

# Ellerston Global Mid Small Cap Fund

Monthly Report as at 31 December 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.) <sup>^^</sup>
Net <sup>^</sup>	-1.95%	7.09%	15.90%	-0.15%	8.27%	10.88%
Benchmark*	-0.78%	9.12%	21.98%	6.71%	9.83%	10.94%
Alpha	-1.17%	-2.03%	-6.08%	-6.86%	-1.56%	-0.06%

## Performance Summary - Class B

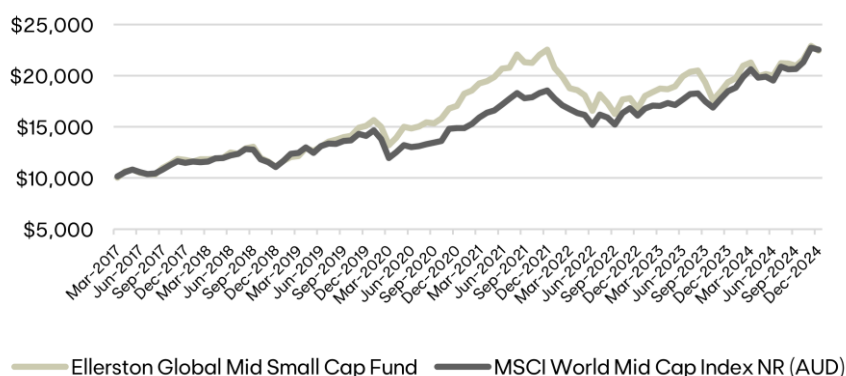
Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception (p.a.) <sup>^^</sup>
Net <sup>^</sup>	-1.96%	7.09%	12.24%	15.83%	-0.01%	8.95%
Benchmark*	-0.78%	9.12%	15.51%	21.98%	6.71%	12.27%
Alpha	-1.18%	-2.03%	-3.27%	-6.15%	-6.70%	-3.32%

<sup>^</sup> 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). <sup>^^</sup> 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	37
Minimum Investment	Initial investment - \$25,000 Additional investment - \$10,000
Distribution Frequency	Half-Yearly (where available)
Management Fee	0.75% p.a.
Performance Fee <sup>1</sup>	10.00%
Buy/Sell Spread	0.25% / 0.25%
Class A Unit Prices & Fund Size	Application - 1.5822 Net Asset Value - 1.5783 Redemption - 1.5744 Fund Size - \$44,166,224
Class B Unit Prices & Fund Size	Net Asset Value - 1.3375 Redemption - 1.3342 Fund Size - \$46,903,541

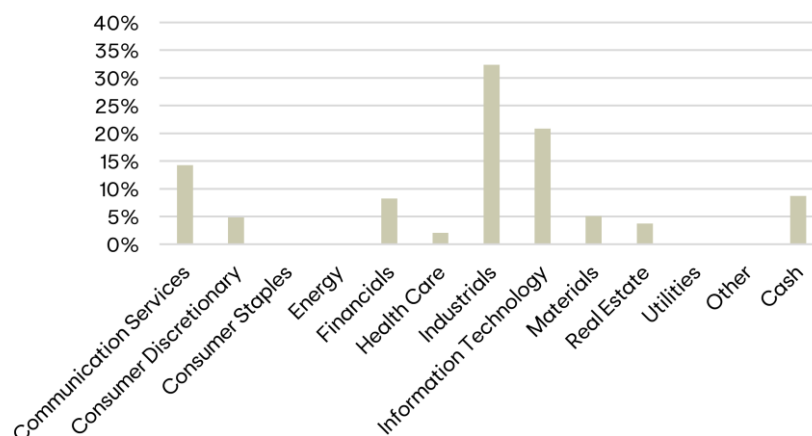
## Growth of \$10,000 Investment



Source: Ellerston Capital.

