Ellerston Global Mid Small Cap Fund

Ellerston Capital

Monthly Report as at 30 November 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	FYTD	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.)^^
Net^	4.88%	-9.88%	-7.40%	3.23%	9.73%	9.52%
Benchmark*	5.15%	-2.90%	0.41%	6.19%	8.97%	8.87%
Alpha	-0.27%	-6.98%	-7.81%	-2.96%	0.76%	0.65%

Performance	1 Month	3 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)^^
Net^	4.88%	-9.88%	3.78%	-8.19%	3.87%	5.66%
Benchmark*	5.15%	-2.90%	5.51%	-1.51%	6.19%	8.50%
Alpha	-0.27%	-6.98%	-1.73%	-6.68%	-2.32%	-2.84%

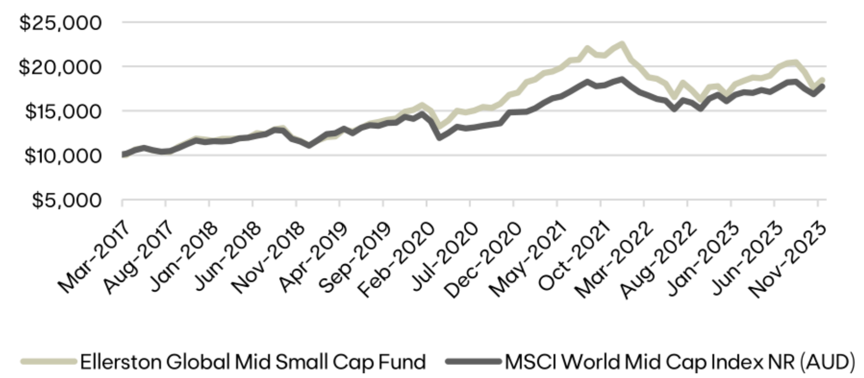
*^ The net return figure is calculated after fees & expenses, assuming all distributions are reinvested. Past performance is not a reliable indication of future performance. * MSCI World Mid Cap Index NR (AUD). ^^Class A inception is 28 February 2017. Class B inception is 18 August 2020.*

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	37
Minimum Investment	Initial investment - $25,000 Additional investment - $10,000
Distribution Frequency	Half-Yearly (where available)
Management Fee	0-Jan-00 p.a.
Performance Fee[1]	10.00%
Buy/Sell Spread	0.25% / 0.25%
Class A Unit Prices & Fund Size	Application – $1.3013 Net Asset Value – $1.2981 Redemption – $1.2949 Fund Size – $ 51,870,358
Class B Unit Prices & Fund Size	Net Asset Value – $1.1007 Redemption – $1.0979 Fund Size – $50,709,975

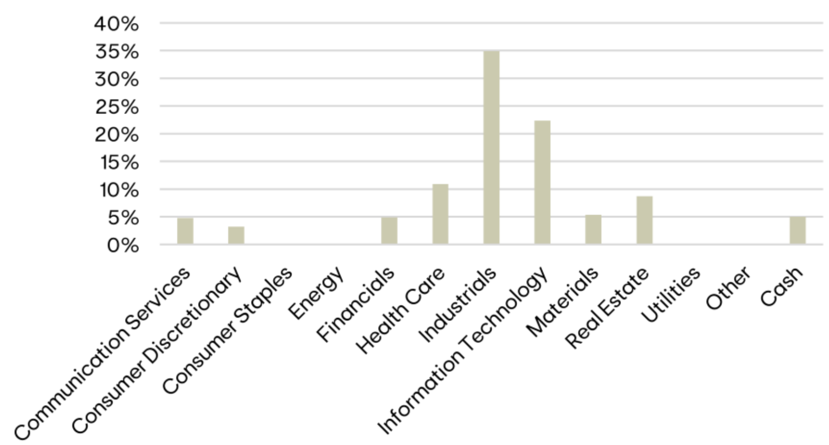
[1]*Of the investment return above the benchmark, after recovering any underperformance in past periods.*

Growth of $10,000 Investment



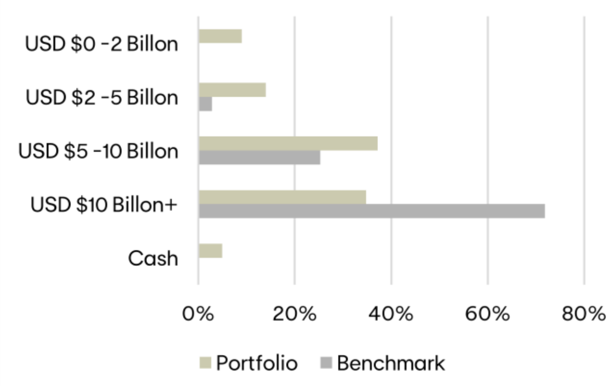
Source: Ellerston Capital.
Performance shown are for Class A Units and net of fees, assuming all distributions are reinvested.
Past performance is not a reliable indication of future performance.

