

# Ellerston Global Mid Small Cap Fund

Monthly Newsletter, January 2023

## 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	\$1.2685
Class A Net Asset Value	\$1.2653
Class A Redemption Price	\$1.2621
Class B Net Asset Value	\$1.0731
Class B Redemption Price	\$1.0704
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^	7.11%	1.93%	-13.22%	4.75%	9.16%	10.45%
Benchmark*	4.34%	2.65%	-5.40%	4.68%	7.70%	9.16%
Alpha	2.77%	-0.71%	-7.83%	0.06%	1.46%	1.29%

Performance	1Month	3 Months	6 Months	1Year	2 Years (p.a.)	Since Inception*** (p.a.)
Class B^	7.10%	1.93%	-0.99%	-12.88%	-0.10%	6.53%
Benchmark*	4.34%	2.65%	3.78%	-5.40%	6.23%	9.06%
Alpha	2.76%	-0.72%	-4.76%	-7.48%	-6.33%	-2.53%

^ 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 PFAS family of chemicals are known as "forever chemicals" because they do not break down in the environment and can accumulate in the bodies of animals and humans over time. There are thousands of different forms of PFAS, some of which have been more widely used and studied than others.

Firstly, let's get the long form name out of the way! PFAS stands for per- and poly-fluoroalkyl substances and are man-made chemicals used in products that resist heat, oil, stains and water. The chemicals have been used around the world, as well as here in Australia, in many common household products and specialty applications since the 1940's because of their useful properties.

The trouble is that what made this family of chemicals (long lasting with components that break down very slowly over time ie forever chemicals) so attractive in many end applications is now the reason they are now creating widespread health concerns around the world. Concentrated levels of PFAS in humans have been linked to increased risk of cancer, reproductive issues and a reduction in immunity, to name a few.

This family of chemicals is certainly testing the old phrase that "nothing lasts forever" and for more colour around the topic, please see our latest blog [here](#).

## Portfolio Commentary

The Ellerston Global Mid Small Cap Fund increased 7.11% net during the month compared to the MSCI World Mid Cap (AUD) Index which was up by 4.34% over the same period. Very solid underlying stock performance was tempered by a strong Aussie Dollar which appreciated c3.5% in January, thereby detracting from returns by the same degree.

Global markets were quite solid during the month of January as the "Santa Claus" rally that went AWOL in December presented itself in spades during the first month of 2023. Markets were buoyed by China's re-opening and signs that disinflation is prompting a slower pace of policy tightening. Interestingly, the laggards of last year led the charge higher in January with semiconductors, media and consumer discretionary stocks leading the way.

Most major markets ended substantially higher with the S&P 500 and Nasdaq closing up 6.3% and 10.7% respectively. In Europe, broad based strength was evident with the DAX and CAC up 8.7% and 9.5% while the Japanese Nikkei rose by 4.7%.

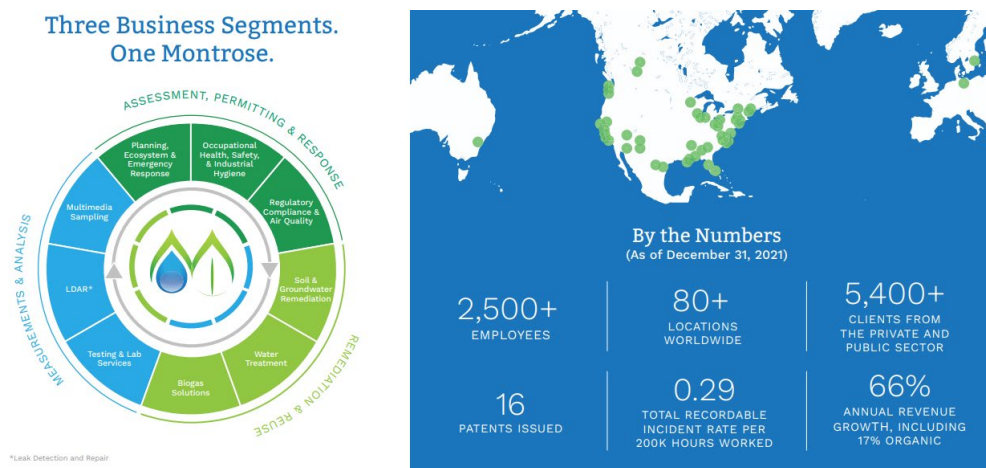
Although most market strategists expected a very weak start to the year, the US market seemed to approach "peak soft landing" as a continuation of weaker inflation prints have been met with earnings reports coming in much better than expected. If you remember, 2022 was characterised by a compression of the market multiple as global yields rose dramatically and the focus then shifted to earnings risk into 2023. The question remains as to whether the "earnings cliff" that was expected to drive the next leg lower in the market has been eliminated, moderated or merely postponed.

