

Ellerston Global Mid Small Cap Fund

Monthly Report as at 31 October 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 - Class A

Performance	1 Month	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.) ^{^^}
Net [^]	2.95%	1.74%	22.59%	0.53%	8.85%	10.56%
Benchmark*	3.20%	2.09%	26.34%	6.03%	9.28%	10.38%
Alpha	-0.25%	-0.35%	-3.75%	-5.49%	-0.43%	0.18%

Performance Summary - Class B

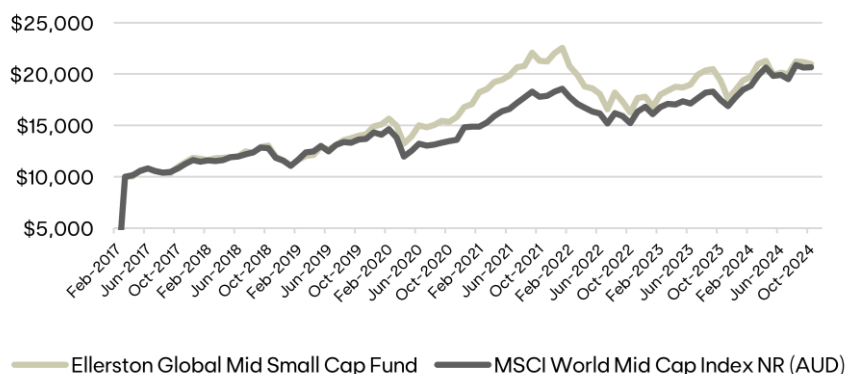
Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception (p.a.) ^{^^}
Net [^]	2.95%	1.73%	8.25%	22.52%	0.71%	8.31%
Benchmark*	3.20%	2.09%	7.60%	26.34%	6.03%	11.31%
Alpha	-0.25%	-0.36%	0.65%	-3.83%	-5.32%	-3.01%

[^] 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 & Nick Markiewicz
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 - 1.5211 Net Asset Value - 1.5173 Redemption - 1.5135 Fund Size - \$42,713,957
Class B Unit Prices & Fund Size	Net Asset Value - 1.2858 Redemption - 1.2826 Fund Size - \$46,558,199

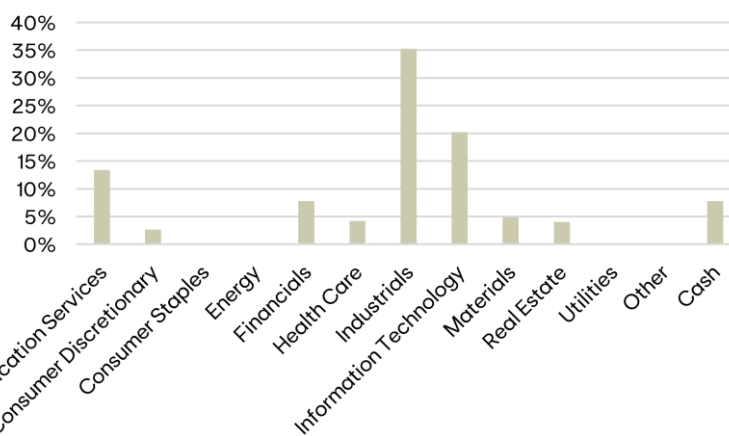
Growth of \$10,000 Investment



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.

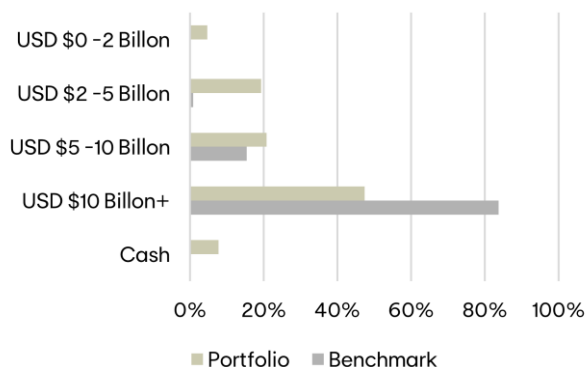
Sector Allocation



Source: Ellerston Capital.

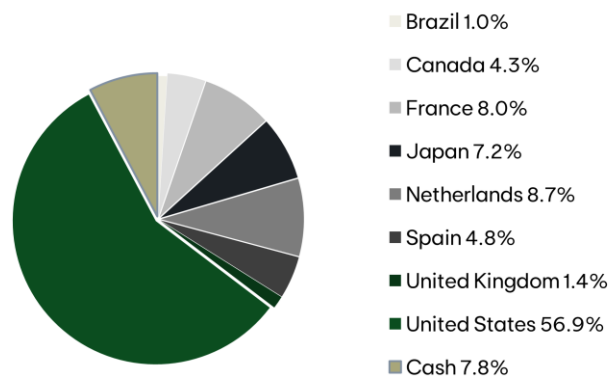
¹Of the investment return above the benchmark, after recovering any underperformance in past periods.