Sector Allocation



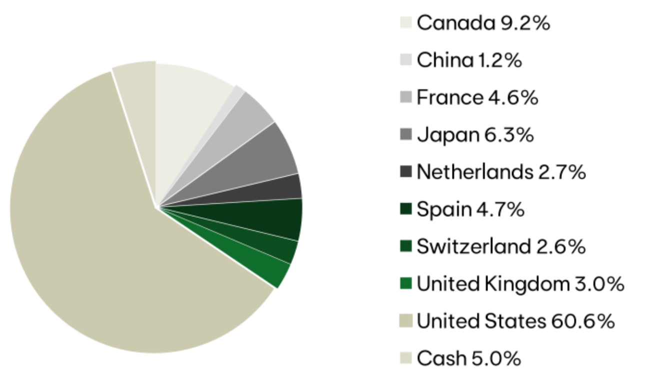
Source: Ellerston Capital.

Market Capitalisation Exposure



Source: Ellerston Capital.

Regional Exposure



Source: Ellerston Capital.

Top Holdings

Company	Country	Sector	Portfolio Weight
GFL Environmental Inc	Canada	Industrials	6.2%
PTC Inc.	United States	Information Technology	5.1%
Cellnex Telecom S.A.	Spain	Communication Services	4.7%
WillScot Mobile Mini Holdings	United States	Industrials	4.7%
Option Care Health Inc	United States	Health Care	4.5%
DigitalBridge Group, Inc. Class A	United States	Real Estate	4.0%
Chart Industries, Inc.	United States	Industrials	3.6%
Acadia Healthcare Company, Inc.	United States	Health Care	3.5%
Webster Financial Corporation	United States	Financials	3.4%
Flex Ltd.	United States	Information Technology	3.2%

Source: Ellerston Capital.

COMMENTARY

The month of November delivered a nice rebound for global equities as subdued inflation prints pressured the higher for longer narrative and global bond yields. The US 10yr bond yield effectively did an about face in November declining to about 4.2% after its rapid ascent to 5.0% between September and October and this underpinned a broad market rally.

Fed Chairman, Jerome Powell, was quite measured in his CPI commentary and when coupled with generally softer economic data, the market is beginning to price in some material rate cuts in 2024. This may prove premature as the Fed is not yet convinced its fight against inflation is complete with a risk of policy "overshoot" not out of the question.

Right now it seems we have passed peak policy risk with the Fed seemingly on hold (with cuts priced in next year) as inflation continues to remain contained. The economy is slowing, albeit with expectations of a mild downturn in 2024 rather than a material drop in activity. We continue to have many industries and geographies in varying stages of business cycles however 2024 could see more of a convergence as supply chains, inventories and economies become more in sync.

