Ellerston Global Mid Small Cap Fund

Ellerston Capital

Monthly Report as at 31 March 2024

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^	1.46%	9.83%	13.49%	3.42%	11.89%	11.25%
Benchmark*	3.92%	11.65%	21.18%	9.07%	10.61%	10.77%
Alpha	-2.46%	-1.82%	-7.69%	-5.65%	1.28%	0.48%

Performance	1 Month	3 Months	6 Months	FYTD	1 Year	Since Inception (p.a.)^^
Class B^	1.45%	9.82%	9.98%	6.66%	13.45%	9.27%
Benchmark*	3.92%	11.65%	18.00%	16.76%	21.18%	12.22%
Alpha	-2.47%	-1.83%	-8.02%	-10.10%	-7.73%	-2.95%

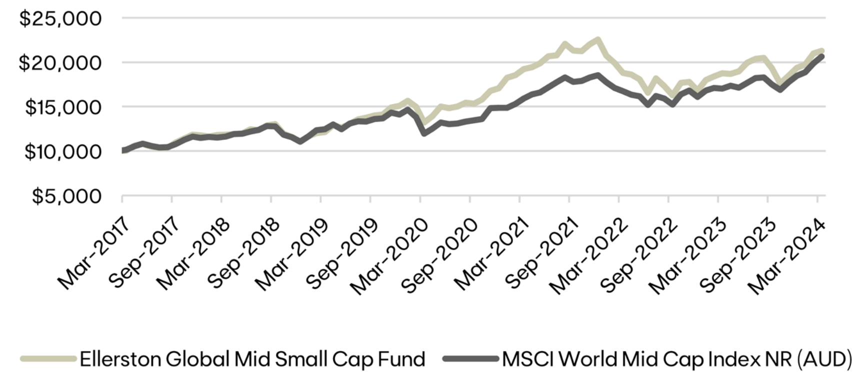
*^ The net return figure is calculated after fees & expenses, assuming all distributions are reinvested. Past performance is not a reliable indication of future performance. * MSCI World Mid Cap Index NR (AUD). ^^Class A inception is 28 February 2017. Class B inception is 18 August 2020.*

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 - $1.4994 Net Asset Value – $1.4957 Redemption – $1.4920 Fund Size – $ 59,009,209
Class B Unit Prices & Fund Size	Net Asset Value – $1.2681 Redemption – $1.2649 Fund Size – $ 55,060,466

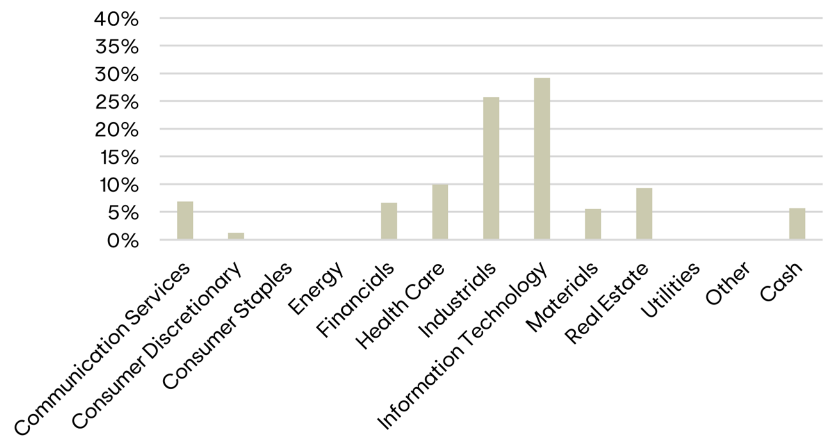
[1]*Of the investment return above the benchmark, after recovering any underperformance in past periods.*

Growth of $10,000 Investment



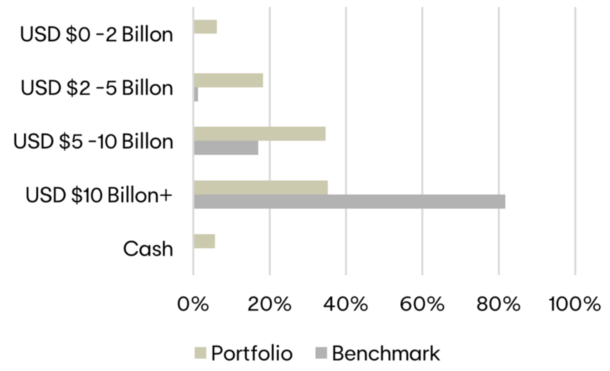
Source: Ellerston Capital.
Performance shown are for Class A Units and net of fees, assuming all distributions are reinvested.
Past performance is not a reliable indication of future performance.

