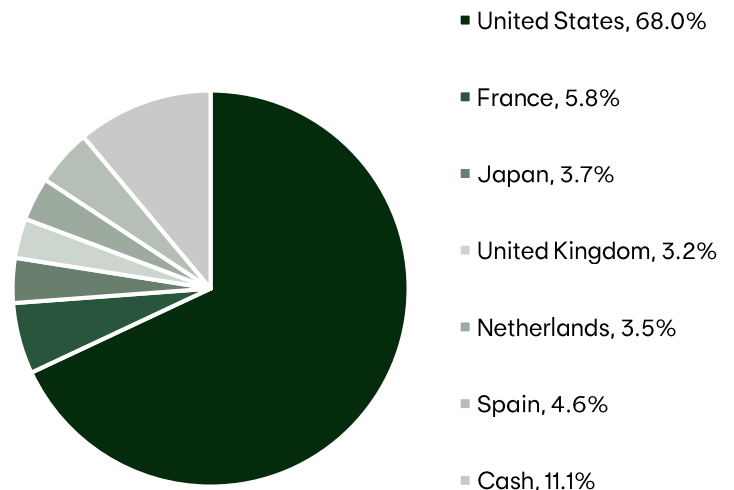
Source: Ellerston Capital.

Sector Allocation



Source: Ellerston Capital.

Geographic Allocation



Source: Ellerston Capital.

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Find out more

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