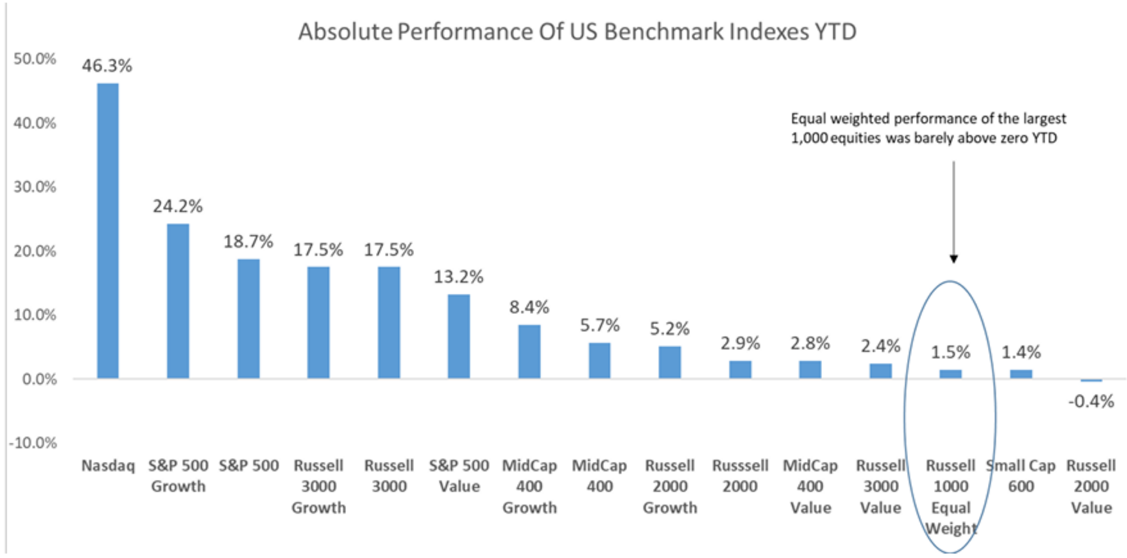
Strategists are calling for a decline in US growth to 1.5% vs 2.5% this year with unemployment increasing as a result. Seemingly a softish landing built in with upside potential in the form of productivity benefits associated with Generative AI expanding margins, cooling inflation and potentially more breadth of returns in the overall market. Downside risks seem to be centered on the potential for a faster economic slowdown and yields remain stubbornly high. The market is used to the Fed stepping in to support the economy with rate cuts however this may be uncertain during an election year.

During 2023 we have seen the market oscillating between a soft landing and recession, depending on the time of day and the latest economic print. What is impressive during the year is that the market has absorbed continued (expanding) geopolitical risks, a regional bank crisis in the US (which also impacted European entities) and negative earnings trends.

At the start of the year, many were anticipating and pricing in a recession during 2023 however this did not happen as nominal growth was sustained by a resilient consumer and continued fiscal stimulus. Then we got the Nvidia result which put a rocket under anything to do with Generative AI which has carried the largest tech stocks in the market to relative highs.

The divergence of returns so far in 2023 are quite dramatic with the Nasdaq up over 46% compared with the Russell 2000 which is up less than 3%. So outside of growth and large cap, returns have been actually quite flattish for "everything else".

Index Performance Was Biased Towards Growth And Large Cap, It's Been A Fairly Flattish Year For Most Equities



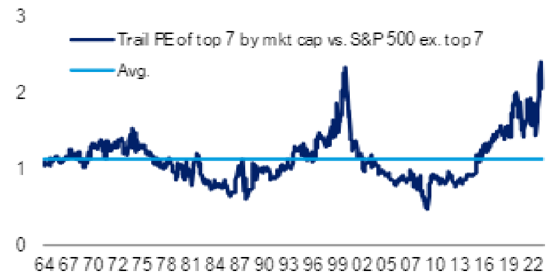
Source: FactSet, Raymond James research

With the strong performance of the largest seven stocks in the S&P500 driving the majority of returns CYTD, there is a clear distortion building in the market as valuation spreads have widened dramatically while concentration risk has materially increased. At the time of writing, the top 7 stocks represent almost 30% of the S&P500 weighting with a near record valuation premium relative to the rest of the index. If you believe in reversion to the mean, the setup for mid small caps is very attractive.

Exhibit 13: Top 7 S&P 500 companies account for nearly 30% of the benchmark
Weight of largest 7 companies in the S&P 500

Source: FactSet, BofA US Equity & Quant Strategy

Exhibit 14: Biggest 7 trade near a record premia to rest of index
Trailing PE of largest 7 companies in the S&P 500 vs. trailing PE of S&P 500 ex. largest 7 companies



Source: BofA US Equity & Quant Strategy, FactSet

BofA GLOBAL RESEARCH

Overall, global equity markets were quite strong during November. The S&P500 and Nasdaq were up 9.1% and 10.8% respectively while the Russell 2000 came in just below at 9.0%. The FTSE (up 2.3%) CAC (up 6.5%) and DAX (up 9.5%) were also quite solid while Japan's Nikkei 225 was also 8.5% stronger.

The Ellerston Global Mid Small Cap Fund increased 4.88% net during the month compared to the MSCI World Mid Cap (AUD) Index which was up by 5.15% over the same period. The strong Aussie dollar during the month, which was up >4.0% compared to the US dollar, impacted unhedged returns.