Sector Allocation



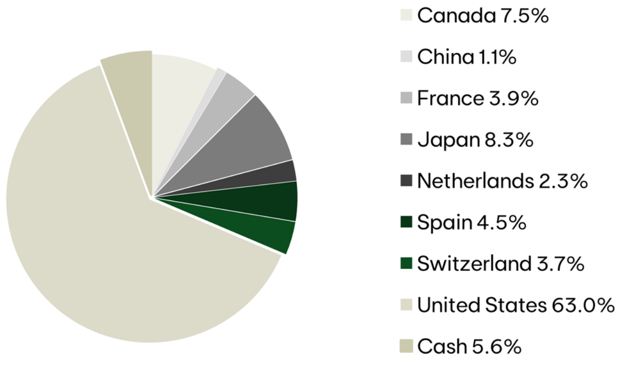
Source: Ellerston Capital.

Market Capitalisation Exposure



Source: Ellerston Capital.

Regional Exposure



Source: Ellerston Capital.

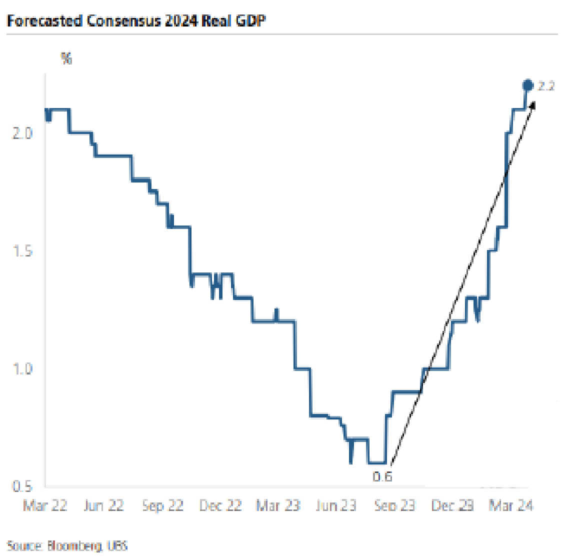
Top Holdings

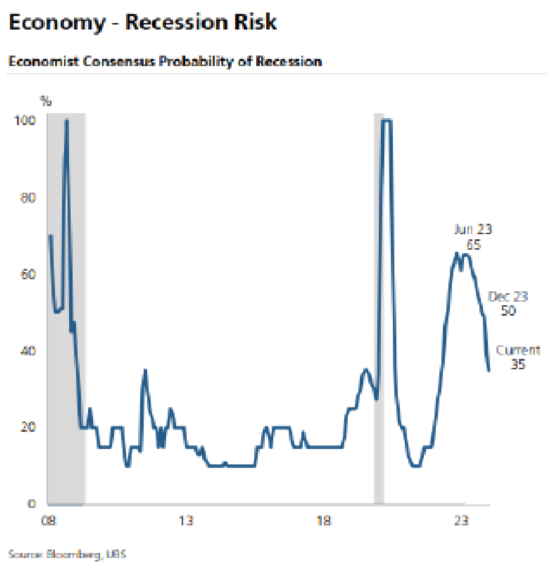
Company	Sector	Country	Portfolio Weight
GFL Environmental Inc	Industrials	United States	6.0%
Cellnex Telecom S.A.	Communication Services	Spain	4.5%
Option Care Health Inc	Health Care	United States	4.4%
DigitalBridge Group, Inc. Class A	Real Estate	United States	4.2%
Webster Financial Corporation	Financials	United States	4.2%
PTC Inc.	Information Technology	United States	3.8%
Aspen Technology, Inc.	Information Technology	United States	3.4%
Graphic Packaging Holding Company	Materials	United States	3.3%
Chart Industries, Inc.	Industrials	United States	3.2%
GXO Logistics Inc	Industrials	United States	3.1%

Source: Ellerston Capital.

