

# Ellerston Global Mid Small Cap Fund

Monthly Newsletter, September 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 <sup>^^</sup>	1 March 2017
Portfolio Manager	Bill Pridham
Class A Application Price	\$1.1462
Class A Net Asset Value	\$1.1433
Class A Redemption Price	\$1.1404
Class B Net Asset Value	\$0.9697
Class B Redemption Price	\$0.9673
Liquidity	Daily
No Stocks	20 - 40
Management Fee (Class A)	0.75%
Performance Fee	10% <sup>**</sup>
Buy/Sell Spread	0.25% on application 0.25% on redemption

<sup>\*\*</sup>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 <sup>^^</sup> (p.a.)
Class A <sup>^</sup>	-6.09%	-1.79%	-23.65%	5.14%	8.20%	9.11%
Benchmark <sup>*</sup>	-4.32%	0.21%	-14.45%	3.75%	7.06%	7.81%
Alpha	-1.78%	-2.00%	-9.20%	1.39%	1.14%	1.30%

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception <sup>***</sup> (p.a.)
Class B <sup>^</sup>	-6.09%	-1.69%	-13.16%	-23.14%	-	2.66%
Benchmark <sup>*</sup>	-4.32%	0.21%	-9.12%	-14.45%	-	5.59%
Alpha	-1.77%	-1.90%	-4.05%	-8.69%	-	-2.93%

<sup>^</sup> The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance.  
<sup>\*</sup> MSCI World Mid Cap Index NR (AUD)  
<sup>\*\*\*</sup> Class B Inception Date is 18 August 2020

## ESG in Focus

In January 2021, Joe Biden took office as President of the United States on his promise that a Democratic government would bring a rapid climate response. One month later, the US re-joined the Paris Agreement and vowed to 'take the lead on climate action'. Putting pen to paper, Biden set the goal of reducing US emissions to 50-52% below 2005 levels by 2030.

Despite this huge commitment, CO2 emissions in the US rose by +6% YoY in 2021. After the Build Back Better Bill failed to garner support in the Senate despite lengthy negotiations to reconfigure aspects of the Bill, promises had been made but still no action had been taken.

On August 16<sup>th</sup>, 2022, the Inflation Reduction Act was signed into law. The Bill contained key aspects of the original Build Back Better framework that were never passed, especially regarding clean energy transition and increasing domestic manufacturing.

The Act will allocate \$370 billion towards climate change and the energy transition. The investment aims to increase domestic production of wind turbines, solar panels, batteries, and other energy production and storage means including green hydrogen, nuclear, and carbon capture.

## Portfolio Commentary

From a global market perspective in the month of September, the S&P 500 and Nasdaq indices were lower by 9.2% and 10.4% respectively while Europe performed marginally better with the FTSE 100 lower by 5.2%, French CAC 40 index down 5.8% and Germany's DAX down 5.6%.

The Ellerston Global Mid Small Cap Fund declined 6.1% net during the month compared with the MSCI World Mid Cap (AUD) Index which was down by 4.3% over the same period. Financial year to date the Fund is down 1.8%.

Global weakness was mainly triggered by the US Federal Reserve (Fed) which made it clear that it was on a path to fight inflation via financial tightening and was accepting of potential economic weakness in achieving its goal. The market has been impacted by a significant multiple de-rating and the common view is that the next move will be driven by negative earnings revisions.

We remain intently focused on minimizing the risk of earnings disappointments by investing in quality businesses that have dominant or growing market shares in structurally attractive end markets, solid balance sheets, and cash flows while carrying attractive valuations.

The portfolio's top three contributors **Workiva, Option Care Health, and LiveRamp Holdings** added 15bps while **Digital Bridge, Cellnex, and Ciena Corporation** detracted 248bps from performance.

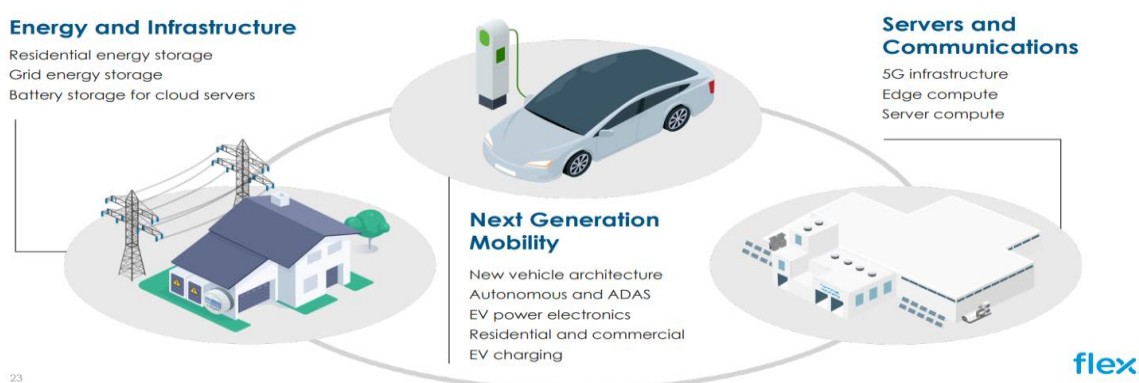
## STOCK IN FOCUS: Flex Group (FLEX US, \$8.3bn Market Cap)



Flex is one of the largest contract manufacturing companies globally operating over 100 facilities in 30 countries providing its customers with world-class manufacturing capabilities. Over the past few years, it has significantly changed its portfolio mix to higher margin, secularly growing market segments such as digital healthcare, 5G, cloud applications, and next-generation mobility, which we will discuss here.

