Ellerston Global Mid Small Cap Fund

Monthly Newsletter, July 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 Fund's 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 the 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	$1.2816
Class A Net Asset Value	$1.2784
Class A Redemption Price	$1.2752
Class B Net Asset Value	$1.0838
Class B Redemption Price	$1.0811
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^	9.82%	-2.20%	-12.47%	10.28%	11.87%	11.68%
Benchmark*	6.60%	-0.93%	-8.77%	6.59%	9.26%	9.30%
Alpha	3.22%	-1.27%	-3.71%	3.69%	2.61%	2.38%

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception*** (p.a.)
Class B^	9.87%	-2.02%	-12.01%	-11.82%	-	8.77%
Benchmark*	6.60%	-0.93%	-8.84%	-8.77%	-	9.40%
Alpha	3.27%	-1.09%	-3.17%	-3.05%	-	-0.63%

^ 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 pandemic has driven demand for many products higher, supply of key components lower, and with inconsistent transport availability, you have the recipe for a supply chain disaster. From both a component supply and transportation perspective the worst appears to be behind us, but in the meantime, sales have been lost, inflation is widespread, and profits are being squeezed.

What we are also seeing is an ever growing environmental, social and governance (ESG) scrutiny across industries in driving comprehensive analyses of both downstream and upstream implications for suppliers, distributors and the full value chain.

As an example, Germany's Supply Chain Due Diligence Act comes into force on 1 January 2023 and requires companies with more than 3,000 employees in Germany to monitor supply chains for human rights violations and comply with environmental standards. However, nearly two thirds (65%) of businesses worldwide said they are unable to accurately assess whether their suppliers meet ESG standards according to a Sapio Research survey. Furthermore, 57% do not have an effective risk management system in place to ensure ESG integrity of supply chains, according to a survey by one of our portfolio companies, Coupa Software.

Portfolio Commentary

July provided a much-welcomed relief to the negativity experienced over the past six months as the narrative seems to have shifted (for the moment anyway) to one which questions how much of the downside risk has already been priced in by the market. Additionally, with recent substantial declines in commodity prices, coupled with improving supply chains, commentary around whether we have seen peak inflation and therefore peak US Federal Reserve (Fed) is ramping up.

The Ellerston Global Mid Small Cap Fund increased 9.82% net during the month comparing well to the MSCI World Mid Cap (AUD) Index which was up by 6.60% over the same period.

The portfolio's top three contributors **Willscot Mobile Mini, Cellnex Telecom and Option Care Health** added **265bps** while portfolio hedging was the dominant drag during the month.

The Fund had 13 portfolio companies reporting quarterly results or trading updates 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 however let's run through several of these now.

Firstly, our regional banks, **Comerica and Webster Financial** both delivered solid results despite concerns around economic growth and credit quality. Both banks are predominantly exposed to Commercial and Industrial customers who are building working capital and replenishing inventories. Comerica upgraded full year loan growth expectations as well as net interest income as the rising rate environment feeds through its P&L. Webster's Commercial loan book grew 12% in the quarter underpinning Management indications that loans would grow at the upper end of its 8-10% target and net interest income would exceed expectations.

Graphic Packaging is the world's largest folding carton manufacturer with significant market share providing strong economies of scale benefits. It delivered a strong set of second quarter results as organic growth was driven by global demand for sustainability-supported and innovative consumer packaging solutions. The business is now benefiting from price increases more than offsetting cost inflation with full year 2022 benefits now estimated at $300m-$400m this year and potentially another $200m rolling into 2023. Management upgraded full year guidance with organic sales growth expected to beat the high end of its historical range. The stock has performed well and is still only trading on 9.0x next year's earnings.

Option Care Health is the largest independent provider of at home infusion services in the US (reaching 96% of the US population) and delivered a very strong set of second quarter results with revenue up 14% and EBITDA up 17% to >$85m. While it is early, the business is benefiting from several competitors exiting certain categories in acute care while chronic care continues to grow mid-teens. Management upgraded full year guidance which now assumes low double digit revenue growth translating into mid-teens earnings growth. Cash flow of at least $250m will see its balance sheet de-gear even further, leaving plenty of scope for value accretive acquisitions.