Market Capitalisation Exposure



Source: Ellerstun Capital.

Regional Exposure



Source: Ellerstun Capital.

Top Holdings

Company	Sector	Country	Portfolio Weight
GFL Environmental Inc	Communication Services	United States	7.1%
Cellnex Telecom S.A.	Industrials	Spain	4.8%
AerCap Holdings NV	Industrials	United States	4.4%
GXO Logistics Inc	Industrials	United States	4.3%
Corpay, Inc.	Financials	United States	4.0%
TKO Group Holdings, Inc. Class A	Communication Services	United States	3.9%
Bureau Veritas SA	Industrials	France	3.2%
PTC Inc.	Information Technology	United States	3.2%
QXO, Inc.	Information Technology	United States	3.1%
KBR, Inc.	Industrials	United States	3.0%

Source: Ellerstun Capital.

MARKET COMMENTARY

Well, the endless noise around the US Election has finally been silenced with a resounding win from Donald Trump and the Republicans. Based on policy "promises" during the campaign period, the base case would see most, if not all, of the 2017 tax cuts being extended, tariffs being raised in conjunction with domestic de-regulation and a keen focus on immigration flows. Winning an election from an incumbent represents a significant vote from the American public that high inflation and subsequent cost of living challenges need addressing with less than 30% of the populous believing the US is on the right track.

Following the outcome, we saw some pretty large moves in equity markets (particularly US small caps), rising US 10yr yields and a stronger USD on the night. One of the risks with the election was an uncertain outcome however the resounding win by Republicans provided a degree of leadership and potential policy path certainty going forward.

Trump policies are generally viewed as positive for risky assets, especially de-regulation beneficiaries such as financials and certain pockets of energy. That said, concerns around a potential rollback of the Inflation Reduction Act (IRA which benefits renewables) is weighing on de-carbonisation plays, while potential tariffs could lead to lower growth assumptions for China and Europe.

The Republicans have been given a clear mandate of change and while the main near term focus appears to be tax, tariffs and immigration, there are many moving parts and the rhetoric around tariffs may be an initial play on opening up further negotiations.

At this point it seems that markets followed the predicted script under a Republican victory, that is stock market up, US dollar up, Bond market down (yields up). The key going forward is whether interest rates stabilise/ decline from here or whether they retest the period seen Sept/Oct 2023 where the 10yr touched 5.0%. In the latter scenario it is hard to see animal spirits outweighing the bond yield anchor.

On interest rates, we have just seen the US Fed cut rates another 25bps to a range of 4.5%-4.75%, which is consistent with the dot plot that was presented in September. The statement pointed towards a continued focus on the slowing labour market and would not rule out, or rule in, an additional cut in December. The market expects a continuation of the steady 25bps string of monthly reductions out to mid-2025, with rates expected to settle out about 100bps-125bps lower than current levels. The swing factor here is clearly the potential inflationary aspects of heightened tariffs and lower taxes, however it is far too early to determine the impacts.

We now have the election clearing event out of the way and fundamentals will regain the front seat of market news flow. At the time of writing, the majority of stocks have reported September quarter earnings and while there were hits and misses, in the aggregate, earnings have beaten estimates by >6% and represent about 8% EPS growth for the September quarter.

Overall current equity valuations are embedding global growth coming in ok, global central banks easing interest rates while geopolitics remain in the back seat. This does seem to be an attractive backdrop for future equity appreciation, with the only main push back centering on the high multiple being paid for this investing backdrop. While there will always be pockets of excess, there are generally pockets of opportunity for investors.

REGIONAL DISCUSSION

The U.S. equity market declined in October as investors awaited the outcome of the presidential election. The S&P 500 fell by 0.91%, the NASDAQ declined by 0.49%, and the small-cap Russell 2000 dropped by 1.44%. U.S. inflation eased to 2.4% in September but remained above expectations, while non-farm payrolls showed strong job growth. Markets are expected to stabilize post-election as the country recovers from Hurricane Helene and the ongoing port strike along the East and Gulf Coasts.

European markets declined amid concerns over economic growth and uncertainty surrounding the U.S. presidential election. The Euro STOXX 50 dropped by 3.34%, while the UK's FTSE 100 fell by 1.45%. Longer-term macroeconomic outlooks deteriorated, with the German government recently revising its 2024 growth forecast to a 0.2% contraction. The European Central Bank cut interest rates by 25 basis points, as widely anticipated. Eurozone inflation rose to 2% in October, aligning with the European Central Bank's target.