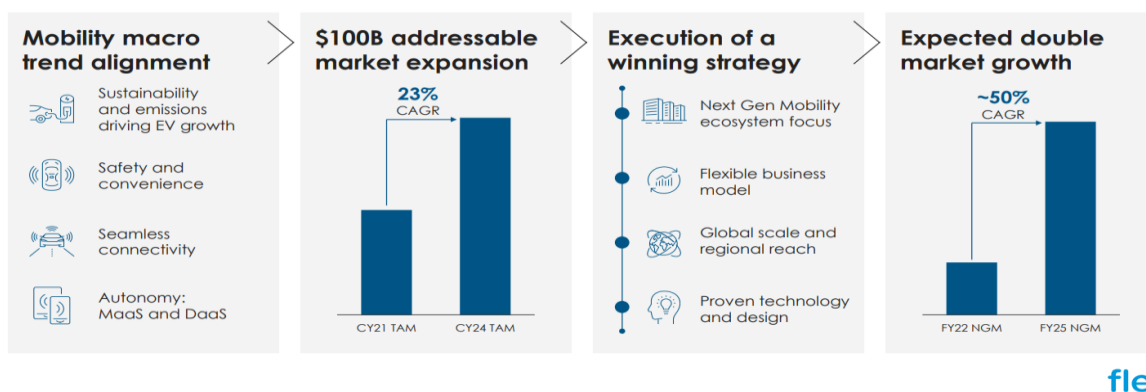
Flex is uniquely positioned in the next-generation mobility market, not just manufacturing components for electrical vehicles but a multi-segment product approach to address this megatrend. The growth of electrification, which is underpinned by the recently passed Inflation Reduction Act, means much more than on-vehicle content. Think of the EV chargers for residential and commercial, and to residential and grid energy storage systems powering these chargers and closing the loop, vehicle-to-infrastructure 5G connectivity from car to edge to cloud, providing these connected services, and the advanced battery storage systems protecting these cloud servers.

### Leveraging Flex's full capabilities to enable the next generation electric mobility ecosystem



The total addressable market for Flex's next-generation mobility segment is expected to approach \$100bn by CY2024 with especially strong growth in EV components opening up its total pipeline of opportunities. It expects to generate 50% compound growth in this segment with economies of scale driving increased profitability as well. Recent project wins and subsequent ramps are driving increased Flex content per vehicle as it designs its own products and co-designing with its customers.

# Flex is uniquely positioned to deliver above market growth in Next Gen Mobility



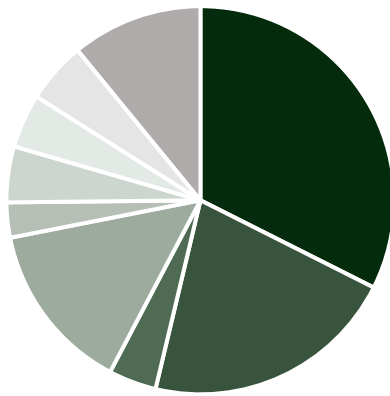
Now, this is just one segment within Flex, however, with the strong tailwinds of regulation and stimulus underpinning the opportunity, there seems to be significant earnings momentum over the next few years. At the time of writing, Flex is currently trading on a forward price-to-earnings multiple of 8.3x and is on track to generate >\$500m of free cash flow this financial year which compares well with its \$8.3bn market cap.

## Portfolio Characteristics

### Holdings

Top 10 holdings	Country	Sector	%
Flex Ltd	United States	Information Technology	5.44%
WillScot Mobile Mini	United States	Industrials	5.35%
Assurant	United States	Financials	5.24%
Graphic Packaging	United States	Materials	4.66%
PTC Inc	United States	Information Technology	4.65%
Chart Industries	United States	Industrials	4.51%
Cellnex Telecom	Spain	Communication Services	4.50%
Webster Financial	United States	Financials	4.41%
Sensata Technologies	United States	Industrials	4.15%
Rentokil Initial plc	United Kingdom	Industrials	3.76%

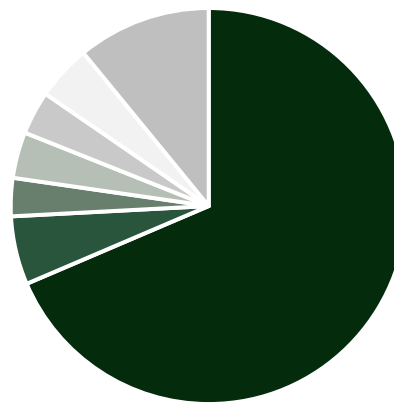
## Sector Allocation



- Industrials, 32.4%
- Information technology, 21.3%
- Consumer discretionary, 4.0%
- Consumer staples, 14.2%
- Health care, 2.9%
- Materials, 4.7%
- Communication services, 4.5%
- Real estate, 5.1%
- Cash, 10.9%

Source: Ellerston Capital.

## Geographic Allocation



- United States, 68.6%
- France, 5.6%
- Japan, 3.1%
- United Kingdom, 3.8%
- Netherlands, 3.5%
- Spain, 4.5%
- Cash, 10.9%

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

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### 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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