Ellerston Global Mid Small Cap Fund

Monthly Newsletter, July 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	$1.4349
Class A Net Asset Value	$1.4313
Class A Redemption Price	$1.4277
Class B Net Asset Value	$1.2137
Class B Redemption Price	$1.2107
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^	2.10%	8.98%	11.97%	10.67%	10.51%	11.73%
Benchmark*	3.00%	5.00%	12.48%	11.55%	8.03%	9.79%
Alpha	-0.90%	3.98%	-0.51%	-0.87%	2.47%	1.94%

Performance	1 Month	3 Months	1 Year	2 Years (p.a.)	Since Inception (p.a.)***
Class B^	2.09%	8.96%	11.99%	-0.62%	9.83%
Benchmark*	3.00%	5.00%	12.48%	1.30%	10.42%
Alpha	-0.92%	3.95%	-0.49%	-1.92%	-0.58%

^ 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

The Ellerston Global Mid Small Cap Fund (Class A) increased 2.10% net during the month compared to the MSCI World Mid Cap NR (AUD) Index which rose by 3.00% over the same period.

The portfolio's top three contributors **Webster Financial, Chart Industries**, and **Soitec added 162bps to performance** while **GFL Environmental, Kinaxis and SIG Group detracted 100 bps during the month.**

At the time of writing, >80% of the S&P500 companies have reported earnings and while there are large divergences under the hood, results have broadly come in better than expected. That said, expectations coming into reporting season had been set quite low with a 9% decline in EPS factored in for the quarter. This would have represented the largest earnings decline since the pandemic induced impact seen in the third quarter of 2020. So far however, earnings are coming in about 3% better than expected, although still down about 6% on last year.

Declining inflation prints continue to support a stabilisation of market interest rates and with central banks clearly closer to the end of the rate rising cycle than the beginning, this is providing a level of certainty to markets. The market does appear to be factoring in a continuation of soft inflation prints over the coming quarters however we will be watching where prices eventually settle out especially when considering wages seem quite sticky.

Strategist calls for an imminent recession have been pushed out to late 2023 and more likely in early 2024. The recession narrative has been in the market for some time, and it does seem to be attracting fatigue with stocks moving on. In general, stocks are comforted by better growth and earnings news than anticipated although we are seeing some pricing weakness in industries which are still overstocked in a muted demand environment. With inflation receding, we are likely to see nominal GDP growth decline which could see continued pricing weakness in particular industries and stocks. We therefore maintain a keen focus and exposure to secular and structural growth opportunities in the fund.

We have had a tsunami of earnings over the past couple of weeks and will run through some of our largest position's results:

GFL Environmental reported strong quarterly earnings and raised guidance as a result. GFL is the fourth largest waste management company in North America with significant pricing and growth opportunities. Solid waste prices increased >10% in the second quarter as industry pricing power continues to reflect asset scarcity and higher cost pass through. Margins expanded 130bps over the prior year as the spread between price and cost inflation continues to widen, with a similar progression likely into 2024.

GFL sold $1.6bn of non-core assets which was above plan and earlier than expected. It plans to allocate excess proceeds into high returning projects in renewable natural gas and opportunities associated with recent extended producer responsibility (EPR) legislation. GFL has guided FCF to come in above $700m resulting in the business exiting FY23 with the lowest leverage in company history. While not explicitly guiding, Management indicated it would be disappointed if FCF did not exceed $1bn by 2025, which we concur. We see double digit earnings and FCF growth in a business with very defensible earnings and added to the position post result.

PTC again demonstrated its predictable and high revenue and earnings growth profile in its third quarter result as it exceeded both annual recurring revenue (ARR) and FCF guidance. As a result, it raised both ARR and FCF midpoint guidance for the year. ARR grew 25% yoy as its recent acquisition of ServiceMax bolstered the result.

Organic ARR growth came in at +14% despite global PMIs indicating a sluggish manufacturing environment globally. On the back of strong ARR growth and increasing operating efficiency, FCF increased 46% in the quarter with full year FCF now expected to come in at $585m or up >40% on last year. PTC's core CAD and PLM markets are growing high single digit and with its products growing at 11% and 16% respectively, it is clearly taking share. Over the coming quarters we see ServiceMax really adding to organic growth as cross revenue synergies are realised. Management provided some early colour on next year's growth profile and indicated that if it assumed current sluggish macro conditions remain, it should deliver similar ARR growth that it has guided to for this year i.e. around 12-13% and FCF consistent with previous targets. In its recent Investor Day, PTC guided FY25 FCF to come in at $850m midpoint representing >20% CAGR for the business which is very compelling as shareholders.

Cellnex Telecom delivered a solid set of results which were presented by its new CEO, Marco Patuano. Strategic priorities were confirmed and include reducing debt to achieve investment grade, maximizing cash flow through organic growth and efficiencies while assessing strategic options for its portfolio in order to crystallize value for shareholders. Organic growth for the quarter came in quite solid at 7.1%, driving up EBITDA by 16% and recurring free cash flow by 19%.