## STOCK IN FOCUS: Montrose Environmental (MEG US, \$1.6bn Market Cap)



Montrose Environmental is a US based environmental services company providing a diverse range of innovative solutions to help clients and communities meet their environmental needs and goals to address the world's environmental challenges. It is organised into three business units, Assessment, Measurement and Remediation, which are vertically integrated thereby providing a one stop shop offering. It has an expansive customer base around the world (although predominately US) with a potential addressable market of >\$400bn in the US alone.

Its Assessment business basically determines what the client's environmental risk or liability is, which is especially important as regulations constantly change with each iteration typically more onerous than the previous. Then if there is an environmental risk, Montrose's measurement and analysis segment determines where the client stands today and what needs to be done to address the problem. On the back of this determination, its remediation and reuse division helps clients clean up or fix the problem. The majority of Montrose customers are private enterprises with very sticky and predictable revenues as c95% of business in any one year typically comes back the next.



The PFAS issue highlighted earlier touches all three of Montrose's business units and with regulatory thresholds coming down, risk liabilities are going up for its client base. Business activity associated with PFAS currently represents about 20% of company revenues with the potential addressable market quite large as >\$160bn of spend is potentially required over the coming decades to address the issue just in the US alone.

## Working Across Montrose to Help Solve the Global PFAS Problem



### Environmental Challenge:

PFAS are widely used, long lasting chemicals components which break down very slowly over time in water, air and soil

### Remediation Outlook:

PFAS remediation expenditures in the U.S. are estimated to surpass \$160 billion<sup>(9)</sup> at over 40,000 sites over the next 20-30 years

### Montrose Integrated PFAS Solutions:

- Human health and environmental risk communication
- Front-end planning
- Site characterization sampling and evaluation
- Laboratory testing
- Toxicology and risk assessment
- Regulatory compliance
- Air testing
- Water and soil remediation
- Water treatment design and installation

(9) Environmental Business Journal, Volume XXXII, Numbers 5/6, 2019

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Montrose entered the portfolio in September 2022 after it declined from a high of over \$70 at the start of the year to our entry price of just under \$39.00 as market multiples were compressed as interest rates moved higher. The business itself remained quite strong over the period and represented a classic "Fallen Angel" opportunity for us as long-term shareholders. While we have taken some profit over the past month, we consider that Montrose will remain a steady contributor to our portfolio over the coming years.

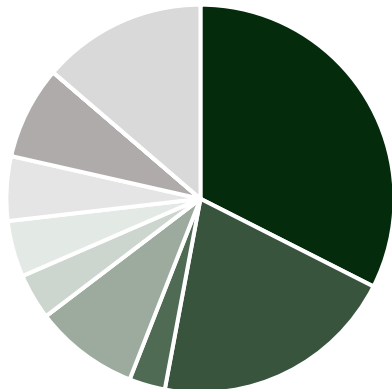
## Portfolio Characteristics

### Holdings

Top 10 holdings	Country	Sector	%
Cellnex Telecom	Spain	Communication Services	5.37
Sensata Technologies	United States	Industrials	4.94
Graphic Packaging	United States	Materials	4.68
Ciena	United States	Information Technology	4.28
TKH Group	Europe	Industrials	4.27
Webster Financial	United States	Financials	4.12
Rentokil Initial plc	United Kingdom	Industrials	4.05
PTC Inc	United States	Information Technology	3.95
WillScot Mobile Mini	United States	Industrials	3.81
DigitalBridge	United States	Real Estate	3.81

### Sector Allocation

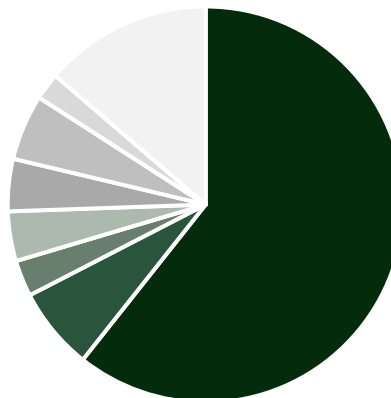
- Industrials, 32.5%
- Information technology, 20.5%
- Consumer discretionary, 3.0%
- Financials, 8.7%
- Health care, 3.8%
- Materials, 4.7%
- Communication services, 5.4%
- Real estate, 7.8%
- Cash, 13.7%



Source: Ellerston Capital.

### Geographic Allocation

- United States, 60.6%
- France, 6.8%
- Japan, 3.0%
- United Kingdom, 4.0%
- Netherlands, 4.3%
- Spain, 5.4%
- Cash, 13.7%



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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### 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](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)

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