COMMENTARY

Global indices came in quite strong during March as a rebound in global PMIs have ratcheted up economic growth expectations, while the risk of recession continues to get priced out of the market. The Fed pivot in early November 2023 kickstarted the initial equity rally however we have seen indices continue to march upwards, and this is likely driven by the following charts:

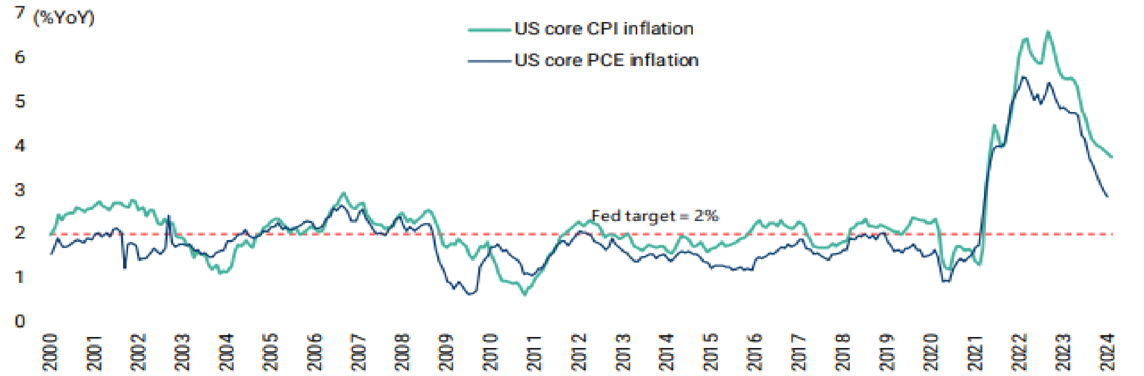




The S&P500 posted a strong first quarter as it reached a new all time high with solid underpinnings from the largest Mega cap tech stocks. Market breadth was quite narrow at the end of calendar year 2023 and while this has continued into 2024, we are starting to see some broadening of returns as both higher expected earnings and an expanding multiple is driving broader performance. Looking at overall global benchmarks, we note the S&P and Russell 2000 were up 3.2% and 3.6% respectively while the broadening market hampered Nasdaq relative performance which increased by 1.9%. Europe indices were also strong with the FTSE 100 up 4.9%, German DAX ahead by 4.6% and France's CAC index up by 3.6% as well. In Asia, Japan's Nikkei 225 was up 3.8% while the Hang Seng market continued to struggle as it was up 0.6%.

There are many predictions on the Fed's interest rate path over the next 12 months however with inflation declining quite materially from its peak, there is scope for cuts going forward. That said, with economic activity remaining fairly solid, the urgency of cuts seems a bit more distant than a few months ago. In the most recent meeting, Fed Governors maintained their median dot plot which calls for 3 rate cuts during 2024 (likely starting in June) while Powell seemed to telegraph a subtle change to his inflation tolerance as he viewed the path to 2% as "over time" rather than a pre-requisite to start cutting rates.

Exhibit 1: US core CPI inflation and core PCE inflation



Source: Bureau of Labor Statistics, Bureau of Economic Analysis

Looking at rate expectations from the ECB we note that the market is expecting cuts to start in June as well with a 25bps reduction priced in. The future path is a bit more uncertain with doves expecting 125bps of cuts this year compared with the more hawkish at 75bps – either way the path is downward. The ECB does not want to commit to a pace just yet as it will be data dependent.

Conversely, we saw a strong move out of Japan as it removed the negative interest rate policy (NIRP), ended yield curve control (YCC) and hiked rates for the first time in 17 years. This move was largely anticipated by the market and the commentary was actually more dovish than anticipated given the strong growth in wages we have seen over the past couple of months. The Japanese Yen has depreciated further post the move however this seems more to do with the interest rate differential between Japan and the US actually increasing over the past month.

Regional discussion:

In March, the U.S. stock market exhibited robust performance, reflecting the economy's continued resilience. The market's positive momentum was buoyed by robust household spending and a strong services sector, alongside persistent high wages and employment growth. Despite the ongoing concerns about inflation, investors appeared to weigh their optimism regarding the robust labour market and the vitality of the service sector against the expectation of gradually moderating but still elevated inflation levels.