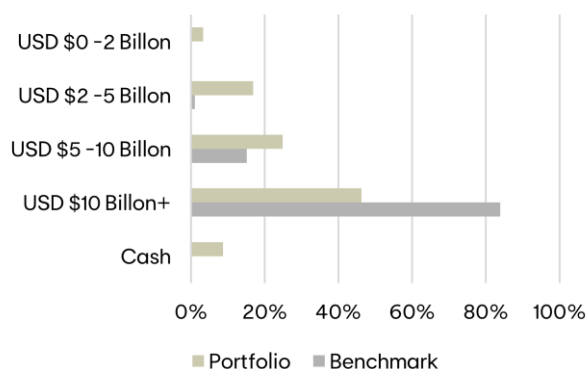
Performance shown are for Class A Units and net of fees, assuming all distributions are reinvested. Past performance is not a reliable indication of future performance.

## Sector Allocation



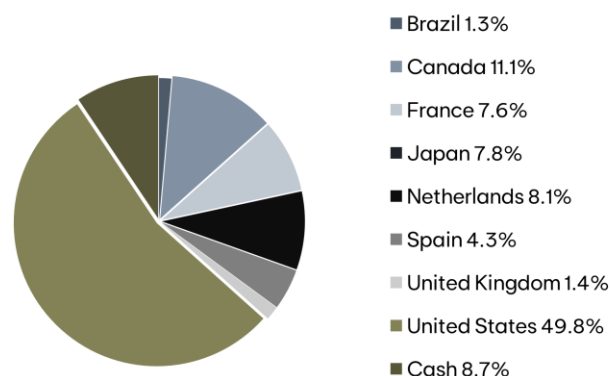
<sup>1</sup>Of the investment return above the benchmark, after recovering any underperformance in past periods.

## Market Capitalisation Exposure



Source: Ellerstun Capital.

## Regional Exposure



Source: Ellerstun Capital.

## Top Holdings

Company	Sector	Country	Portfolio Weight
GFL Environmental Inc	Industrials	United States	5.9%
TKO Group Holdings, Inc. Class A	Communication Services	United States	5.5%
AerCap Holdings NV	Industrials	United States	4.7%
Cellnex Telecom S.A.	Communication Services	Spain	4.3%
Corpay, Inc.	Financials	United States	4.2%
GXO Logistics Inc	Industrials	United States	3.9%
Bureau Veritas SA	Industrials	France	3.8%
Nebius Group N.V. Class A	Information Technology	United States	3.5%
Curtiss-Wright Corporation	Industrials	United States	2.9%

Source: Ellerstun Capital.

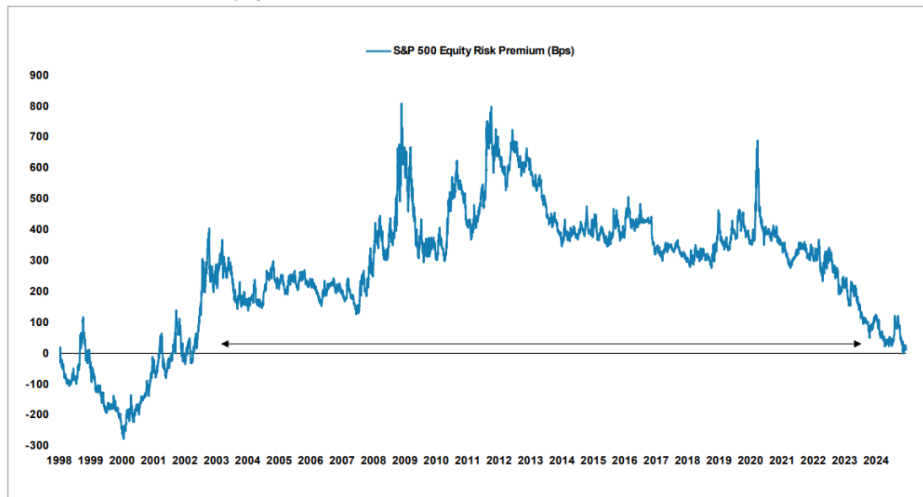
## MARKET COMMENTARY

Market hopes of a 'Santa rally' were dashed by a weak finish to an otherwise strong year. The S&P500 fell -2.4%, though the true magnitude of declines was significantly worse and masked by the continued relative strength of the 'Magnificent Seven'.

The catalyst for the December declines was the US Federal Reserve's FOMC meeting in the middle of the month. Overnight borrowing rates were cut 0.25% as expected, though the published 'dot plot' of individual board members showed total expected 2025 rate cuts halving from 100bps to 50bps. Strong recent US job openings data, which was the highest since May 2023, as well as robust US Services PMI, have further added to the idea that rates may not fall as fast as the market initially thought, at least in the US.

