

Ellerston Global Mid Small Cap Fund

Monthly Report as at 31 December 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.) ^{^^}
Net [^]	4.91%	0.15%	15.28%	4.34%	11.79%	10.17%
Benchmark*	4.15%	5.69%	14.82%	7.53%	10.82%	9.41%
Alpha	0.76%	-5.54%	0.46%	-3.19%	0.97%	0.76%

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception (p.a.) ^{^^}
Net [^]	4.91%	0.15%	-2.88%	15.24%	4.94%	7.01%
Benchmark*	4.15%	5.69%	4.58%	14.82%	7.53%	9.58%
Alpha	0.76%	-5.54%	-7.46%	0.42%	-2.59%	-2.57%

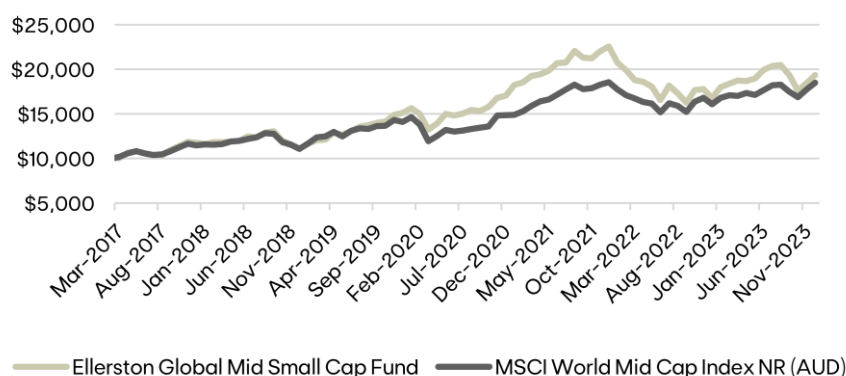
[^] The net return figure is calculated after fees & expenses, assuming all distributions are reinvested. Past performance is not a reliable indication of future performance. * MSCI World Mid Cap Index NR (AUD). ^{^^}Class A inception is 28 February 2017. Class B inception is 18 August 2020.

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	36
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 - \$1.3652 Net Asset Value - \$1.3618 Redemption - \$1.3584 Fund Size - \$ 54,353,028
Class B Unit Prices & Fund Size	Net Asset Value - \$1.1547 Redemption - \$1.1518 Fund Size - \$ 52,029,273

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

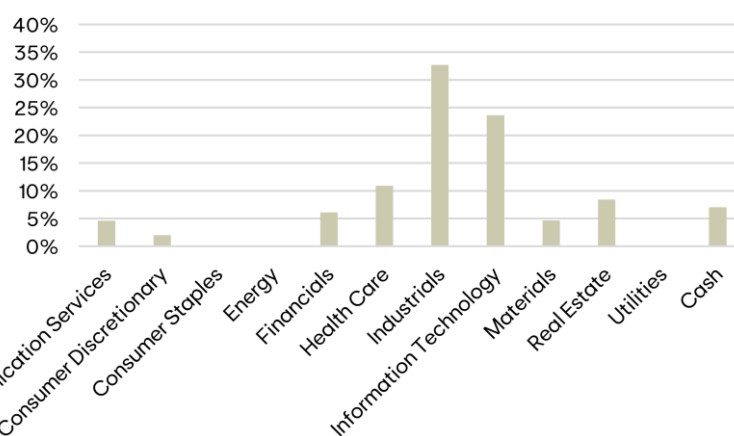
Growth of \$10,000 Investment



Source: Ellerston Capital.

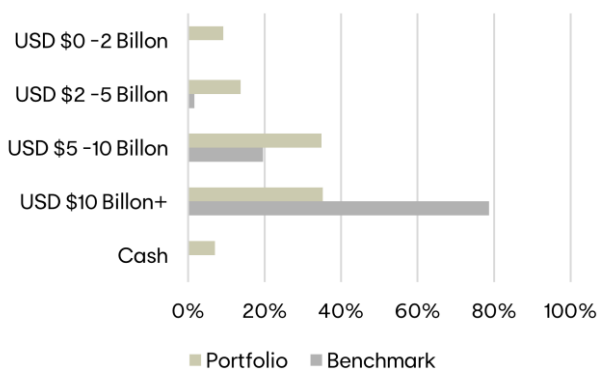
Performance shown are for Class A Units and net of fees, assuming all distributions are reinvested. Past performance is not a reliable indication of future performance.

Sector Allocation



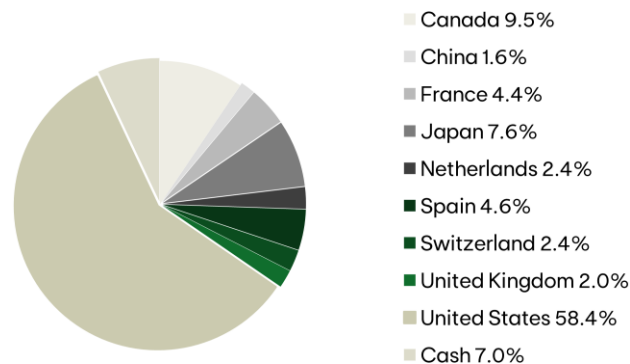
Source: Ellerston Capital.