The portfolio's top three contributors **Cellnex Telecom, Radnet and Webster Financial added 231bps** to performance while **Flex, GFL Environmental and Cardlytics detracted 39 bps** during the month.

Cellnex Telecom (+1.06%) is the largest independent owner of mobile tower assets across the European continent. The company reported its third quarter results during November which highlighted the earnings certainty of the group as it reconfirmed both 2023 and 2025 targets. Management indicated that with €130bn of contracted revenue in place and a focus on cost out strategies, it should see continued earnings growth. While earnings were solid, the real driver of the share price this month was the decline in bond yields and we have seen the stock increase c37% from its low late in October.

Radnet (+0.65%) is the largest independent provider of free standing diagnostic imaging solutions in the US and is benefiting from the shift of services out of hospitals into its facilities. In its third quarter report announced in early November, Management upgraded full year guidance as Imaging Center revenues grew >14% while EBITDA was up over 20%. Its AI segment continues to grow with revenues up 221% on last year (small base) with breakeven expected next year. It recently announced a deal with Walmart where it will provide breast screening services inside one of Walmart's Supercenters, this could prove to be a long term driver for the business.

Webster Financial (+0.59%) is a leading regional bank with operations focused on the US Northeast, primarily New York to Boston corridor. There was no company specific news during the month however it is likely benefiting from the soft landing narrative which takes pressure off credit risk while concurrently underpinning decent loan demand.

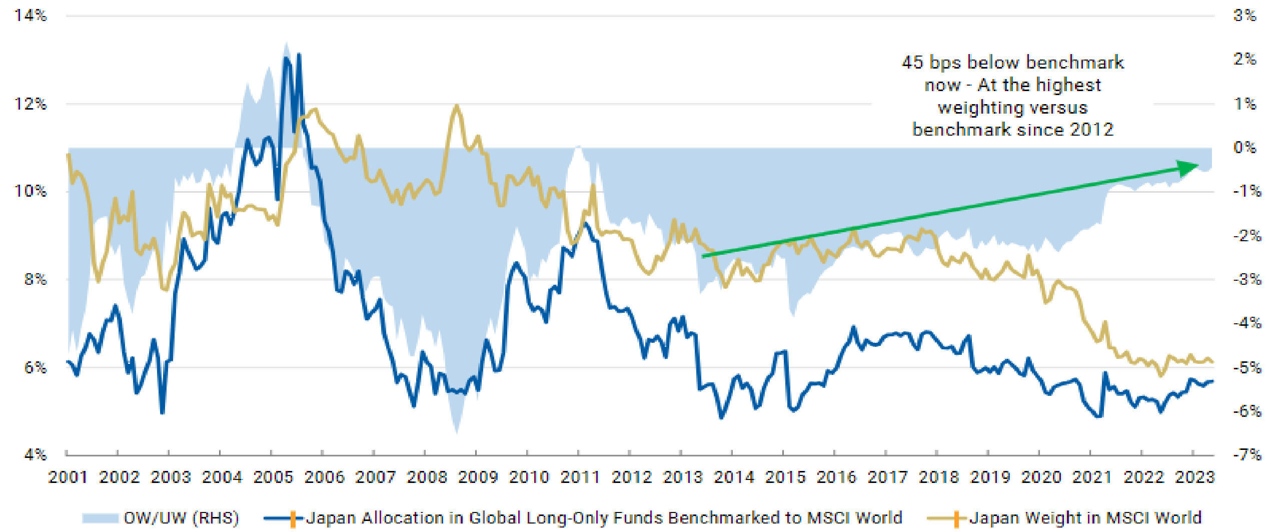
Cardlytics (-0.30%) is a digital advertising platform which partners with leading US banks such as JP Morgan, Wells Fargo and Bank of America in providing the customer loyalty offers for the bank owned credit cards. It reported revenue and billings below expectations while EBITDA was slightly ahead. In this market any below expectations results were dealt with harshly as there seemed to be no bid for disappointments. While a small position, the move was dramatic and had a marked effect on returns in November.

GFL Environmental (-0.06%) is the fourth largest waste management company in North America with leading market positions in the majority of its markets. In early November, Management delivered earnings above expectations and provided FY24 earnings guidance which was slightly ahead of the market. The story with GFL is the ability to deploy capital at very attractive rates of return, be it in tuck in M&A, RNG on its landfills and EPR opportunities. The market would like to see it deleverage faster however we agree with founder CEO, Patrick Dovigi, when he says these investments represent the best risk adjusted returns he has seen in decades and support his move to grow the business with very low risk, high return investments.

