Ellerston Global Mid Small Cap Fund

Monthly Newsletter, October 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	$1.2444
Class A Net Asset Value	$1.2413
Class A Redemption Price	$1.2382
Class B Net Asset Value	$1.0528
Class B Redemption Price	$1.0502
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^	8.57%	-2.90%	-16.87%	7.72%	9.14%	10.56%
Benchmark*	7.55%	1.10%	-8.53%	6.14%	7.77%	9.08%
Alpha	1.02%	-4.00%	-8.34%	1.57%	1.37%	1.48%

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception*** (p.a.)
Class B^	8.57%	-2.86%	-4.82%	-16.37%	-	6.38%
Benchmark*	7.55%	1.10%	0.16%	-8.53%	-	8.84%
Alpha	1.02%	-3.96%	-4.99%	-7.84%	-	-2.47%

^ 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 Ellerston Global Mid Small Cap Fund increased 8.57% net during the month comparing well to the MSCI World Mid Cap (AUD) Index which was up by 7.55% over the same period.

With September quarter earnings reports and trading updates rolling in around the world, we have had a very busy period over the past few weeks with the majority of our positions providing earnings updates and outlooks. Given the importance of earnings resiliency into a potential economic slowdown we will focus on, and relay to you, how our companies have been performing.

The portfolio's top three contributors **Flex Group, Chart Industries and Webster Financial** added 274bps while portfolio hedging was the dominant drag during the month.

Firstly, our regional banks, **Comerica and Webster Financial** both delivered solid results despite concerns around economic growth and the rising cost of funding. Webster, which has recently undergone its merger with Sterling, saw exceptional loan growth of 13% from last quarter driven by commercial and industrial segments. Webster also managed to grow deposits 2% despite run off trends across the industry. This was in part supported by strong performance in HSA which is a differentiated source of low-cost deposits. As a result, Webster reported net interest income and EPS comfortably ahead of consensus. Webster updated full year loan growth estimates to 14% YoY compared to previous estimates of 8-10% YoY due to larger than anticipated revenue synergies post-merger.

Comerica grew its net interest income by 26% in the third quarter, slightly ahead of guidance. Loans grew >2% in the quarter driven by strength in Commercial Real Estate and National Dealer Services. While deposits declined sequentially, the mix was favourable with higher run off in interest bearing accounts. This is supported by Comerica's relationship banking services which allow them to maintain one of the lowest costs of funding in the industry. Comerica raised full year guidance slightly, now looking for net interest income +33% YoY driven by average loan growth ex-PPP of 7% YoY.

Flex is one of the largest contract manufacturers globally while also owning the largest solar tracking business in the world – Nextracker. Revenues came in +25% 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 underpinned by secular outsourcing and reshoring trends, as well as incremental improvement in the supply chain. The Nextracker business performed very well with revenue growth of 40% and operating margin of >9% showing significant sequential improvement as we gradually work through shipping cost surges.

WillScot Mobile Mini is the leading provider of modular space and storage units in the US with 45% share in Modular and 25% in Storage units. It serves customers across a diverse range of end markets from construction and industrial to government and healthcare. The business again delivered a stellar beat and raise quarter as the business 'compounds at a pace faster than we thought a year ago'. Pricing remained strong in the double digits (Storage +27%, Modular +19%) driven by spot rates and penetration of value-added products and services (VAPS). Volumes also grew with Storage adding almost 39,000 units YoY and Modular deliveries 'the strongest since 2019'. This all sets up for a record 2023 run rate, along with significant EBITDA and FCF expansion as the business tapers off elevated capex and variable costs.

Chart Industries is a global manufacturer of specialised equipment servicing multiple applications in the clean energy, industrial gas and water treatment markets. The company reported $730m in orders for the quarter, double last year's levels. As a result, the backlog reached a record of >$2.2bn. Both sales and earnings also broke companywide records up 25% YoY and 170% YoY respectively. Chart continues to benefit from pricing initiatives implemented late last year and is seeing incredibly strong demand in its Heat Transfer segment which is underpinned by global LNG demand and increased investment in energy security. The specialty segment also saw record breaking demand driven by the Inflation Reduction Act which covers Carbon capture, Hydrogen and Water treatment solutions.

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 fourth quarter result as it has a September year end. Management delivered a sales and cash flow beat in the quarter and provided maiden FY23 guidance for ARR growth of 10-14% and adjusted FCF growth of 20%, both above consensus estimates heading into the result. Churn is reducing and customer demand is at record levels, although currency movements are slightly moderating reported results. Key customer design challenges in industries such as automotive, energy and defence are powering demand for core products such as PLM and CAD, thus far demonstrating a high level of sales durability in a challenging operating environment.

