

Ellerston Global Mid Small Cap Fund

Monthly Newsletter, November 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	\$1.2537
Class A Net Asset Value	\$1.2506
Class A Redemption Price	\$1.2475
Class B Net Asset Value	\$1.0607
Class B Redemption Price	\$1.0580
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	1Month	3 Months	1Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception^^ (p.a.)
Class A^	0.75%	2.72%	-19.23%	6.09%	8.46%	10.54%
Benchmark*	2.79%	5.77%	-8.06%	5.50%	7.64%	9.47%
Alpha	-2.04%	-3.05%	-11.18%	0.59%	0.82%	1.08%

Performance	1Month	3 Months	6 Months	1Year	3 Years (p.a.)	Since Inception*** (p.a.)
Class B^	0.75%	2.72%	-1.39%	-18.78%	-	6.48%
Benchmark*	2.79%	5.77%	4.03%	-8.06%	-	9.80%
Alpha	-2.04%	-3.05%	-5.42%	-10.73%	-	-3.32%

^ 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

As we have previously highlighted ([see E-Waste Blog here](#)) the global e-waste problem is large and growing with over 57m tonnes of e-waste generated in 2021. Naturally we initially think about our own computing devices such as smartphones, personal computers and laptops being the dominant driver of this problem however what many don't appreciate is the amount of redundant IT equipment associated with the ever-expanding cloud.

Hyperscalers such as Amazon, Alphabet and Microsoft are expanding their respective cloud footprints and adopting the most recent technology in the process. What may be forgotten is what happens with the legacy equipment which has now become outdated and subject to the scrap pile? Additionally, companies themselves are moving from on-premise (owning their own servers) to off-premise (third party data centers such as Next DC or Equinix) which is also resulting in a mountain of redundant IT equipment.

These IT assets typically hold sensitive information and when decommissioning these servers the information must be either thoroughly erased or securely transferred onto the new platform. There is a serious social risk if this data is not managed properly or falls into the wrong hands.

Overall, the size of the e-waste and data security problems are only set to grow right alongside cloud growth. But with an increasing focus on a circular economy via reusing and recycling, we can manage the impact of the problem to the best extent possible.

Portfolio Commentary

The Ellerston Global Mid Small Cap Fund increased 0.75% net during the month compared to the MSCI World Mid Cap (AUD) Index which was up by 2.79% over the same period.

Global markets delivered a solid month during November with the rally largely driven by Chinese strength as a relaxation of COVID restrictions supported local markets as well as global companies exposed to a re-opening of the region. Additionally, signs that the Fed would not be as aggressive with its rates increase in December with a 50bps increase telegraphed by Chairman Powell (compared with 75bps previously expected by the market) drove positive equity returns.

The market looks to have sufficiently priced in the hawkish Fed while inflation readings (at least for the time being) appear to be moving lower despite elevated and persistent wage inflation. The question going forward will be the economic, and therefore corporate profit impact, associated with one of the fastest interest rate tightening regimes we have experienced in generations. While we have recently seen an easing in financial conditions, they are still tight relative to past periods and as such will likely result in slowing demand into 2023.

With this in mind, it has never been more important to be exposed to companies with strong secular or structurally growing end markets, high or growing market shares with commensurate pricing power driving sustainable cash flows and strong balance sheets. We consider companies with mission critical tangible assets are becoming even more valuable as the earnings certainty associated with these assets will prove increasingly attractive to both public and private investors.

The portfolio's top three contributors **Willscot Mobile Mini, Flex Group and Soitec** added 196bps to performance while **Chart Industries, Ciena and Assurant** detracted 233bps during the month.