Market Capitalisation Exposure



Source: Ellerston Capital.

Regional Exposure



Source: Ellerston Capital.

Top Holdings

Company	Sector	Country	Portfolio Weight
GFL Environmental Inc	Industrials	Canada	6.9%
Cellnex Telecom S.A.	Communication Services	Spain	4.6%
Option Care Health Inc	Health Care	United States	4.5%
PTC Inc.	Information Technology	United States	4.0%
DigitalBridge Group, Inc. Class A	Real Estate	United States	3.9%
WillScot Mobile Mini Holdings Corp. Class A	Industrials	United States	3.8%
Webster Financial Corporation	Financials	United States	3.6%
Acadia Healthcare Company, Inc.	Health Care	United States	3.5%
Chart Industries, Inc.	Industrials	United States	3.5%
GXO Logistics Inc	Industrials	United States	3.0%

Source: Ellerston Capital.

COMMENTARY

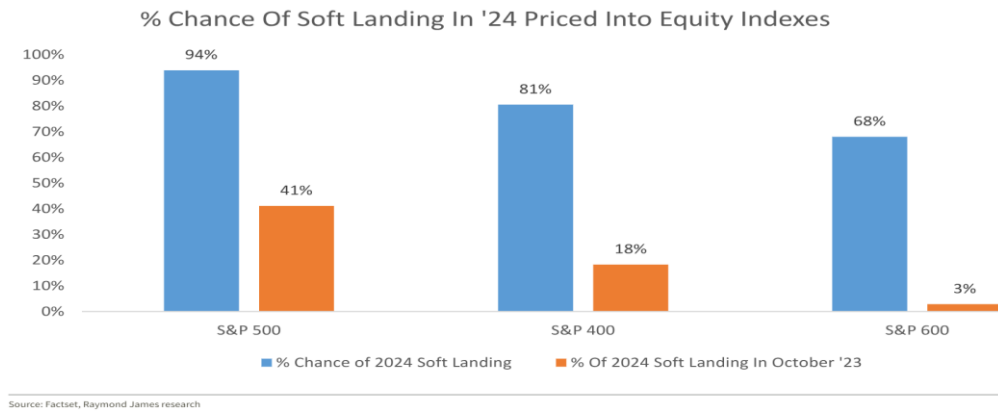
The global equity rally that really started in earnest during late October continued into December with both growth and value performing quite well. During this period, we have seen a sharp valuation re-rating, especially in the mid small cap space where the Mid Cap 400 went from a 25% relative discount to its 5yr average to just 7% at the end of the month.

P/Es went from 15-30% discounted from 5-year averages to 2-8% discounted in 9 weeks

Median P/E Across Benchmark Indexes And Time Frame						Today	Oct. '23
	5-Year	10-Year	15-Year	20-Year	25-Year	2024 P/E	2024 P/E
Small Cap 600	15.0	16.9	16.1	16.2	16.5	14.4	10.9
MidCap 400	15.7	17.0	16.3	15.5	15.0	14.6	11.9
S&P 500	19.9	18.5	17.3	16.8	17.3	19.6	16.8
Russell 2000	25.7	26.8	25.5	25.1	25.1	22.2	16.5
Russell 1000 Growth	26.6	22.4	19.9	19.7	20.1	26.5	22.7
Russell 1000 Value	15.3	15.6	14.9	14.4	14.7	15.0	12.7

Source: FactSet, Raymond James research

This was really driven by the stabilisation and subsequent decline in bond yields while economic data came in tepid but not outside expectations. So, with economic activity slowing (but not falling off a cliff), subdued inflation prints and a Fed that has telegraphed it is more biased to easing than tightening, we have a soft landing scenario priced into the market. The market is convinced that we will have a soft landing in 2024, however it was just as convinced at this point last year that we would have a recession during 2023 – macro forecasting is tough.



The Fed left rates unchanged in its December meeting and indicated that the rate hiking cycle is now complete. The dot plot (what the Fed Governors anticipate doing with rates in the future) showed the potential for 3 rate cuts in 2024 however there is a wide range of expected outcomes here, clearly data dependent.

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 decline 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.

Overall, global equity markets were quite strong during December. The S&P500 and Nasdaq were up 4.5% and 5.6% respectively, while the Russell 2000 benefited from the stronger rally in the mid small cap space as it appreciated >12%. The FTSE (up 3.9%), CAC (up 3.3%) and DAX (up 3.3%) were also quite solid while Japan's Nikkei 225 was quite flat during December.

The Ellerston Global Mid Small Cap Fund increased 4.91% net during the month compared to the MSCI World Mid Cap (AUD) Index which was up by 4.15% over the same period. The strong Aussie dollar during the month, which was up >3.0% compared to the US dollar, impacted unhedged returns.

The portfolio's top three contributors **GFL Environmental, Zillow Group and Option Care Health added 206bps** to performance while **GDS Holdings, SIG Combibloc and Resona Bank detracted 41 bps** during the month.

