

Ellerston Global Mid Small Cap Fund

Monthly Report as at 30 September 2023

APIR Code: ECL3306AU, ECL8388AU | ARSN 609 725 868



Concentrated portfolio of global mid small cap securities, built through a contrarian, high conviction, and benchmark independent approach.



Targets companies which the Portfolio Manager feels are in a period of "price discovery" and which offer an attractive risk/reward dynamic.



Aims to outperform the benchmark with a focus on risk management and capital growth.

Performance Summary

Performance	1 Month	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.) ^{^^}
Class A [^]	-5.60%	-3.00%	18.93%	8.03%	8.20%	10.55%
Benchmark*	-4.31%	-1.05%	14.94%	9.10%	6.48%	8.86%
Alpha	-1.29%	-1.96%	3.99%	-1.06%	1.72%	1.68%

Performance	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.) ^{^^}
Class B [^]	-5.60%	-3.02%	18.91%	-4.40%	8.73%	7.54%
Benchmark*	-4.31%	-1.05%	14.94%	-0.84%	9.10%	8.46%
Alpha	-1.29%	-1.97%	3.97%	-3.57%	-0.37%	-0.92%

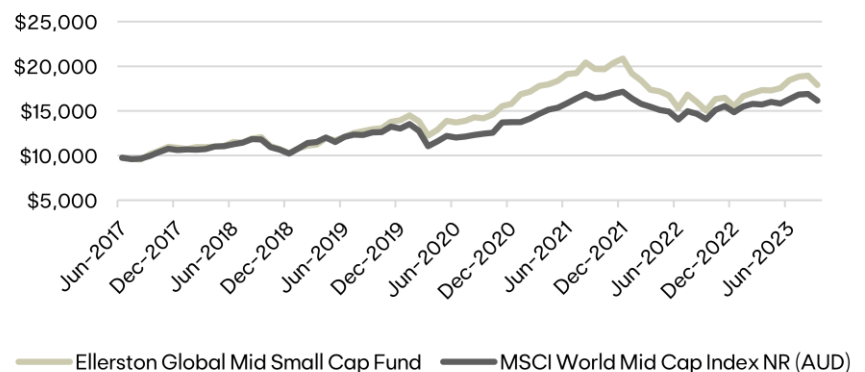
[^] The net return figure is calculated after fees & expenses assuming all distributions are reinvested. Past performance is not a reliable indication of future performance. * MSCI World Mid Cap Index NR (AUD). ^{^^} Class A inception is 28 February 2017. Class B inception is 18 August 2020.

Key Information

Portfolio Manager(s)	Bill Pridham
Investment Objective	To outperform the benchmark by 3% over a 5-year rolling period.
Benchmark	MSCI World Mid Cap Index NR (AUD)
Liquidity	Daily
Target Number of Holdings	20-40
Number of Holdings at Month End	34
Minimum Investment	Initial investment - \$25,000 Additional investment - \$10,000
Distribution Frequency	Half-Yearly (where available)
Management Fee	0.75% p.a.
Performance Fee ¹	10.00%
Buy/Sell Spread	0.25% / 0.25%
Class A Unit Prices & Fund Size	Application - \$1.3631 Net Asset Value - \$1.3597 Redemption - \$1.3563 Fund Size - \$59,534,242
Class B Unit Prices & Fund Size	Net Asset Value - \$1.1530 Redemption - \$1.1501 Fund Size - \$53,944,412

¹ Of the investment return above the benchmark, after recovering any underperformance in past periods.

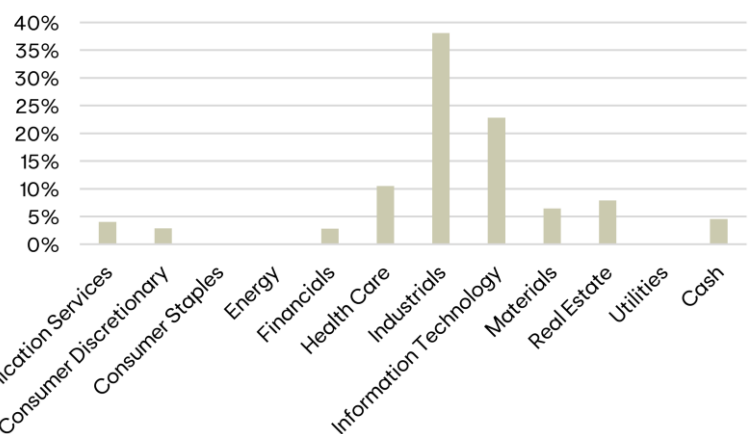
Growth of \$10,000 Investment



Source: Ellerston Capital.