Management reiterated both 2023 and 2025 financial targets which are underpinned by its long-term contracted revenue and two new organic growth projects with anchor clients in France. These are centred around new tower co-location deployments as well as fiber to the tower agreements with Bouygues Telecom. Cellnex will hold a Capital Markets Day in early 2024 in which it will provide an update on its industrial ownership proposition as the largest independent owner of towers in Europe, prospects for more build to suit (BTS) projects as the network densifies for 5G and a new operating efficiency plan which should drive further margin improvement.

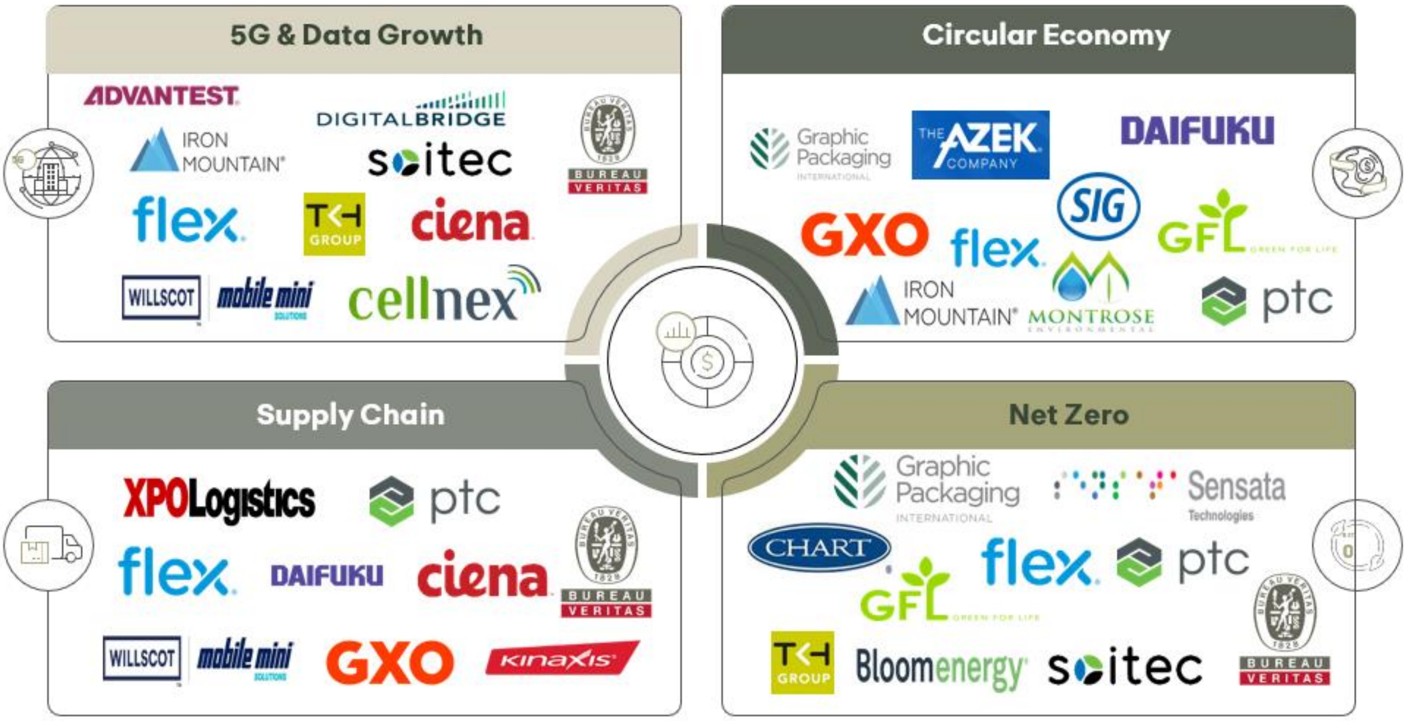
Willscot Mobile Mini continues to show off its stripes as the largest provider of modular office sites in the US with almost 50% market share. Revenue increased 11% due to the compounding effect of rate optimisation and penetration of its value-added product (VAP) strategy. Pricing spreads between spot modular offices currently being delivered remain 30% above the 12-month average of the portfolio with no pricing pressure being felt across the fleet. Adjusted EBITDA increased 25% as margins expanded 500bps yoy to 45% and are now at the top end of its 2021 Investor Day aspirations. Cash flow was outstanding with $160m generated this quarter and placing the business on track to exceed $500m FCF for the full year.

Market demand was said to remain robust across commercial and industrial end markets however retail demand continues to be suppressed as store remodels get pushed out to 2024. As part of its capital management strategy, WSC bought back 5.4m shares during the quarter which has contributed to reducing its share count by >9% over the past 12 months. The stock was weak post result as there was a short-term focus on lower units on rent, however with Management reaffirming full year guidance and longer-term tailwinds from onshoring, reshoring and large infrastructure projects commencing, we bought more on the dip.