The European stock market demonstrated resilience amid economic uncertainties, with factors such as inflation control measures and banking sector caution influencing its performance. The anticipation of mild recessions in some Western European countries, alongside a vibrant private equity scene and technological advancements, particularly in AI, played pivotal roles. Germany's DAX index reached record highs, showcasing the strength of German firms globally. Meanwhile, the UK market maintained a cautiously optimistic stance, with investors seeking income and defensive opportunities against a backdrop of economic challenges.

Japan's Nikkei index exceeded 40,000, a historic first, signalling a resurgence after prolonged stagnation. This rally, fuelled by global investor optimism towards Japanese corporations amid technological strides and governance improvements, comes despite Japan's economic challenges, including a recession. The rally reflects the broader market response to potential economic stimuli, including wage growth adjustments and anticipated Bank of Japan interest rate changes, highlighting a complex interplay of domestic economic policies and global market dynamics.

Sector discussion:

The global Energy sector witnessed a notable uptick, driven by a confluence of factors including rising oil and natural gas prices, geopolitical developments, and a robust demand recovery as global economies continue to navigate post-pandemic dynamics. Investors and the market responded positively to these trends, buoyed by expectations of sustained demand and potential supply constraints.

The Materials sector thrived in March, fuelled by rising demand in key industries and higher raw material prices. Investors are notably upbeat, driven by the sector's strong performance and the anticipation of sustained growth amidst global economic recovery. This period's success also highlights the sector's capability to navigate through supply chain challenges, positioning companies for continued positive momentum.

The communication services sector faced challenges in March, with its performance impacted by regulatory concerns, competitive dynamics, and evolving consumer behaviours. Communication Services sector, encompassing a wide range of companies from telecommunications to media and entertainment, saw investor caution amid uncertainties over future growth prospects and technological advancements reshaping the industry landscape.

PORTFOLIO COMMENTARY

The Ellerston Global Mid Small Cap Fund increased 1.46% net during the month compared to the MSCI World Mid Cap Index NR (AUD) which was up by 3.92% over the same period.

The portfolio's top three contributors Radnet, Resona and Chart Industries added 157bps to performance while Soitec, Ciena and Zillow detracted 136 bps during the month.

RadNet (+0.68%) is the largest provider of freestanding, fixed-site outpatient diagnostic imaging in the United States. The company delivers high-quality, cost-effective solutions in its 366 centre network, and strategic partners. RadNet reported its fourth quarter results on 2 March which beat the consensus with revenues up 9.5% and EBITDA up a robust 15%. Management unveiled its DeepHealth AI-Powered Health Informatics portfolio which is designed to dramatically drive efficiency and transform the role of radiology in Heatlhcare. We are looking forward to seeing how this product progresses as it rolls it out internally as well as across its 200 external customers.

Resona (+0.46%) is a large regional bank with a full-line trust capabilities in Japan, with strong presence in Tokyo area and Kansai region. Bank of Japan raised its short-term interest rates to 0% to 0.1% from -0.1%, after its March policy meeting. Based on the loan and deposit position, Resona is well positioned to benefit from this policy change.

Chart Industries (+0.43%) is a leading independent global manufacturer of highly engineered equipment servicing multiple market applications in Energy and Industrial Gas. Chart Industries released its fourth quarter results on 28 February indicating strong order inflow and positive commentary for the coming quarter. It anticipates each of its operating segments across all of its regions will show growth in 2024. With the fourth quarter delivering the highest order quarter in company history, it is well set up for revenue and earnings delivery this year.