The Japanese stock market had a positive month in October, with the Nikkei 225 rising by 3.07%, though volatility remained elevated. Exporters in the technology, automotive, and machinery industries were boosted as the yen continued to weaken. At its meeting on 31st October, the Bank of Japan kept interest rates unchanged, indicating that macroeconomic conditions in Japan remain stable.

SECTOR DISCUSSION

The Financials sector was one of the top performers in October. Most banks reported revenue and earnings for the September quarter above consensus expectations, with a positive outlook for the remainder of 2024 and into 2025. Capital market activities also showed encouraging signs of a rebound after bottoming out last year. The market has responded positively to this profit surprise and positive momentum.

In October, the Communication Services sector was once again at the centre of investment activity. The boom in data centres drove demand for high-speed, reliable internet and data connections, benefiting telecom providers and internet service companies. The rise of AI applications and the scaling of cloud computing further leveraged digital infrastructure, promoting growth across the sector.

The Healthcare sector was among the biggest underperformers in October. In addition to ongoing slow growth in pharmaceutical companies and cost pressures in medical services, the U.S. election added further uncertainty for a sector that relies heavily on regulatory and funding stability. Potential shifts in regulatory policies, government funding, investment in innovation, and public health priorities have led to cautious investor sentiment.

The Materials sector also faced significant challenges over the past month. Weaker demand from China, driven by its slowing economic growth, impacted the need for raw materials. The Eurozone also showed signs of deceleration, with its composite purchasing managers' index (PMI) remaining below the growth threshold, indicating contracting economic activity. This slowdown reduced demand for materials and led to lower prices.

PORTFOLIO COMMENTARY

The Ellerston Global Mid Small Cap Fund increased 2.95% net during the month compared to the MSCI World Mid Cap (AUD) Index which was up by 3.20% over the same period. The weaker Aussie dollar was a material benefit to returns due to the unhedged nature of the portfolio.

The portfolio's top contributors Advantest Corp, GXO Logistics and GFL Environmental added 164 bps to performance while Option Care Health, Cellnex Telecom and QXO Inc detracted 136 bps during the month.

Advantest Corp (+0.73%) is a leading global provider of semiconductor testing solutions, offering System on Chip (SoC) and memory testers for various semiconductor types, as well as testers for AI-driven data infrastructure. The company reported its September quarter results on 30th October, with both revenue and profit significantly surpassing market expectations. This strong performance, coupled with upgraded guidance, drove a further surge in the stock price.

GXO Logistics (+0.53%): is the world's largest pure-play contract logistics provider, partnering with the world's leading blue-chip companies to solve complex logistics challenges. GXO has been expanding its business and gaining market share through its advanced supply chain and e-commerce solutions. The company was recently upgraded by a major brokerage, reflecting its strong performance and an increase in new business wins. Additionally, GXO's share price benefited from a news article which indicated it had been approached by third parties for a possible sale of the company. While this is clearly speculation, it does underpin the attractiveness of its business profile and valuation.

GFL Environmental (+0.37%): is the fourth largest diversified environmental services company in North America, providing a comprehensive line of solid waste management, liquid waste management and soil remediation service in Canada and in more than half of the U.S. states. The company's environmental unit attracted bids from over 25 interested parties, with strong valuations that boosted stock performance. In its recent profit result, Management indicated that it could receive >\$6bn net for the division which would be used to repay \$3.5bn of debt with the remainder available for buybacks or other investments.

Option Care Health (-0.73%) is the largest independent provider of home and alternate site infusion services in the U.S., operating in all 50 states. In its September quarter earnings call, the company reported solid performance. However, management noted that one of its chronic inflammatory therapies may face revenue and profit impacts next year due to the entrance of biosimilars and changes in Medicare subsidies. The market reacted sharply to this news, and we are determining the next move with the stock.