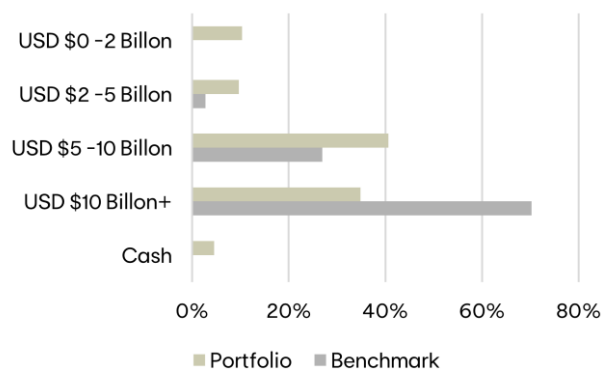
Performance shown are for Class A Units and net of fees, assuming all distributions are reinvested. Past performance is not a reliable indication of future performance.

Sector Allocation



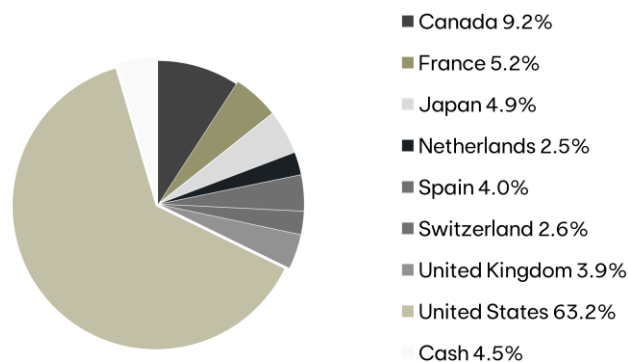
Source: Ellerston Capital.

Market Capitalisation Exposure



Source: Ellerstion Capital.

Regional Exposure



Source: Ellerstion Capital.

Top Holdings

Company	Country	Sector	Portfolio Weight
GFL Environmental Inc	Canada	Industrials	6.3%
PTC Inc.	United States	Information Technology	5.1%
WillScot Mobile Mini Holdings Corp. Class A	United States	Industrials	4.4%
Option Care Health Inc	United States	Health Care	4.3%
GXO Logistics Inc	United States	Industrials	4.2%
Cellnex Telecom S.A.	Spain	Communication Services	4.0%
Chart Industries, Inc.	United States	Industrials	3.9%
Rentokil Initial plc	United Kingdom	Industrials	3.9%
Graphic Packaging Holding Company	United States	Materials	3.9%
DigitalBridge Group, Inc. Class A	United States	Real Estate	3.8%

Source: Ellerstion Capital.

COMMENTARY

The Ellerstion Global Mid Small Cap Fund (Fund) was down 5.60% net during the month compared to the MSCI World Mid Cap Index NR (AUD) which was down 4.31% over the same period. Calendar year to date in 2023, the Fund is up 15.10% net versus the benchmark which is up 8.64%.

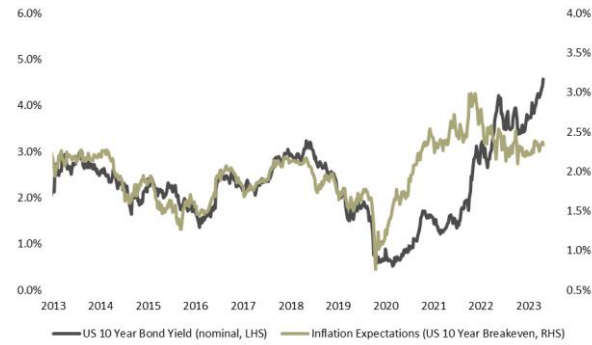
The Fund's top three attributors were Willscot Mobile Mini, Digital Bridge and Rentokil which added 57bps to alpha. Meanwhile, Radnet, Montrose Environment and Unity Software detracted 95bps during the month. We discuss these stocks in greater detail in the 'Portfolio Discussion' section.

Global markets pulled back during September on concerns that central banks, most notably the US Federal Reserve (Fed), may raise interest rates further. Although the Fed kept policy rates on hold at 22 year highs of 5.25-5.50% during September, it left the door open for another rate hike later this year. Fed officials also indicated that rates could stay higher for longer throughout 2024 than they had previously anticipated. Confirmation of potential further upside in interest rates led to a spike in US 10-year yields to 17 year highs of 4.8%.