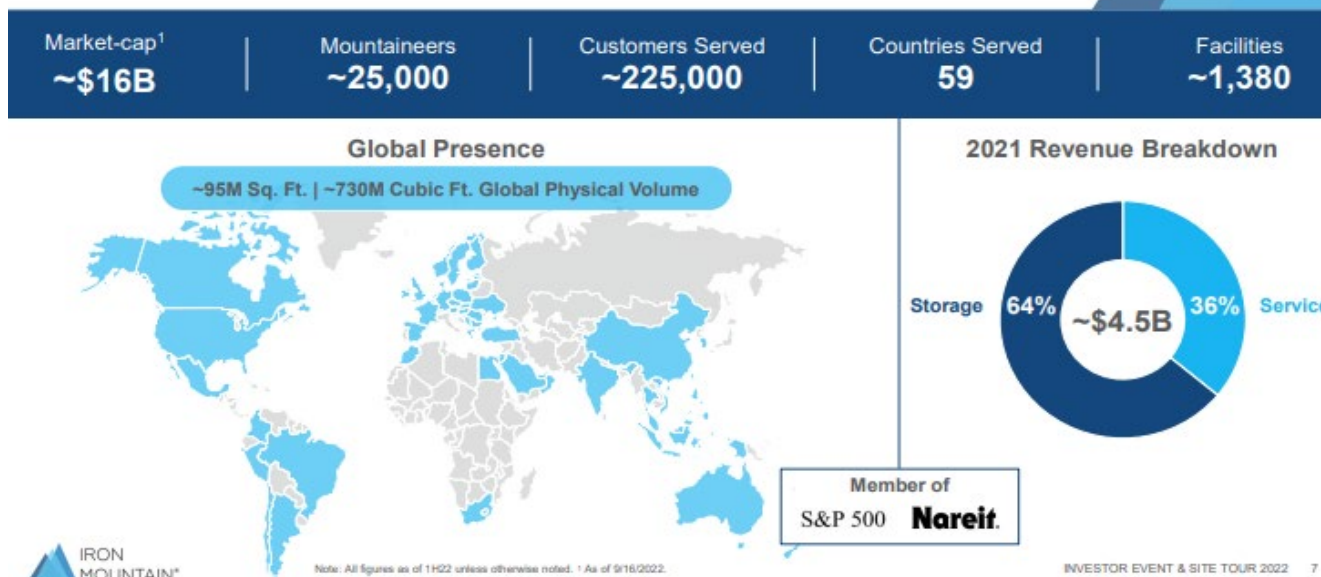
Stock In Focus: Iron Mountain (IRM US, \$16.0bn Market Cap)



Iron Mountain is a global business dedicated to storing, protecting and managing, information and assets. Organisations across the globe trust it to store and protect information and assets. Thousands of local enterprises work with it, as **does almost all of the FORTUNE 1000**. 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. Iron Mountain stores physical and digital records and documents while concurrently providing data center space for enterprise and hyperscale deployments.

It counts 95% of the global Fortune 1,000 as customers and has maintained these relationships for decades, with minimal turnover. The majority of earnings are currently derived from its global information management division which boasts very high margins and cash generation which internally funds its data centre growth trajectory. The **market opportunity has been estimated at over \$130bn** giving the business substantial scope to grow over the next several years.

IRON MOUNTAIN SNAPSHOT (NYSE: IRM)



Source: Iron Mountain.

A recent move into Asset Lifecycle Management delivers a number of services around customer IT assets such as servers and computers. These services include securing and wiping data off old IT equipment, refurbishing, reselling or reclaiming commodities which helps reduce e-waste while ensuring customer data integrity. It has capabilities to re-market assets where possible through refurbishment, data sanitization and reselling at a market price, thus reducing the total cost of ownership for the customer. And where re-marketing is not possible, e-waste recycling occurs by de-manufacturing the assets into commodity categories subject to guidelines including no-overseas and no-landfill policies. Iron Mountain is one of the largest IT asset disposition players, operating in 30 countries, sanitizing 3m+ drivers per year and generating US\$1bn+ for clients via asset re-marketing.

