

Ellerston Global Mid Small Cap Fund

Monthly Newsletter, February 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	\$1.2954
Class A Net Asset Value	\$1.2922
Class A Redemption Price	\$1.2890
Class B Net Asset Value	\$1.0960
Class B Redemption Price	\$1.0933
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^	2.13%	3.33%	-7.64%	7.05%	9.24%	10.69%
Benchmark*	1.73%	1.59%	-0.07%	7.33%	8.18%	9.34%
Alpha	0.40%	1.74%	-7.57%	-0.27%	1.07%	1.34%

Performance	1Month	3 Months	6 Months	1Year	2 Years (p.a.)	Since Inception*** (p.a.)
Class B^	2.14%	3.33%	6.14%	-7.32%	0.12%	7.19%
Benchmark*	1.73%	1.59%	7.45%	-0.07%	5.68%	9.48%
Alpha	0.41%	1.74%	-1.31%	-7.26%	-5.57%	-2.29%

^ 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

Chronic diseases such as heart disease, cancer, and diabetes are long lasting conditions which can significantly impact a person's quality of life. Driven in part by ageing populations globally, chronic conditions are becoming increasingly common with many people experiencing two or more chronic conditions at the same time.

Many chronic conditions are challenging to treat as they are highly complex and unique to the individual. Even cancer cells in the same tumour can have different mutations and those that survive the treatment grow in number again. Autoimmune diseases are also highly complex as each person develops their own unique immune system. Researchers are increasingly looking for more specified and targeted types of medicine to treat chronic diseases.

The increased complexity and cost of bringing a biological drug to market has caused the traditionally vertically integrated pharmaceutical industry to increasingly outsource production capabilities to CDMO (Contract Development and Manufacturing Organization) partners.

CDMOs not only help pharma companies focus more time and resources on core R&D competencies, but also bring specialized manufacturing expertise and technologies which help accelerate time to market and save infrastructure costs. To read more please see our most recent blog [here](#).

Portfolio Commentary

The Ellerston Global Mid Small Cap Fund increased 2.13% net during the month compared to the MSCI World Mid Cap (AUD) Index which was up by 1.73% over the same period. The Australian dollar continues its volatile ride as it decreased just over 3% in February (augmenting absolute performance) after increasing 3.5% last month. The unhedged nature of the portfolio has proven to provide downside buffer in times of risk off in the market.

The portfolio's top three contributors Advantest, Willscot Mobile Mini and Catalent added 95bps to performance while DigitalBridge, PTC and Ciena detracted 125bps during the month.

With December quarter earnings coming in generally in line or slightly above expectations, the earnings cliff which was expected to drive markets substantially lower has yet to manifest itself. Economic data has proven to be quite resilient and this, along with sticky inflation data, has reduced the likelihood of a pause in rate increases, at least in the near term.

Global index performance was quite mixed after the strong advance seen in January with the S&P 500 and Nasdaq closing down 2.4% and 1.0% respectively. In Europe, the DAX and CAC indices built on the January momentum increasing 1.6% and 2.6% respectively, while the Japanese Nikkei was basically flat during the month.

With company earnings and economic data not showing signs of cracking just yet and inflation data (while declining) showing aspects of wage stickiness, the market is now pricing in a higher for longer rate environment as global central banks aim to get inflation under control. Recent tightening of financial conditions are yet to work their way through the economy and the subsequent impact on economic growth remains to be seen. As a consequence, it is paramount to focus on earnings resilience underpinned by secular or structural growth in this environment.

STOCK IN FOCUS: Catalent (CTLT US, \$12.4bn Market Cap)