Graphic Packaging is the world's leading fibre-based consumer packaging company with significant market share and economies of scale benefits. The company delivered another incredibly strong quarter with >5% organic growth as its innovation pipeline and consumer demand for sustainable packaging leads to growth in excess of the broader industry. Graphic's pricing power allows them to more than offset cost inflation as they are now expecting $425-$475m of price-cost benefit this year. As a result, the company upgraded full year financial guidance again which implies >50% YoY growth in EBITDA. Rolling into 2023 the company has already locked in a further $225m of price-cost benefit. Despite strong performance, the stock is still trading cheaply on 9x next year's earnings.

Sensata Technologies is a global leader in mission critical sensors which are primarily used in the automotive, heavy vehicle and industrial markets. Sensata's third quarter results came in line with market expectations. Excluding FX impacts, the result was at the top end of its guidance. Sensata expects global light vehicle production of +3% in the fourth quarter as supply chains gradually improve. Most importantly, Sensata's growth trends continue to be structural with every quarter this year posting >600bps of end market outgrowth. IHS now expects one third of all light vehicles produced in 2026 to be battery-electric or plug-in hybrids which is up from one quarter previously. The market shift to electrification continues to accelerate as does Sensata's ability to grow in excess of the market and capture share through key design wins.

Rentokil Initial is the world's largest hygiene and pest control company which delivered a third quarter trading update that maintained growth rates from the first half of the year – a solid outcome given the increasing inflationary pressures which their customers are facing. But perhaps more importantly, management flagged they will be providing an update on the expected $150m of synergies from the recently closed Terminix acquisition (by far the largest in the company's history) at its full year results in March 2023, which we think opens the door for a potential increase in the total quantum of expected synergies.

Assurant is the leading global provider of lifestyle and housing solutions that support, protect and connect major consumer purchases. Management had previously provided business commentary in a pre-release of quarterly earnings which was below expectations. While the Housing business performed in line with expectations, there were new headwinds within the Connected Lifestyle business including unfavorable FX and lower attachment rates within International Mobile, as well as higher Auto claims severity within extended service contracts and lower Mobile trade-in margins (though this is already seeing improvement). In light of these challenges, management expect slower but still positive growth for FY'23 and are undertaking several expense and pricing initiatives.

Advantest currently has over 50% market share in the global system on chip (SoC) testing market which is driven by increased complexity and penetration of semiconductor chips in pretty much every device globally. The business is performing strongly against a cyclical downturn in the broader semiconductor market with a second quarter earnings beat and reiterated guidance for the financial year ending March 2023. Orders continued to outpace sales resulting in a growing backlog which underpins management's confidence in business resilience through the semiconductor cycle. Advantest is already fielding business discussions for 2024 and beyond, reflecting the increasing strategic nature of testing.

Soitec is the dominant player in providing next generation semiconductor materials which dramatically increase efficiency while simultaneously reducing power consumption in next generation devices and applications. It has >70% market share in its end markets which include products used in mobile communications, automotive/industrial and smart device applications. Soitec's second quarter revenue re-accelerated to 28% (in constant currency) as the business rebounded after factory disruptions in the first quarter. With strong committed contracts, management remains confident on achieving full year revenue growth of >20% and EBITDA margins of 36%. Marquee customers for the new SmartSiC product are also to be announced by year-end.

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 good set of third quarter results with revenue up 14.5% and EBITDA up 10% to >$85m. The business is benefiting from share gains as several competitors exit certain categories in acute care. However, there were ramp-up costs to go after this new opportunity as well as higher-than-expected inflationary impacts which impacted its gross margin. While these transitory challenges may take time to play out, we believe the underlying business is performing strongly as chronic care continues to grow mid-teens.

Bureau Veritas is a leader in laboratory testing, inspection and certification (TIC) services. This quarter the company provided a sales update which demonstrated continued benefits from increased regulation and testing requirements for businesses. BVI reported sales growth of +17% YoY consisting of +8.7% organic growth, +1.3% YoY from acquisitions and +7% YoY currency benefit. Going into the result consensus was looking for 6.2% organic growth for the quarter. The company is now tracking at +7.3% YoY organic growth year-to-date which is comfortably above the company's full year guide of MSD organic growth. BVI also reiterated its expectation that operating profit margins will improve this year, excluding the impact of China lockdowns.

Digital Bridge is the largest specialist digital infrastructure business in the world, focusing on building and operating digital assets which enable the insatiable demand for data consumption. The underlying business performed well over the third quarter with strong demand at its portfolio companies across mobile towers, data centre, fibre and small cell infrastructure. We also saw the disclosure of carried interest (performance fees) for the first time. While capital formation is challenging in the current macroeconomic environment, the business is running ahead of its $3.8bn FY'22 target and remains confident in its 'specific game plan for fundraising for next year'. Digital Bridge is undergoing a period of price discovery as it transitions to an asset-light investment management platform.

Iron Mountain helps organizations around the world protect their information, reduce storage costs, comply with regulations, facilitate corporate disaster recovery and better use their information, via a combination of physical and digital records and documents storage while concurrently providing data center space for enterprise and hyperscale deployments. We appreciate the generally stable and reliable stream of cashflows the company generates, and the 3Q did not disappoint with 3Q constant currency EBITDA up 16%, right in-line with expectations, and full year EBITDA growth guidance of 10-13% reiterated. Both storage and services offerings are growing at attractive levels (up 10% and 33% in constant currency, respectively), while fully self-funded data center developments continue.