Given optically high US equity valuations (S&P500 PE now 25% above long-term average), and negligible risk premia compared to US 10Y Government bonds (now yielding nearly 5%), investors remain skittish about equities more broadly heading into 2025. This is particularly the case given the historically high concentration in indices, with the top 10 stocks accounting for nearly 40% of the S&P500 (a record) and over 50% of market returns for two straight years.

S&P 500 Next Twelve Month Equity Risk Premium



Source: Morgan Stanley

Despite this backdrop, we believe the outlook for small to mid-sized companies remains favourable.

Starting valuation for the S&P490, which removes the impact of the ten largest companies, remains far more reasonable at 18x PE, which is only a 15% premium compared to the long-term average. The small and mid cap segments of the market look better again, trading ~20% below their median valuation of the last 4 years. When coupled with strong 'double-digit' EPS growth expected for 4Q24, and further growth expected in 2025 on the back of a more business friendly Trump administration, we expect to keep finding attractive investment opportunities.

## REGIONAL DISCUSSION

In December, U.S. equity markets fell following the Federal Reserve meeting, discussed above. The S&P 500 dropped -2.38%, with the S&P500 equal-weight Index falling -6.3%, the S&P500 Midcap 400 falling -7.1% and the Russell 2000 declining -8.3%. The Nasdaq Composite Index gained 0.55% for the month, helped entirely by the 'Magnificent Seven', which increased +6.3% on continued AI enthusiasm.

European markets had another mixed month in December. France's CAC 40 Index increased by 2.14%, led by luxury companies including Hermès and LVMH. Germany's DAX Index rose by 1.44%, despite minimal GDP growth and higher-than-expected inflation. The UK's FTSE 100 fell 1.29%. The Bank of England opted to maintain rates during its December meeting, balancing concerns over rising inflation and economic growth.

The Japanese stock market had a positive December, with the Nikkei 225 Index rising 4.53%. After the Bank of Japan's decision to maintain interest rates at 0.25%, a government report projected a moderate recovery, supported by improving employment and income conditions. Inflation remained moderate and the latest manufacturing Purchasing Managers' Index signalled potential stabilisation in the sector.

The local currency returns of non-US markets were offset by the rise in USD, with the US Dollar Index (DXY) rising 3%.

## SECTOR DISCUSSION

The Communication Services sector increased +3.6%, outperforming the broader market. Growing reliance on digital infrastructure supported strong performance among telecom providers and internet service companies. Companies involved in interactive media and services also benefited from investor enthusiasm for AI developments.

The Consumer Discretionary sector increased +2.4%. The holiday season was strong than expected, despite ongoing inflationary pressures. The travel and leisure industry also experienced a significant resurgence during the month.

The Energy sector was one of the biggest underperformers, falling 9.5%. The supply side was affected by ongoing geopolitical tensions, particularly in the Middle East and Ukraine. Persistent concerns over global demand, especially due to China's slower-than-expected economic recovery, added further pressure on the sector.

Materials sector faced another challenging month, down nearly 11%. Industries such as metals and construction materials were overshadowed by ongoing concerns around China's economic slowdown. Producers of industrial chemicals and fertilisers also struggled with elevated input costs and weakened global demand.

The Real Estate sector fell 8.6%. The market saw a steeper-than-usual slowdown in residential real estate during December, with major markets like the US and Europe reporting lower transaction volumes. Persistent pressure from high global interest rates also weighed on the sector.

## PORTFOLIO COMMENTARY

The Ellerston Global Mid Small Cap Fund fell 1.95% net during the month, compared to the MSCI World Mid Cap (AUD) Index, which fell -0.78% 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 Nebius, Aritzia and Advantest added 104 bps to performance while GXO Logistics, Core Scientific and QXO detracted 295 bps during the month.

Nebius Group (+0.55%) is a technology company developing full-stack infrastructure to support the growth of the global AI industry. In early December, the company announced a USD 700 million strategic equity placement which included Nvidia. The funds will be used to buy latest generation GPUs from Nvidia to accelerate Nebius' AI GPU cloud business.