Interestingly, the jump in yields have (thus far) not been driven by a rise in inflation expectations. This is despite a 20% increase in oil prices over the past 3 months, driven by low inventories in the US and supply cuts from major oil producers such as Saudi Arabia. Another risk to the near term inflation outlook in the US is the impact on wages from a still tight labour market and the outcome of strikes by unionised workers across the auto industry. Finally, the rollout of new stimulus measures in China over the past month could also lead to improved demand, particularly for commodities in the coming months. These factors combined could trigger another wave of inflation and again put upward pressure on interest rates globally. This in turn could take the US economy a step closer towards the most anticipated recession in history.

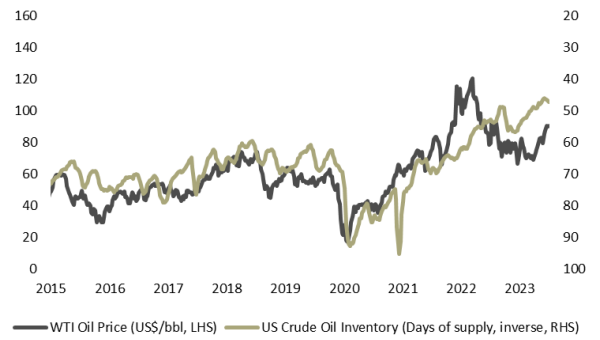
Whilst the debate on whether the Fed has done enough to tame inflation rages on, rising bond yields nonetheless are typically negative for valuations of long duration assets such as real estate, utilities, healthcare and growth companies. Indeed, the S&P500 utilities, healthcare, real estate and growth indices fell on average 5.4% during September. Even the "Magnificent 7" (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA and Tesla) dropped 5.6% on average over the past month.

Spike in US Yields Not Yet Driven by Inflation



Source: Bloomberg.

But Oil Price Rising as US Oil Reserves Fall



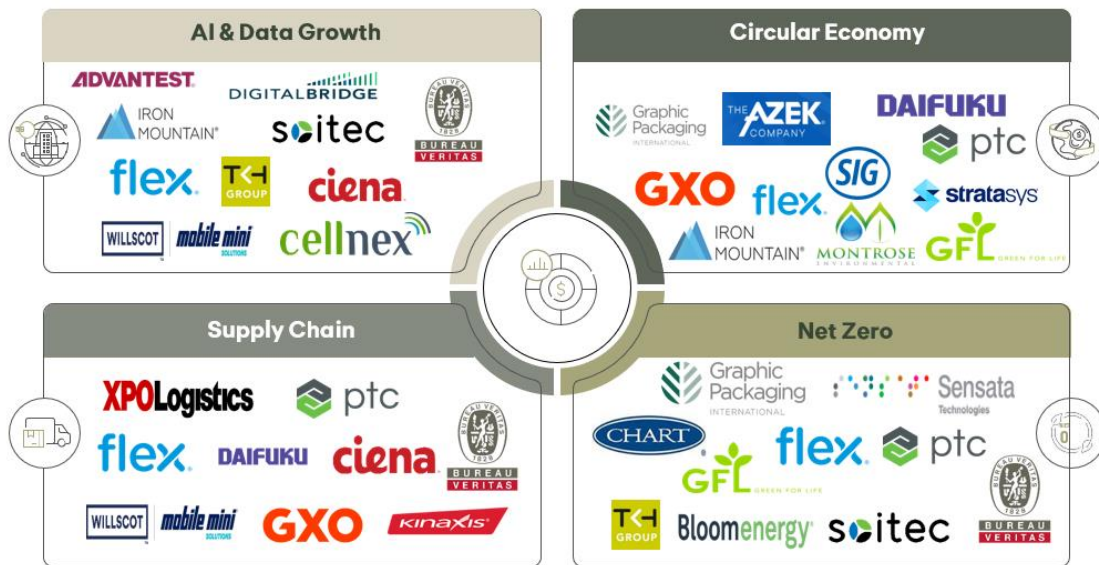
Source: Bloomberg, US EIA.

Portfolio Discussion

At Ellerston, we do not make investment decisions based on economic forecasts. But as Howard Marks famously put it, "you can't predict, but you can prepare" for potential risks on the horizon. In an environment where inflation could still surprise on the upside and rates remain higher for longer leading to an economic recession, we believe that investing in quality businesses with excellent business models, solid balance sheets and cash flows, whilst operating in attractive end markets and trading on reasonable valuations will help to mitigate downside risk.

