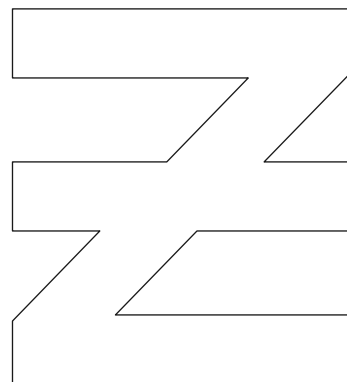


# Ellerston Global Mid Small Cap Fund



## Monthly Newsletter, August 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	\$1.2205
Class A Net Asset Value	\$1.2175
Class A Redemption Price	\$1.2145
Class B Net Asset Value	\$1.0326
Class B Redemption Price	\$1.0300
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^	-4.76%	-4.15%	-21.50%	7.98%	10.84%	10.51%
Benchmark*	-1.75%	-1.65%	-13.08%	6.07%	8.75%	8.80%
Alpha	-3.01%	-2.50%	-8.42%	1.91%	2.09%	1.71%

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception*** (p.a.)
Class B^	-4.72%	-4.00%	-12.69%	-20.93%	-	5.92%
Benchmark*	-1.75%	-1.65%	-7.00%	-13.08%	-	8.09%
Alpha	-2.97%	-2.35%	-5.69%	-7.85%	-	-2.17%

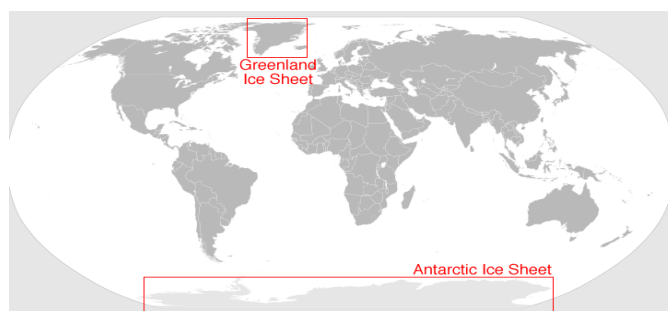
^ The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance.

\* MSCI World Mid Cap Index NR (AUD)

\*\*\*Class B Inception Date is 18 August 2020

### ESG in Focus

There are two ice sheets on Earth today that cover most of Greenland and Antarctica which together, contain more than 99% of the freshwater ice on Earth and [cover roughly the same area as the United States and Mexico combined](#).



However, we recently came across a headline none of us wanted to see – "[Lowest July Antarctic sea ice on record](#)", which is a prime example of what is going on in our climate, and that is one of increasing global temperatures. There is no doubt that some of these shifts in our climate are based on long term natural cycles, however, studies are providing strong evidence that as we industrialised our global economies over the past couple hundred years (aka Industrial Revolution), human activity has been the main driver of changes in our climate since the pre-industrial era. Researchers have [observed](#) that increases in greenhouse gas (GHG) concentrations were unequivocally caused by [human activities](#) and that each of the last four decades has been successively warmer than any decade that preceded it since 1850 – seems to be accelerating on itself.

## Portfolio Commentary

Well, August started off strong however macro overhangs returned as the release of the Fed minutes, coupled with hawkish rhetoric from Chairman Powell, caused a massive rebound in US 10yr yields from 2.57% at the start of the month to close at almost 3.20%. Higher interest rates correlate to lower equity multiples, and therefore prices, and this manifested itself during the second half of August.

From a global market perspective, the S&P 500 and Nasdaq indices were lower by 4.1% and 4.5% respectively while Europe was not unscathed either with the FTSE 100 lower by 1.1%, French CAC 40 index down 5.0% and Germany's DAX down 4.8%.

The Ellerston Global Mid Small Cap Fund declined 4.76% net during the month compared with the MSCI World Mid Cap (AUD) Index which was down by 1.75% over the same period. Financial year to date the Fund is up 4.59% which is broadly in line with the index.

The portfolio's top three contributors **Willscot Mobile Mini, Flex Group and hedging added 55bps** while **Assurant, Cellnex Telecom and Digital Bridge detracted 171bps** from performance.