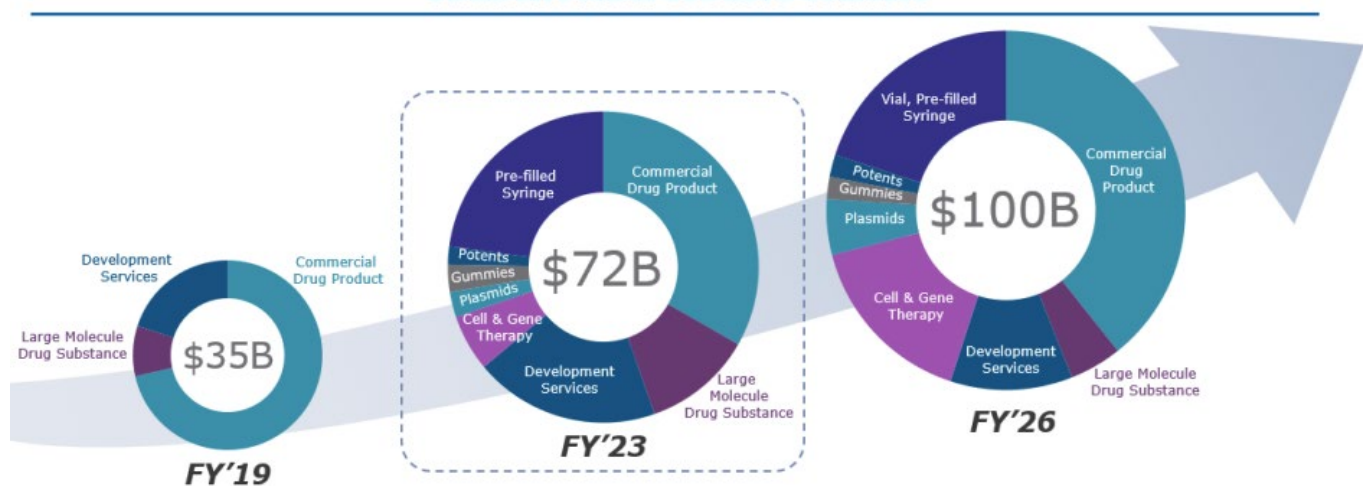
Catalent is the global leader in enabling pharma, biotech, and consumer health partners to optimize product development, launch, and full life-cycle supply for patients around the world. With broad and deep scale and expertise in development sciences, delivery technologies, and multi-modality manufacturing, Catalent is a preferred industry partner for personalized medicines, consumer health brand extensions, and blockbuster drugs.

Catalent helps accelerate over 1,000 partner programs and launch over 150 new products every year. Its flexible manufacturing platforms at over 50 global sites supply around 80 billion doses of nearly 8,000 products annually or approximately 1 in every 23 doses of such products taken each year by patients and consumers around the world.

Over the past several years, Catalent has been investing in its biologic capabilities especially in the cell and gene therapy areas which has dramatically increased its addressable market from \$35bn in FY19 to around \$72bn this year. Gene therapy holds the promise of treating the unmet needs of patients who suffer from a rare genetic disease. An estimated 4,000 medical conditions are a result of gene disorders with no previous targeted treatments.

It has also significantly increased its presence in sterile fill and finish, becoming one of the largest players in the space globally. These areas are expected to experience significant growth in the pipeline going forward, which should provide an additional 40% expansion of its addressable market by FY26.

Catalent Addressable Market

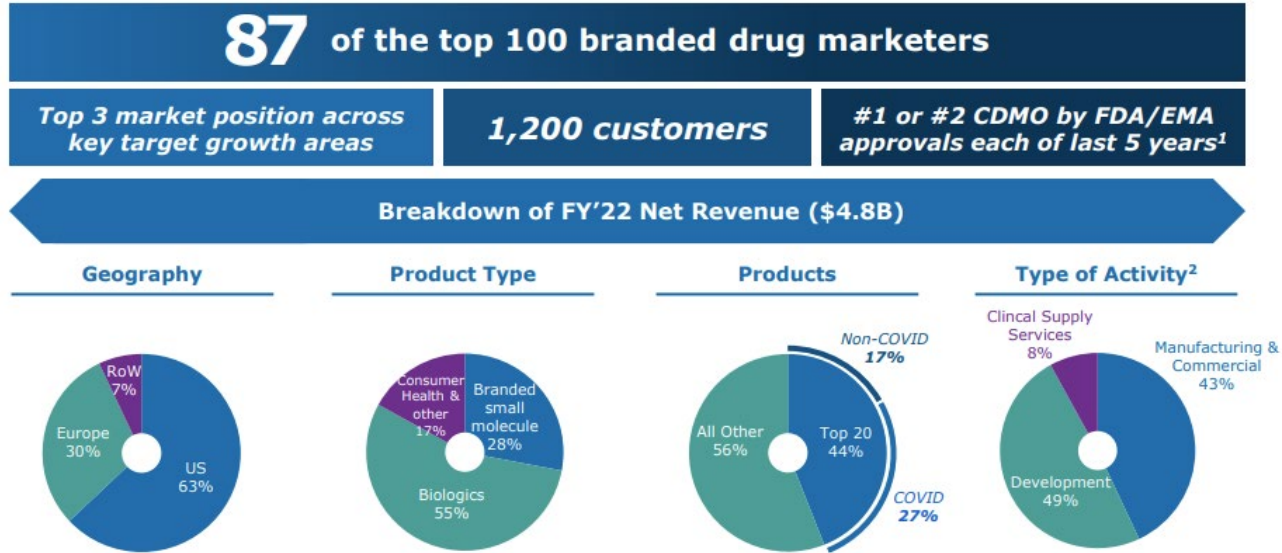


Over \$7B in investments since FY'17 have materially expanded our addressable market, transformed the company, and positioned Catalent as the partner of choice in pharma, biotech, and consumer health

In FY22 it conducted business with 87 of the top 100 branded drug marketers, 21 of the top 25 generics marketers, 24 of the top 25 biologics marketers, and 21 of the top 25 consumer health marketers globally. Selected key customers include AstraZeneca, Bristol-Myers Squibb, GlaxoSmithKline, Johnson & Johnson, Moderna, Pfizer, and Sarepta Therapeutics. With its extensive expertise and capacity, Catalent helps its customers bring products to market faster, including more than half of new drug products approved by the U.S. Food and Drug Administration (the "FDA") in the last decade.