Floor & Decor is a differentiated, high-growth, multi-channel specialty retailer of hard surface flooring and related accessories. The third quarter was solid, with management achieving a 11.6% same store sales growth rate in a challenged operating environment and EBITDA coming in above estimates. Drivers including e-commerce, professional customers, commercial, and design services all provided tailwinds to the company sales growth rate. As we look into 2023, inventory levels are healthy, gross margins are increasing, and recent price increases continue to provide a lift to sales growth.

XPO Logistics is the third largest provider of domestic and cross-border "Less than Truckload" (LTL) shipping in North America with extensive scale and barriers to entry. XPO delivered third quarter earnings +54% ahead of last year. The result was driven by strong operating performance and improved leverage which allowed the company to reduce interest expense in a rising rate environment. The LTL segment saw yield growth of 7% YoY and improving tonnage trends which inflected to positive YoY growth in September, a key leading indicator for strong performance over the holiday period. The truck brokerage business, now listed separately as RXO, saw similarly strong performance. September loads per day reached an all-time record. Volumes and gross profit dollars continued to grow at a 15% and 35% CAGR respectively.

Bloom Energy creates stationary fuel cells predominantly used in micro-grid and primary power applications. Bloom is directly positioned to benefit from the energy transition and estimates that it has an 80% share of installed stationary fuel cells in both the US and South Korea. Bloom reported record third quarter sales of $292m up +41% YoY and gross profit margins of 19%. Most importantly, the company reiterated its full year guidance of sales $1.15bn and gross profit margins of 24%. Bloom is on track to double its manufacturing capacity by 2023 with the successful ramp up of the Fremont facility. As a result, roughly 40% of system builds this year will be completed in the fourth quarter allowing them to exit the year at a gross profit margin of 30% which could put the company ahead of medium-term targets.

Zillow is the most visited real estate website in the US, and a provider of digital solutions helping home buyers and real estate agents buy, sell, rent and finance property. The Q3 EBITDA result in the core IMT division of $164m was well above company guidance of $111-121m, as the company moderated its discretionary spend and importantly is seeing customer demand trending above industry levels. The Q4 guidance reflects the very challenging housing market, but cost management is sensible, revenue is outpacing the industry, and continued execution across a range of company initiatives (ranging from touring to financing to agent technology tools). Overall, we see Zillow as exceptionally well placed to benefit once industry volumes stabilize.

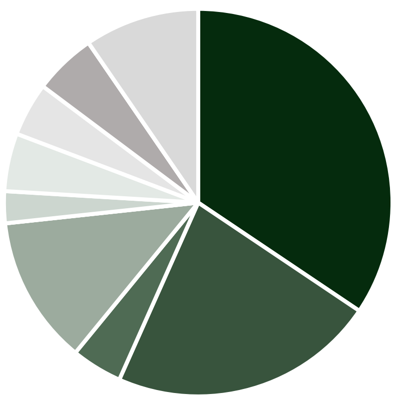
Workiva provides a cloud-based reporting platform for private and publicly listed companies that promotes data transparency. Revenues of $135m came in at the top end of the company's guide and profitability was better than expected driven by increased customer acquisition through its partner network. The company issued fourth quarter guidance in line with consensus numbers but raised the full year guide in line with the third quarter beat. Customer count increased by 1,395 from this time last year, with 895 coming from the acquisition of ParsePort in Europe earlier this year. Organic customer count increased 12.1% YoY and 2.5% QoQ. Underlying revenue per customer also increased low single digit YoY supported by increased demand for ESG reporting solutions. Management also reiterated 20% topline growth over the medium term.

Portfolio Characteristics

Holdings

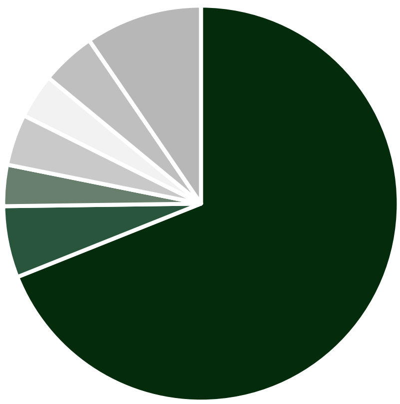
Top 10 holdings	Country	Sector	%
Flex Ltd	United States	Information Technology	5.76%
WillScot Mobile Mini	United States	Industrials	5.08%
Chart Industries	United States	Industrials	4.88%
Graphic Packaging	United States	Materials	4.83%
PTC Inc	United States	Information Technology	4.61%
Webster Financial	United States	Financials	4.60%
Cellnex Telecom	Spain	Communication Services	4.47%
Assurant	United States	Financials	4.37%
Sensata Technologies	United States	Industrials	4.24%
Rentokil Initial plc	United Kingdom	Industrials	4.18%

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

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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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