The Fund had 15 portfolio companies reporting quarterly results or trading updates during the month. 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.

**GXO Logistics** is the largest pure play contract logistics player globally with key verticals of ecommerce and consumer staples driving the group. GXO reported 20% organic sales growth this quarter delivering both revenue and earnings ahead of expectations. Importantly it has a >\$2.3bn contract pipeline which is well diversified across geographies and customer verticals. Management upgraded full year revenue and earnings guidance which now includes the potential Clipper acquisition approval by year end offset somewhat by negative FX headwinds.

**Assurant** is a global leader in protecting and securing large consumer purchases such as mobile phones, automobiles and housing. It reported revenue and earnings which were marginally below expectations as its Global Housing insurance business was impacted by higher claims costs associated with labour and materials inflation. Global Lifestyle, which includes mobile phone/auto insurance and services was ahead of expectations with Management upgrading full year growth for this division. The Global Housing earnings impact should prove temporary as Assurant has inflation guards built into its policies and will benefit from double digit rate increases over the next 12 months. That said, Management now expects earnings growth to come in between +14-18% compared with its previous guidance of +16-20%.

**Willscot Mobile Mini** is the largest modular office provider in the US with c45% market share and continues to benefit from pricing and economies of scale. This quarter was no exception with revenue and earnings well ahead of expectations. Pricing was up 16% in its North American modular business with units on rent now starting to inflect to the upside. Management expects the benefits of inflationary impacts on its prices will continue to roll through its income statement over the next 18-24 months supporting margin expansion well into 2023 and beyond. Management upgraded full year earnings guidance to \$920m EBITDA midpoint with >\$500m free cash flow runrate entering 2023.

**Azek** operates in an effective duopoly in the US composite decking market which is benefiting from a shift from wood as consumers appreciate the recycling benefits as well as lower total cost of ownership associated with composite decking. While quarterly revenues were ahead of expectations, Management indicated that it would curtail deliveries as a result of channel inventory destocking which should be completed over the next 2 quarters. Manufacturing and delivery lead times have improved markedly over the past few quarters and this has resulted in lower "safety" inventory to be held in the system. Pricing has remained firm and the business should benefit from lower commodity costs over the coming quarters.

**TKH Group** is a leading player in the 2D and 3D machine vision market, a clear market leader in next generation tyre manufacturing equipment (which will benefit from EV adoption) and a top provider of energy cables providing offshore wind farm interconnection in Europe. TKH delivered a strong first half with organic revenue growth of 15.7% underpinning EBITA growth of 37.0%. It has a strong order book for its products however supply chain constraints continue to dampen overall growth while concurrently increasing working capital requirements. Despite this, Management provided strong FY22 net profit guidance which was ahead of market expectations.

**Digital Bridge** is a leading infrastructure partner to the digital economy with a strong market presence in towers, data centres, small cells and fibre. It is substantially growing its asset light, fee management business with a doubling of fee earning assets expected over the next 3 years. It is already 2/3<sup>rd</sup> of the way through its capital formation target for FY22 despite being only halfway through the year. Total company EBITDA increased from \$15m last year to \$31m this quarter with digital assets under management increasing 37% yoy to \$48bn and on track to reach its \$65bn proforma AUM when incorporating recent transactions. Management re-iterated FY23 EBITDA expectations of c\$300m increasing to \$430m by 2025.

**Floor and Décor** is a disruptive high growth specialty retailer in the c\$50bn US hard surface flooring and accessory market. Hard surface flooring is taking share from a soft surface (carpet) annually with Floor and Décor a prime beneficiary of this shift. Second quarter same store sales increased 11.7% with full year expectations brought in slightly to 10-11% (previously 10.5-13.0%). One of the attractions of the business is its strong store rollout opportunity with 20% new store growth expected for the foreseeable future. The business generates incredibly strong cash returns on each new store and with only 32% of its addressable footprint built out, it has significant white space opportunities.