It also has significant soft gel fill and formulation know-how, databases of formulated products, and substantial soft gel regulatory approval expertise. As a result, approximately 90% of approvals by the FDA over the last 25 years of new chemical entities presented in a soft gel format have been developed and supplied by Catalent.

Catalent's diverse portfolio creates sustainability and maximizes opportunities for growth



Catalent is uniquely positioned in the center of the pharmaceutical services ecosystem with leading positions in the most exciting areas of complex, advanced technology and differentiated dosage forms. We consider that as drugs get more complex and fragmented, large and small biopharma companies alike will look to outsource and partner more with leading players such as Catalent. Long term organic growth is expected to come in between 8% and 12% with expanding margins driving even faster earnings growth.

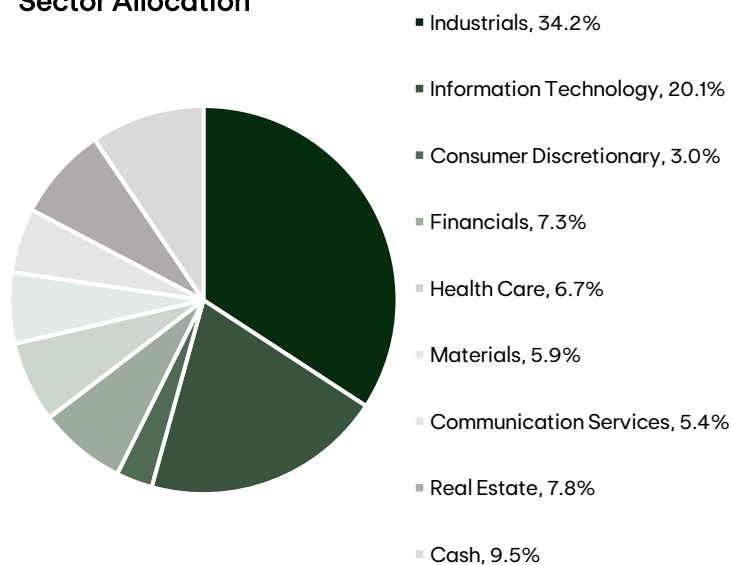
We consider Catalent to represent virtually irreplaceable assets in a large and growing market which is also incredibly important in enabling a healthier and safer society. A recent example is the COVID vaccine with roughly half of all vaccines being produced in Catalent facilities – paramount to our well-being. In addition to doing good, we should benefit from long term compounding in returns as the business grows along with its end markets.

Portfolio Characteristics

Holdings

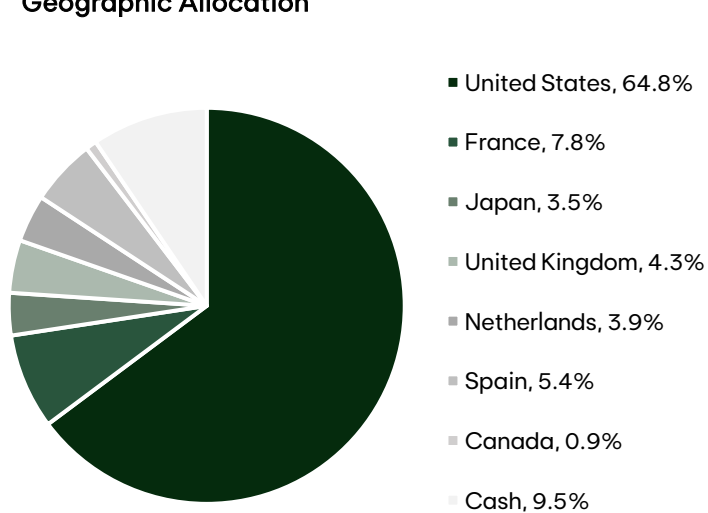
Top 10 holdings	Country	Sector	%
Graphic Packaging Holding Company	United States	Materials	5.94
Cellnex Telecom S.A.	Europe	Communication Services	5.39
Sensata Technologies Holding PLC	United States	Industrials	5.09
PTC Inc.	United States	Information Technology	4.40
Rentokil Initial plc	United Kingdom	Industrials	4.31
Webster Financial Corporation	United States	Financials	4.31
WillScot Mobile Mini Holdings Corp. Class A	United States	Industrials	4.19
Bureau Veritas SA	Europe	Industrials	4.15
Ciena Corporation	United States	Information Technology	4.11
TKH Group N.V. Cert	Europe	Industrials	3.86

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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