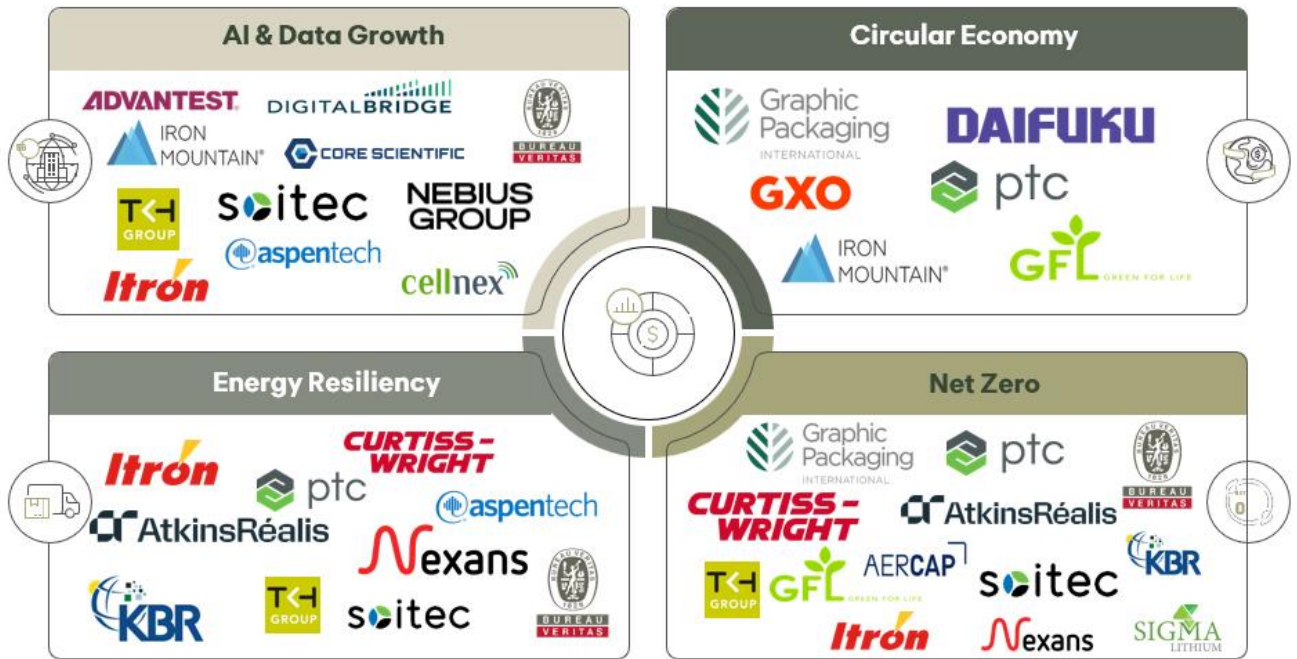
Cellnex Telecom (-0.38%): is Europe's largest operator of telecommunications towers and infrastructure, managing a portfolio of over 130,000 sites with a prominent presence in Spain, France, the United Kingdom, Italy and Poland. The stock experienced a modest dip, easing back after its robust performance over the last three months. We remain positive on the business outlook, given improving trends in the market and the solid execution of the management team.

QXO Inc (-0.25%): provides consulting and professional services, primarily to clients in the manufacturing, distribution, and service sectors. QXO aims to become a tech-forward leader in the \$800 billion building products distribution industry through accretive acquisitions and organic growth. The stock price declined slightly following a strong rally over the past two months. We remain confident in QXO's outlook as it continues to execute its disciplined growth strategy.

In October, we made a number of positioning changes as either valuations became stretched or the investment thesis had changed. In terms of exits, we removed Gerresheimer which seems to be underestimating the impact of destocking on its business while gearing up for a new acquisition which is also performing below expectations. Acadia Healthcare is being buffeted by regulatory investigations around pricing and patient referrals. While the behavioural health industry is attractive, given the headline risk it is perhaps better run in a private environment. We also exited Chart Industries as concerns of project delays weighted on our investment thesis – while Management did reduce earnings materially, the stock has actually performed quite well. Landis+Gyr was also exited as Chinese competition appears to be heating up in Europe, we note the business provided a subdued trading update post exit. Finally, Montrose Environmental was exited as concerns around organic growth became concerning.

In terms of additions, we added AtkinsRealis which is a global engineering and design consultancy firm specializing in infrastructure, energy, and transportation projects, Curtiss-Wright which provides highly engineered products and services for the aerospace, defence, and energy industries and is recognized for its innovation and engineering expertise. We also added small positions in Sigma Lithium, a leading global lithium producer focused on supplying the next generation of electric vehicle batteries, Nexans which is a leader in advanced cable and connectivity solutions, designing, manufacturing, and installing cables that support the transition to renewable energy and enable efficient energy and data transmission worldwide, LGI Homes, a U.S. homebuilder specializing in affordable, entry-level homes, offering communities with move-in ready properties and a streamlined purchasing process to make homeownership more accessible and lastly, Nebius Group which is a technology company specializing in cloud computing and IT infrastructure solutions.

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 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, companies 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".



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.**

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 registry, Automic Group on 1300 101 595 or ellerstonfunds@automicgroup.com.au.

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