Sensata is a global leader in mission critical sensors which are primarily used in the automotive, heavy vehicle and industrial markets. The second quarter result came in line with expectations however the full year outlook was lowered due to continued supply chain impacts on global automotive production. Importantly, ST continues to significantly outperform its end markets with 650bps of outperformance this quarter. While it now expects its end markets to decline 1% this year (compared to 1% increase previously), this sets up the business for a solid 2023 as electrification trends continue to expand. ST has completely recouped the share price weakness on the day of its result and is currently trading on 12.0x PE.

Soitec is the dominant player in providing next generation semiconductor materials which dramatically increase efficiency while simultaneously reducing power consumption. It has >70% market share in its end markets which include products used in mobile communications, automotive/industrial and smart device applications. Soitec's first quarter revenue was impacted by a fire in one of its facilities which limited top line growth to 12%. With strong committed contracts, it is confident on achieving an acceleration throughout the year with full year revenue growth of >20% driving EBITDA margins of 36% expected.

Bureau Veritas is a top 3 testing, inspection and certification company globally with strong ESG credentials in testing and certifying next generation energy developments as well as playing a critical role in ensuring our supply chains are robust with traceability. BVI announced its first half 2022 results and despite the macro challenges (Ukraine, China lockdowns and energy prices) organic growth continued to trend at its mid-single digit FY guide. Management confirmed its previous full year outlook underpinned by significant growth opportunities related to its sustainability range of services and solutions.

Advantest currently has over 50% market share in the global system on chip (SoC) testing market which is driven by increased complexity and quantity of semiconductor chips used in pretty much every device globally. The business is performing very strongly with an earnings beat and raised guidance for the financial year ending March 2023. It now expects revenue growth of >32% and EBIT up over 48% as margins increase year on year. Management also released a revised Midterm Plan which highlighted conservative assumptions for next year although capital management including buybacks and dividends were ahead of expectations.

Cellnex is the largest independent owner of mobile tower assets in Europe controlling over 20% of all towers in the region. Management delivered its typical result which included a slight earnings beat underpinned by solid organic growth. Given recent acquisitions are expected to completely close shortly, Management indicated that FY22 earnings are trending towards the top end of its guided range with FY25 guidance reiterated again. While it was not successful in purchasing the Deutsche Telekom tower portfolio (market was relieved given debt burden) it still has >€7bn of balance sheet firepower for more bolt on acquisitions and spending within its current customer base.

PTC is a leader in CAD and PLM software applications globally and is the market leader in industrial automation software underpinning digital twins. This was its third quarter result as it has a September year end. Management delivered an earnings beat while concurrently raising full year Annual Recurring Revenue and Free Cash Flow guidance. Organic bookings were up in the high 20% range which should help augment future revenue once they become recognised. It is seeing significant interest from enterprises looking to expand their digital transformation and cloud initiatives. The shift to SaaS continues (primarily in its Windchill PLM product) and this will underpin strong revenue and earnings growth over the next several years.

Flex is one of the largest contract manufacturers globally while also owning the largest solar tracking business in the world, called Nextracker. Revenues came in +16% on last year with earnings coming in ahead of expectations as well. While it is seeing some slowing in consumer discretionary segments (<10% of group) demand remains strong in most business units. Flex is increasing share in EV component manufacture (bookings this quarter alone were almost the same as all of last year), connected medical devices and data centers. Full year revenues were upgraded as the business fully recoups inflation and strong end markets are underpinned by new production ramps.

Rentokil Initial is the world's largest hygiene and pest control company which delivered a slight beat to consensus expectations with organic revenue of 5.6% in pest control and 10.0% in hygiene. As the majority of its customers are on evergreen contracts with annual price escalators, it is having no trouble in passing on cost inflation with no deterioration in customer retention rates. Management indicated that it is seeing no change in the positive trends so far in July and also re-affirmed its full year profit guidance. Rentokil is purchasing Terminix in the US which will give it 30% market share in the largest pest market in the world. The acquisition is on track to close late September/early October.