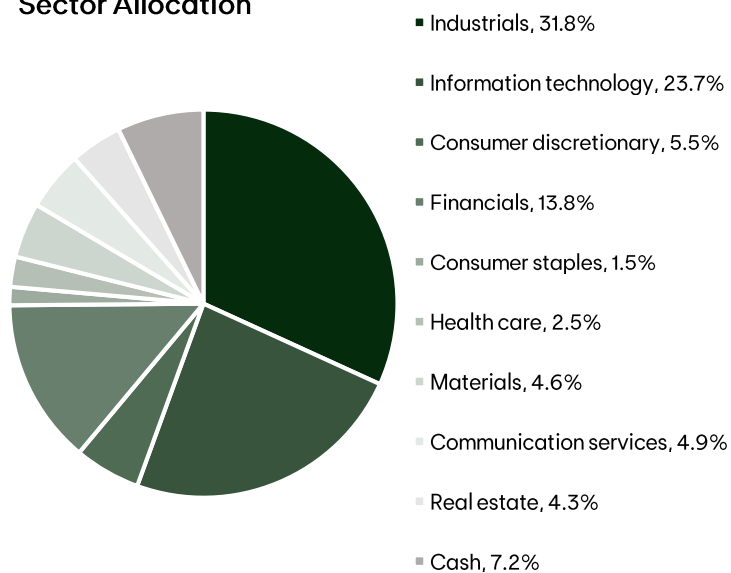
**First Watch** is a relatively recent IPO in the US casual dining market focusing on the daytime segment (7am to 2:30pm) which sets it apart for employees and customers alike. It is currently operating c450 stores and has estimated a total addressable opportunity of around 2,200 stores, again another strong rollout candidate. First Watch delivered same store sales growth of 13.4% and total sales growth of 19.8% to \$184.5m this quarter. It has raised prices a couple of times this year to offset commodity cost inflation which now appears to be stabilising. On the back of the strong first and second quarter results, Management increased full year guidance with revenues now expected to grow 20% as same store sales grow 13-15%, underpinned by continued positive traffic trends.

## Portfolio Characteristics

### Holdings

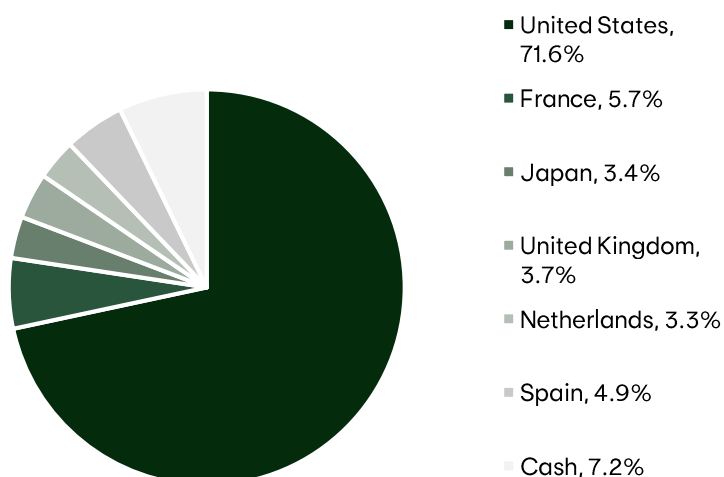
Top 10 holdings	Country	Sector	%
Flex Ltd	United States	Information Technology	5.10%
Assurant	United States	Financials	5.01%
Cellnex Telecom	Spain	Communication Services	4.93%
WillScot Mobile Mini	United States	Industrials	4.67%
Graphic Packaging	United States	Materials	4.60%
PTC Inc	United States	Information Technology	4.47%
Chart Industries	United States	Industrials	4.16%
Webster Financial	United States	Financials	4.02%
Sensata Technologies	United Kingdom	Industrials	3.93%
Ciena Corporation	United States	Information Technology	3.76%

### 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](mailto: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](mailto:info@ellerstoncapital.com)** or visit us at **[ellerstoncapital.com](http://ellerstoncapital.com)**.

All holding enquiries should be directed to our register, Mainstream Fund Services on **02 8259 8550** or **[InvestorServices@MainstreamGroup.com](mailto: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](http://www.ellerstoncapital.com) or by contacting [info@ellerstoncapital.com](mailto: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.