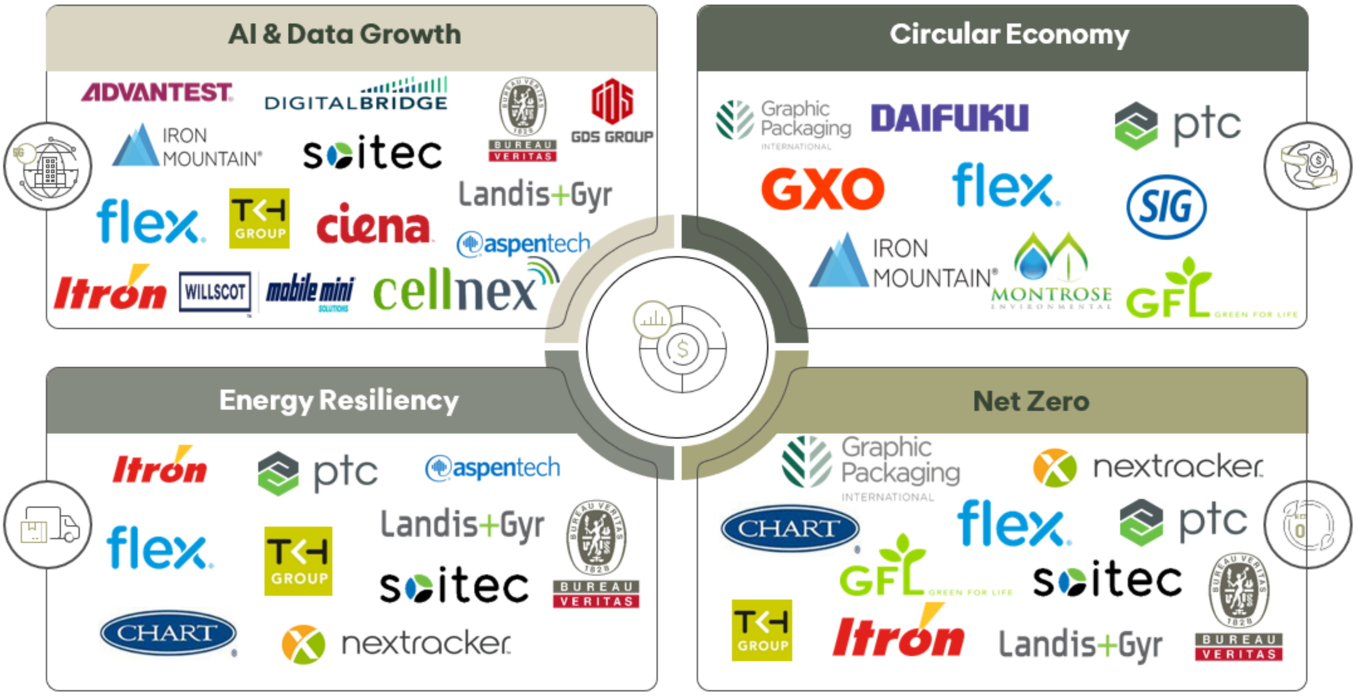
Soitec (-0.69%) designs and manufactures innovative semiconductor materials. Its products are used to manufacture chips that go into smart phones, tablets, computers, IT servers and data centres as well as electronic components in cars, connected devices, and industrial and medical equipment. The company experienced a sell-off after its 2025 guidance revealed a material shortfall compared to market expectations. Regardless, as a long-term investor, we stay positive on its unique products and believe the current share price has already reflected the soft near-term demand outlook.

Ciena (-0.37%) is a global leader in networking systems, services, and software. Ciena builds the most adaptive networks in the industry, enabling customers to anticipate and meet ever-increasing digital demands. The share price underperformed during March month as revenue guidance short of market expectation; nevertheless, the outlook for bandwidth demand remains strong with direct cloud providers.

Zillow (-0.30%) is the No. 1 U.S. residential real estate app. In addition to its for-sale and rental listings on Zillow.com, Zillow also provides home loan, affiliated lender, mortgage pre-approvals and financing, and real estate professional services. Zillow has been under pressure following the National Association of Realtors (NAR) settlement, which decouples buyers and seller agent commissions. We believe highly engaged platforms like Zillow will emerge stronger on the other side of the changes with tech innovations and increasingly diversified growth drivers.

During the month we trimmed positions in PTC, XPO Logistics, Radnet and Resona after strong share price performances while adding to Acadia Healthcare and Cellnex Telecom where the respective share prices were relatively weak despite positive underlying fundamentals. We initiated a position in LiveRamp and while new currently, LiveRamp has been part of our library as we have owned the business in the past. As the digital advertising market moves to first party data (ie our sign ins to websites such as your Woolworths or Qantas membership or connected TV such as Netflix) and tracking cookies get taken away, LiveRamp's solution becomes increasingly valuable.

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 AI and the growth in data as Industrial IoT and large language networks such as ChatGPT and next generation applications drive data demand, companies that enable our push to a circular economy, beneficiaries of deglobalisation as well as those helping to improve the resilience of our energy grids as the world looks to electrify and companies which are levered to the multi trillion-dollar spending required for our "Road to Net Zero".



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:

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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