3M+ DRIVES
Sanitized per year

\$1B+ GENERATED
For clients via remarketing

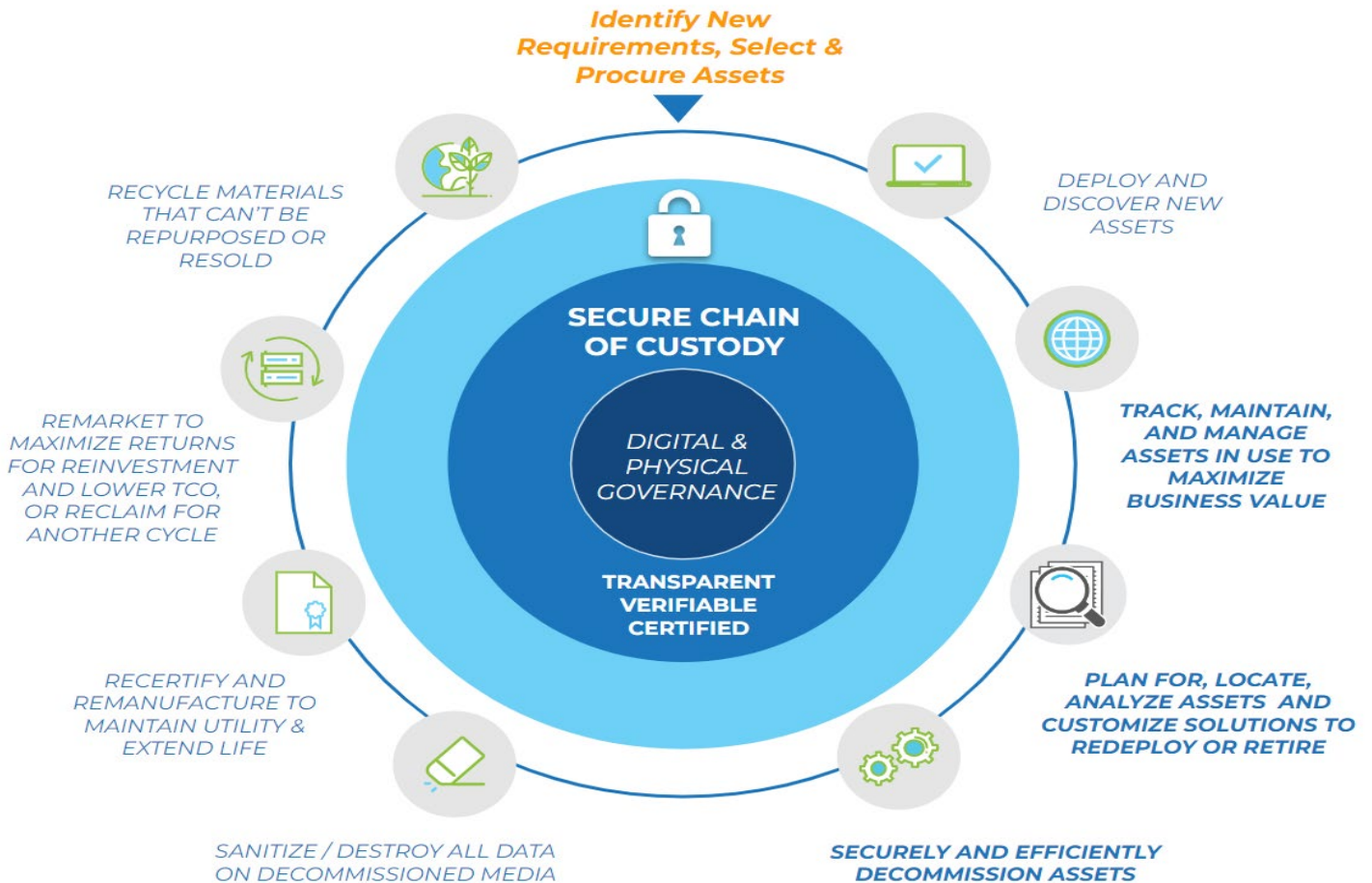
650K+ END-USER ASSETS
Processed per year

32 COUNTRIES
Supported globally

Source: Iron Mountain.

Continuous technological innovation has produced an explosion of e-waste which has resulted in increased regulation focused on improving global sustainability. At every step of the way, Iron Mountain works with its customers to reduce their carbon emissions and e-waste. By enabling faster and less disruptive refresh cycles, Iron Mountain makes it easier for companies to quickly deploy newer, more efficient, and environmentally friendly technology. At the same time, remarketing and recycling programs minimize the amount of material entering waste streams. Additionally, its comprehensive, audit-ready reporting helps companies measure and manage performance against their ESG targets.

With more frequent individual device and data center infrastructure refresh cycles, maximizing agility, efficiency, and return on investment (ROI) is key for its customer's competitive edge. Through its remarketing services, customers report up to 45% higher recovery value, which helps fund tech refreshes and alleviate stretched departmental budgets. From onsite data sanitization, deinstallation, and device pickup to sustainable asset disposition, having one partner streamlines operations while reducing costs and managing security risks.



Source: Iron Mountain.