Option Care Health is redeeming itself post its failed takeover bid for Amedisys which was surpassed by UnitedHealth. Second quarter revenue grew 9% as acute and chronic therapies were up mid-single and double-digit respectively. Adjusted EBITDA increased an impressive 29% as margins expanded 160bps as it realised favourable product procurement dynamics which are expected to continue into the next quarter. As a consequence of solid revenue growth and margin expansion, Management increased full year EBITDA guidance by >8% with EBITDA now expected to come in between $415m and $425m. Cash flow is also quite robust and on the back of a $106m Amedisys break fee which will be paid to Option Care and solid core results, FCF is expected to eclipse $350m this financial year. As the largest independent home infusion player in the US, Option Care is uniquely positioned to benefit from new treatment therapies which are being developed. As an example, this quarter Management announced a new collaboration with Kyrstal Biotech in preparation for emerging therapies associated with new treatments for Alzheimer's which will need to be infused.

With strong share price performances over the past several months we have trimmed some of our positions to lock in some profits during July. We have trimmed position sizing in Advantest (again), Iron Mountain and Chart Industries while fully exiting Aixtron as we have become increasingly concerned about geopolitical risk associated with its large exposure to China. We have deployed these monies into increasing our exposure to GFL Environmental and investing in two new healthcare companies which each have long term growth drivers underpinning them. Acadia Healthcare is a leading provider of behavioural health solutions in the US and is meeting a large addressable market in treating substance abuse while RadNet is the largest, independent diagnostic imaging service provider in U.S. Both positions should deliver highly visible earnings streams with substantial organic and inorganic growth driving long term capital returns to us as shareholders.

We continue to have differentiated exposure to some pretty powerful long term thematics which should drive long term compounding benefits to us all as investors. These include 5G and the growth in data as Industrial IoT, AI and large language networks such as ChatGPT and next generation applications associated with 5G drive data demand, companies that enable our push to a circular economy, beneficiaries of deglobalisation as well as those helping to improve supply chain efficiency and companies which are levered to the multi trillion-dollar spending required for our "Road to Net Zero".



Source: Ellerston Capital

These businesses as well as idiosyncratic opportunities in the fund should provide solid absolute and relative returns over the long term as secular and structural business drivers help mitigate earnings risk in times of economic uncertainty.

As always, we thank you for your continued support and look forward to providing further updates in the future.

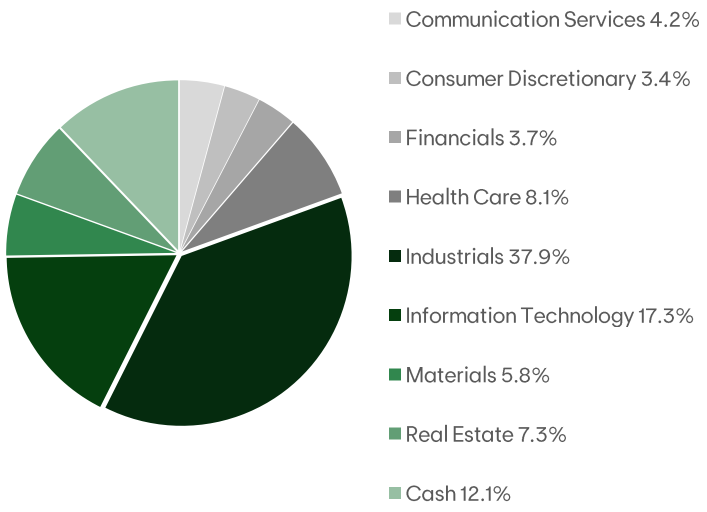
Portfolio Characteristics

Holdings

Company	Country	Sector	Portfolio Weight
GFL Environmental Inc	Canada	Industrials	5.5%
PTC Inc.	United States	Information Technology	4.7%
Cellnex Telecom S.A.	Spain	Communication Services	4.2%
WillScot Mobile Mini Holdings Corp. Class A	United States	Industrials	4.1%
Option Care Health Inc	United States	Health Care	4.1%
GXO Logistics Inc	United States	Industrials	3.9%
Graphic Packaging Holding Company	United States	Materials	3.8%
Chart Industries, Inc.	United States	Industrials	3.8%
Webster Financial Corporation	United States	Financials	3.7%
TKH Group N.V. Cert	Netherlands	Industrials	3.6%

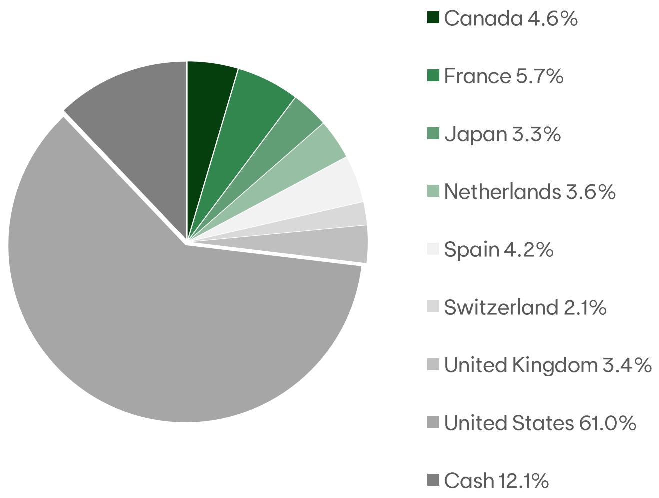
Source: Ellerston Capital

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.**

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