GFL Environmental (+0.79%) is the fourth largest waste management business in North America with extensive operations across Canada and the US. There was no material news from the company during the month however we note that a broker highlighted the stock as a best idea for 2024. Market concerns over leverage levels continue to abate with the stabilisation in interest rates over the past couple of months.

Zillow Group (+0.68%) is the most visited real estate website in the United States with 224m average monthly unique users driving network benefits to the group. It has dropped materially from its high in early 2021 as existing home sales in the US have come under pressure from rising mortgage rates – this provided an attractive entry point for the Fund. While there was no specific news from the company during the month, the share price has benefited from a 50bps decline in the US 30yr mortgage rate, which at some point should release pent up home sale activity.

Option Care Health (+0.59%) is the largest independent provider in home infusion services in the US, covering 98% of the population with its broad scale. At a broker conference in early December, Management provided confidence in the double-digit growth rate underpinning the business as well as a solid pipeline of tuck in acquisitions which would augment this growth. Outside of this, the stock is recovering the declines experienced in October.

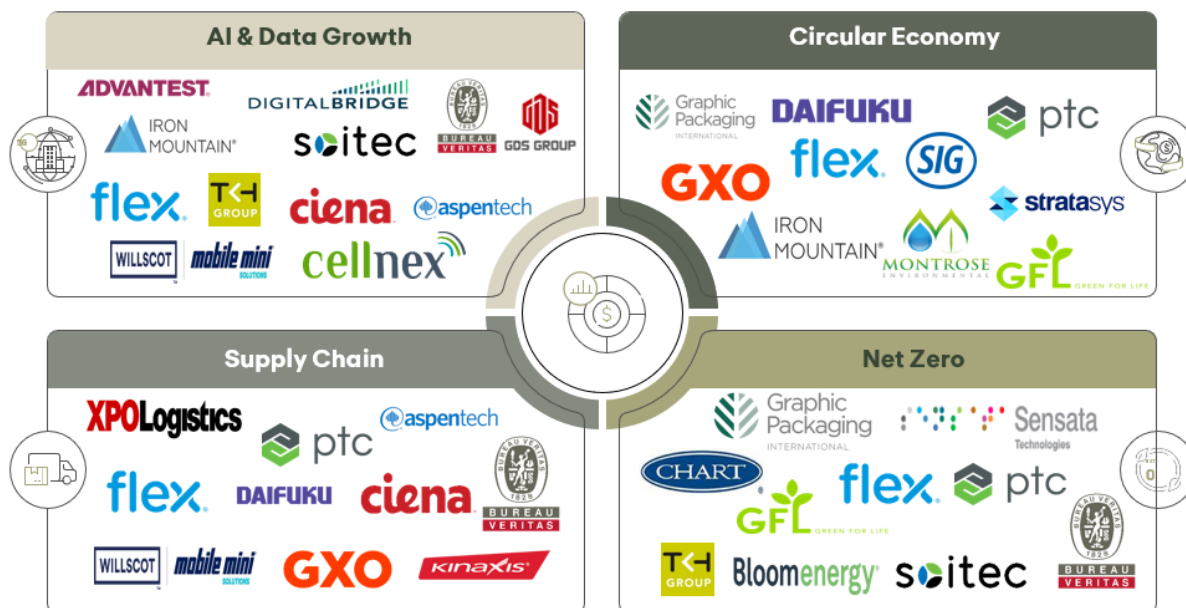
GDS Holdings (-0.10%) is a recent addition to the fund and is the leading vertically integrated provider of high-performance data center and IT infrastructure services in China and South East Asia. No material company specific news flow during December, rather more caught up in the weak Hong Kong market which has been under pressure for the past several months.

SIG Combibloc (-0.14%) operates in a global duopoly in the aseptic packaging market alongside industry leader Tetra Pak. It had provided positive commentary at its Capital Markets Day at the end of November, confirming its long-term organic growth of 4-6% with margins expanding to >27% over the medium term. The market is concerned about cycling tough comparisons from last year, however the long-term earnings algo remains unchanged.

Resona Group (-0.17%) is one of the largest regional banks in Japan with significant excess liquidity and pent-up earnings growth if/when the negative interest rate policy (NIRP) is lifted in Japan. As global yields came down during the month, Resona's share price followed suit. We consider the Japanese rate market will look quite different to rest of world during 2024 as it will likely be one of the few economies raising rates which would be positive for banks.

With the markets providing a strong backdrop during December, we took the opportunity to trim some positions while exiting two positions which had become overvalued in our view. The trims were concentrated in Iron Mountain, Willscot Mobile Mini, PTC and Flex which have all had strong runs between November and December. The exits were in Floor and Décor and Azek Group which both increased materially from their recent lows and became overextended relative to their earnings prospects. We deployed the proceeds into additional sizing into GDS Holdings and Ciena as well as a new position in Alight which is a leading provider of enterprise grade employee benefits and program administration including payroll, health benefits and administering 401ks, counting 70% of the Fortune 100 as customers. Alight provides a single platform with personalized experiences that help employees make the best decisions for themselves and their families regarding their health and financial well-being.

We continue to have differentiated exposure to some pretty powerful long term thematic 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.

Find out more:

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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.

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