Flex Group (-0.04%) is one of the largest contract manufacturers in the world and is benefiting from reshoring, onshoring and increasing complexity of manufacturing products. It was actually only marginally down this month after a strong rebound at the end of October after it reported stronger than expected results. We await the spin off of its Nextracker business (largest solar tracking company in the world) early next year.

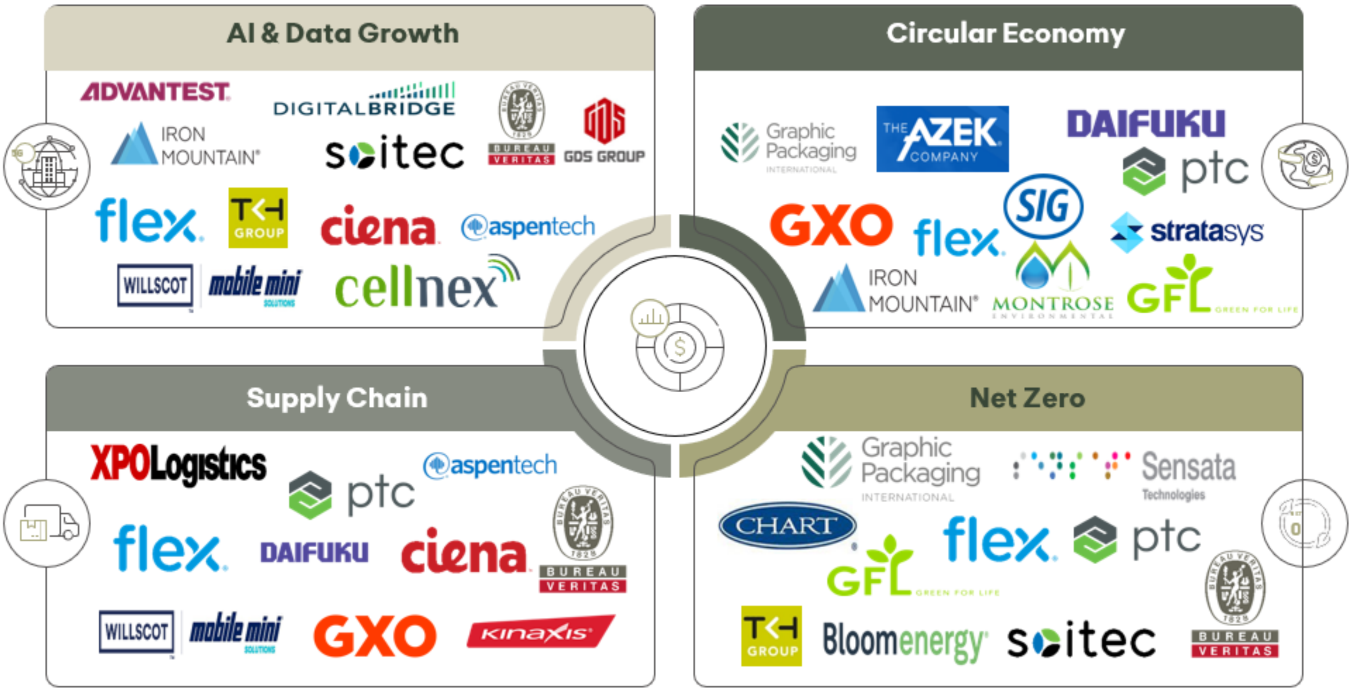
While we did some trimming and adding to existing positions during the month, the main adjustment to the fund is an increased exposure to the Japanese market. We consider 2024 will show Japan as one of the stronger economies with rates likely increasing (rather than decreasing around the world) which should support domestic earnings and a stronger Yen. Investors are still relatively underweight the region however we believe the flow of money into the Japanese market will continue to provide a strong underpinning while domestic rules to be initiated in the New Year will make it more attractive for retail investors to deploy high cash reserves into the stock market.

Global Equity Allocations to Japan Improving – We Expect Investors to Move OW



Note: EPFR, Morgan Stanley Research; Data as of October end, 2023.

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.

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.

Contact Us

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Find out more:

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All holding enquiries should be directed to our register, APEX Fund Services on 1300 133 451 or registry@apexgroup.com & Ellerston@apexgroup.com.

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