As regular readers will know, we continue to have differentiated exposures to powerful long term thematic that should drive long term compounding benefits for 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 de-globalisation, as well as those helping to improve supply chain efficiency; and
- Companies which are levered to the multi trillion dollar spending required for the "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 drivers help mitigate earnings risk in times of economic uncertainty.

Turning back to September performance, key attributors for the month were:

Willscot Mobile Mini is the largest provider of modular offices in North America. Willscot's share price recovered slightly after it was sold off in August on concerns around retail demand and non-residential construction activity. This was despite the company posting EBITDA growth of 25% in 2Q2023, driven by 11% revenue growth and commendable margin expansion (+500bps yoy). We expect the upcoming large scale infrastructure projects and long term tailwinds from onshoring/reshoring to help offset near term concerns.

Digital Bridge is the only dedicated, global-scale digital infrastructure firm investing across five key verticals: data centres, cell towers, fibre networks, small cells and edge infrastructure. The company announced in September that AustralianSuper will take a minority stake in its Vantage EMEA business. The transaction will help de-risk Digital Bridge's contribution to Vantage's expansion across the European, Middle East and Africa region. The company's share price was also supported by a broker upgrade during the month.

Rentokil is the world's largest hygiene and pest control company. The company's share price was resilient during the month reflecting the nature of its business model as a provider of 'essential services'. This, along with solid management execution, has allowed the company to compound earnings at ~12% CAGR over the past 10 years. Going forward, the company is guiding to organic revenue growth of at least 5% per annum, along with acquisitions and further margin expansion which should drive low teens earnings growth.

Conversely, the major detractors during September were:

Radnet is the largest, independent diagnostic imaging service provider in the U.S with 363 imaging locations. The stock was weighed down during the month by some profit taking after a 77% rally year to date in 2023. Management however provided an update at a broker conference where they highlighted Radnet's competitive advantages in capturing a larger slice of its US\$100bn total addressable market, driven by a rapidly ageing population. This includes building out its AI screening solutions and further industry consolidation. The company trades on 10x EV/EBITDA and we forecast ~10% EBITDA CAGR over the next 3 years.

Unity Software is a name that we initiated a position in during the month. It is a 3D software game engine developer and is a market leader in the mobile games space. Unity's share price was sold off following an announcement that from 1 January 2024, it would increase the subscription fee for games developed using its engine that meet certain revenue and install thresholds. Whilst this new pricing strategy could add ~10-15% to EBITDA, there are market concerns around potential longer term attrition and market share losses, particularly with small, independent game developers. We however believe that Unity has a unique service offering which has allowed it to achieve ~70% market in the mobile games space. As such, we do not expect the price increases to materially impact Unity's business model.

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. There was no material catalyst to explain the share price weakness in September. We continue to view Montrose's services as essential in helping customers adapt to an environmentally conscious and rapidly changing business backdrop. In the near term, regulatory developments relating to per- and poly fluoroalkyl substances (PFAS) particularly in the US could drive increased testing and remediation work for Montrose.

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

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.

Find out more:

Contact Us

Sydney

Level 11, 179 Elizabeth Street,
Sydney, NSW 2000
+612 9021 7701
info@ellerstoncapital.com

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, APEX Fund Services on 1300 133 451 or registry@apexgroup.com & Ellerston@apexgroup.com.

This report has been prepared by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, as the responsible entity of the Ellerston Global Mid Small Cap Fund Class A and Ellerston Global Mid Small Cap Fund Class B ARSN 609 725 868 without taking account the objectives, financial situation or needs of individuals. Before making an investment decision about the Fund persons should read the Fund's Product Disclosure Statement and the Fund's Target Market Determination (TMD) which can be obtained from the Manager's website www.ellerstoncapital.com or by contacting info@ellerstoncapital.com and obtaining advice from an appropriate financial adviser. Units in the Fund are issued by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000. This information is current as at the date on the first page.

This material has been prepared based on information believed to be accurate at the time of publication. Assumptions and estimates may have been made which may prove not to be accurate. Ellerston Capital undertakes no responsibility to correct any such inaccuracy. Subsequent changes in circumstances may occur at any time and may impact the accuracy of the information. To the full extent permitted by law, none of Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, or any member of the Ellerston Capital Limited Group of companies makes any warranty as to the accuracy or completeness of the information in this newsletter and disclaims all liability that may arise due to any information contained in this newsletter being inaccurate, unreliable or incomplete. Past performance is not a reliable indicator of future performance.