Aritzia (+0.30%) is an apparel retailer offering lifestyle products online to customers in over 180 countries and through more than 125 boutiques across North America. Through December, the stock benefited from the positive performance of the Consumer discretionary sector, as well as the reopening of its flagship locations in New York and Chicago last quarter.

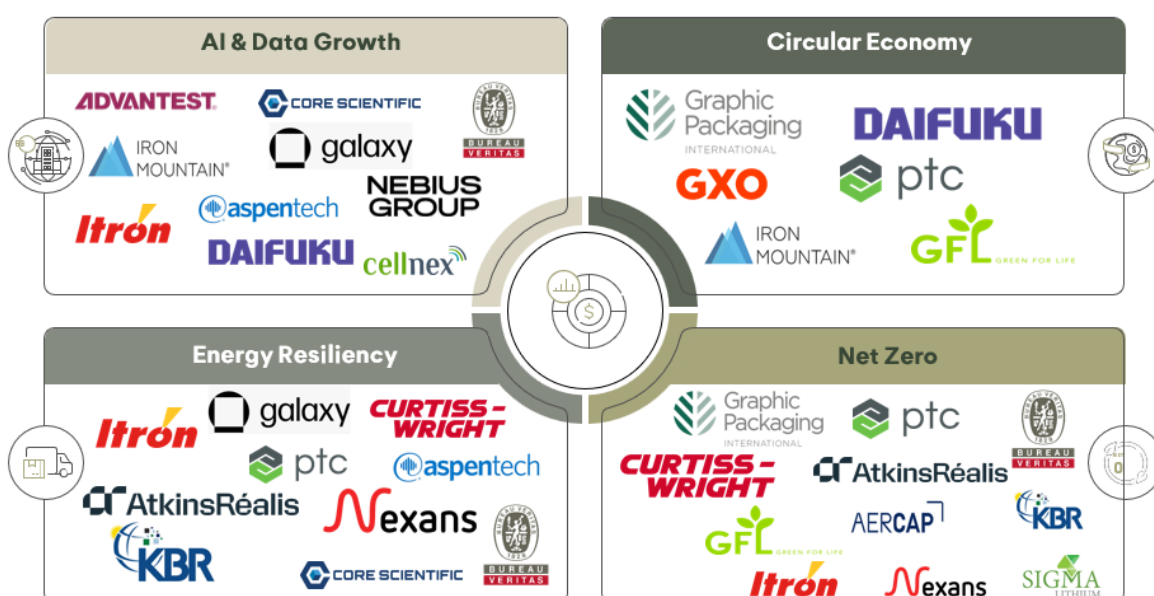
Advantest (+0.19%) is a leading global provider of semiconductor testing solutions, offering System on Chip (SoC) and memory testers for various semiconductor types, as well as testers for AI-driven data infrastructure. The rise of generative AI has significantly increased demand for testing and enthusiasm for the stock.

GXO Logistics (-1.44%): is the world's largest pure-play contract logistics provider. In early December, GXO announced an abrupt CEO transition, alongside media reports that a potential sale process for the company had been discontinued. This combination triggered a sharp decline in the stock price.

Core Scientific (-0.94%): is a leader in digital infrastructure for bitcoin mining and high-performance computing. The stock price declined in December following a strong rally over the past three months. We remain confident in Core Scientific's ability to become one of the largest independent AI data centre businesses globally.

Corpay (-0.50%) is a leading business payments and spend management company. The stock fell on small unfavourable moves in US petrol prices and FX and the potential impact this may have on their fuel card earnings. While there is some variability to short term earnings, we still see significant structural growth ahead due to large 'white space' in the group's payments and FX verticals, as well as a long history of accretive M+A.

New positions added to the portfolio in December are all from the break-up and spin-offs from an existing holding, Vivendi: Canal+, a leading provider of television and film content; Havas, a global communications and marketing agency; and Louis Hachette, a prominent publishing and media company.



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.

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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](mailto:info@ellerstoncapital.com) or visit us at [ellerstoncapital.com](http://ellerstoncapital.com).

All holding enquiries should be directed to our registry, Automic Group on 1300 101 595 or [ellerstonfunds@automicgroup.com.au](mailto:ellerstonfunds@automicgroup.com.au).

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