Iron Mountain is a relatively new entrant into the fund. The company held an Investor Day in late September where it unveiled its Project Matterhorn strategy which was underpinned by an aggressive expansion of its data center footprint with around \$4bn expected to be deployed over the next four years. In the presentation, Management highlighted the ability to increase its data centre capacity by 4x with existing land and power under contract. This should drive >20% compound growth in its data center business while its very high margin document management business should grow mid-single digit.

The market was unimpressed with the increased capex profile however we considered it a strong opportunity for the company to cross sell existing customers into new data center capacity, which will be fully funded by existing cash flows. This is an enviable attribute relative to pure play data center companies which are generally dependent on outside capital to grow. The share price weakness post the Investor Day gave us the opportunity to enter the stock at a very attractive discount to intrinsic value.

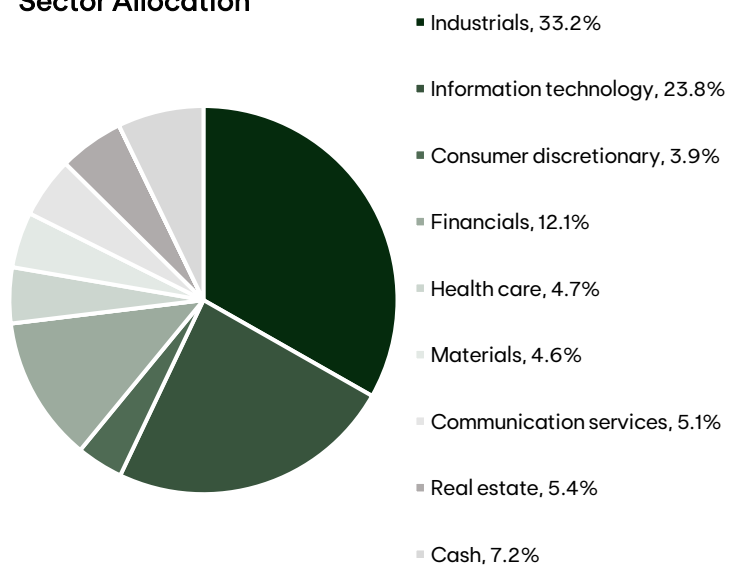
Overall Management expects the combination should drive 10% compound Revenue and EBITDA growth out to 2026 and with its services generally non-discretionary and mission critical to its customers, combined with strong pricing power, we see the growth profile as enduring. Combined with a close to 5% dividend yield we see a solid double digit annual compounding opportunity in the stock.

Portfolio Characteristics

Holdings

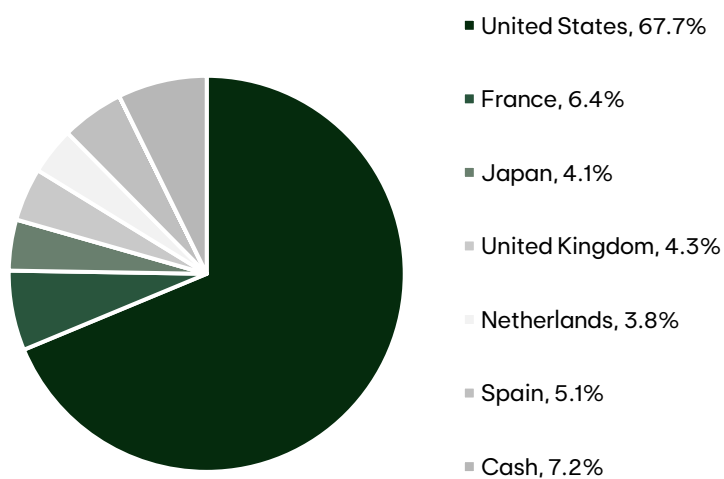
Top 10 holdings	Country	Sector	%
Flex Ltd	United States	Information Technology	5.19%
Cellnex Telecom	Spain	Communication Services	5.05%
PTC Inc	United States	Information Technology	4.78%
Graphic Packaging	United States	Materials	4.64%
Sensata Technologies	United States	Industrials	4.56%
Webster Financial	United States	Financials	4.43%
Rentokil Initial plc	United Kingdom	Industrials	4.27%
Advantest	Japan	Information Technology	4.10%
Assurant	United States	Financials	3.96%
WillScot Mobile Mini	United States	Industrials	3.95%

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.

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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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