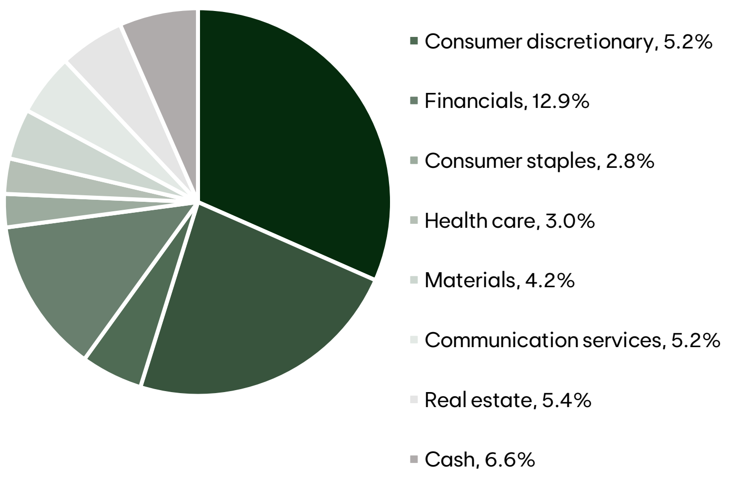
Chart Industries is a global leader in providing technology, equipment and services serving multiple market applications in Industrial Gas and Energy. Chart delivered record orders of $887m (+39% from Q1) and backlog at $1.95bn with adjusted EPS slightly ahead of consensus at $0.88. Importantly, the company is starting to see the pricing actions that the implemented late last year take hold with record GP and OP dollars. Strong demand for new orders was driven by all aspects of the LNG business with Management even more confident in its FY23-FY25 growth aspirations underpinned by hydrogen, carbon capture and water treatment growth.

Portfolio Characteristics

Holdings

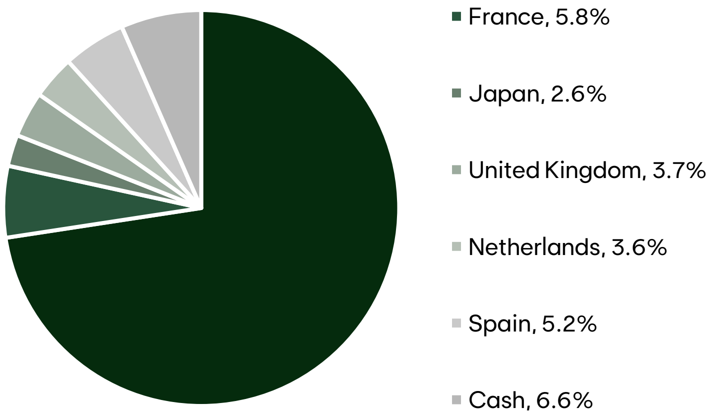
Top 10 holdings	Country	Sector	%
Cellnex Telecom	Spain	Communication Services	5.15%
Assurant	United States	Financials	5.09%
WillScot Mobile Mini	United States	Industrials	4.97%
Flex Ltd	United States	Information Technology	4.41%
PTC Inc	United States	Information Technology	4.40%
Graphic Packaging	United States	Materials	4.21%
Sensata Technologies	United States	Industrials	3.98%
Chart Industries	United States	Industrials	3.83%
Rentokil	United Kingdom	Industrials	3.73%
GXO Logistics	United States	Industrials	3.71%

Sector Allocation



Source: Ellerston Capital.

Geographic Allocation



Source: Ellerston Capital.

Regulatory Guide (RG240) Fund Disclosure Benchmark – Periodic Reporting (monthly)

- **Net Asset Value of the Fund and Redemption Price of Units**
  Please refer to details on page one.

- **Any changes to key service providers including any change in related party status**
  There have been no changes to key service providers, including any change in related party status.

- **Net returns after fees, costs and relevant taxes**
  Please refer to details on page one.

- **Any material changes to the Fund's risk profile and strategy**
  There have been no changes to the Fund's risk profile and strategy.

- **Any material changes related to the primary investment personnel responsible for managing the Fund**
  Please refer to details on page one; there have been no changes to the primary investment personnel responsible for managing the Fund.

Contact Us

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**

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