Ellerston Global Mid Small Cap Fund

Ellerston Capital

Monthly Report as at 31 May 2026

APIR Code: ECL8388AU, ECL3306AU | 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^	7.8%	16.0%	33.5%	16.7%	8.7%	12.7%
Benchmark*	2.6%	1.3%	8.4%	13.4%	8.5%	10.4%
Alpha	5.2%	14.7%	25.1%	3.3%	0.2%	2.3%

Performance Summary - Class B

Performance	1 Month	3 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.)^^^
Net^	7.8%	16.1%	33.7%	16.7%	8.9%	12.2%
Benchmark*	2.6%	1.3%	8.4%	13.4%	8.5%	11.1%
Alpha	5.2%	14.8%	25.3%	3.3%	0.4%	1.1%

^ 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)	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
Minimum Investment	Initial - $25,000 Additional - $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 – $2.0375 Net Asset Value – $2.0324 Redemption – $2.0273 Fund Size – $31,085,746
Class B Unit Prices & Fund Size	Net Asset Value – $1.7203 Redemption – $1.7160 Fund Size – $33,905,322

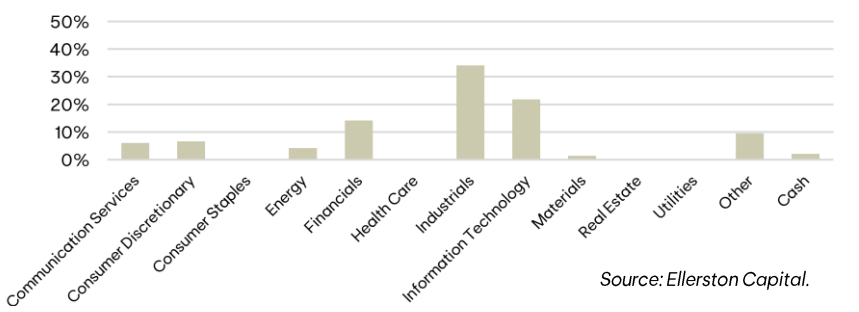
[1]*Of the investment return above the benchmark, after recovering any underperformance in past periods.*

Top Holdings*

Company	Sector
AerCap Holdings NV	Industrials
Core Scientific Inc	Information Technology
Corpay, Inc.	Financials
Nebius Group N.V. Class A	Information Technology
ProPetro Holding Corp.	Energy

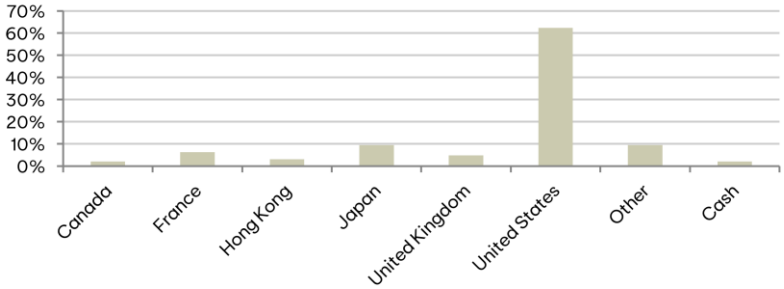
**Listed securities, In alphabetical order.*
Source: Ellerston Capital

Sector Allocation



Source: Ellerston Capital.

Regional Exposure



Source: Ellerston Capital.

PORTFOLIO COMMENTARY

The Ellerston Global Mid Small Cap Fund (the Fund) increased +7.8% (net AUD) in May relative to the MSCI World Mid Cap Index (the Benchmark) increasing +2.6% (AUD). For the 12 months to May, the Fund has increased +33.5% (net AUD) compared to the index up +8.4% (AUD).

MARKET COMMENTARY

May marked a continuation of the rally experienced in April, with nearly all global indices higher, and US indices touching new record highs. As has been the case for much of the last 12 months, the market was led by tech indices, with the Nasdaq100 up 10.6%, significantly outpacing the S&P500 equal-weight index which was up +2.7%, implying a very narrow rally. On a sector level, the performance in May was even more stark, with only 3 out of 11 S&P500 sectors recording positive performance, and nearly all of that driven by technology, which was up 16%! Said differently, absent the performance of Technology, the market would have been lower through the month.

S&P 500 Sectors	May	YTD	3M	6M	12M
Technology	**16.0%**	23.8%	31.0%	23.4%	56.0%
Discretionary	**2.6%**	4.1%	8.2%	4.9%	17.4%
Healthcare	**2.5%**	-3.0%	-6.3%	-2.8%	14.8%
Materials	**-0.7%**	11.9%	-5.0%	14.8%	19.4%
Industrials	**-0.8%**	12.0%	-2.0%	15.1%	22.7%
Communications	**-0.9%**	9.3%	8.9%	9.3%	40.9%
REITs	**-1.0%**	10.6%	1.1%	9.7%	10.4%
Financials	**-1.1%**	-5.4%	0.7%	-1.7%	2.7%
Staples	**-3.2%**	7.5%	-7.5%	5.9%	3.0%
Utilities	**-5.1%**	4.8%	-6.3%	1.9%	11.5%
Energy	**-5.6%**	26.0%	0.6%	25.1%	42.5%
**** Percentages are total return as of 5/31/26*					

Source: NASDAQ

The tech rally was led by two primary factors; exceptional 1Q26 earnings, and continued enthusiasm around Artificial Intelligence (AI). In particular, the SOXX ETF (which holds leading semiconductor stocks) increased 23% in May, and is now up 73% over two months, and 179% for 12 months. May marked the best 2-month return in the history of the index (more so than 2000!).

There was no singular AI news item that drove the market, rather, a number of datapoints which point to accelerating AI use cases and investment. Of note was the strong NVDA results and continued upgrades to hyperscaler capex (particularly Amazon and Google). In addition, as discussed below, other data points we track continued to move positively, including accelerating AI token demand and the rising hourly rental prices of GPUs (required to generate tokens).

The market's narrow rally raises risks going forward. The AI trade now accounts for nearly half of the S&P500 market value, and over 100% of its recent upside. There is crowding in certain pockets of the market, and technical indicators for the S&P500, such as relative strength index (RSI), have traded around ~70 through the month, which is extreme when considering a large portion of the market fell through the month.

While our AI weighting in the portfolio remains elevated, we have attempted to manage this risk by avoiding certain 'hot' sectors, trimming some stocks as they reach our target valuations, and investing in companies/sectors where we continue to see latent value and difficult to replace assets (such as datacentres and power hardware). We have also been looking to selectively broaden and add to our non-AI holdings where possible.

Top contributors:

SharonAI (SHAZ-US) increased 65% through the month, rallying with the broader AI trade, as well as the market likely coming up the learning curve on the business given its recent listing.

Nebius (NBIS-US) increased 67% through the month, rallying with the broader AI trade as well as on the back of solid results, and sharp rises to its inference pricing for customers.

Bottom Contributors:

Pro-petro Holdings (PUMP-US) declined 11%, a function of weakening energy prices, which remains the primary driver of activity levels in its core completions business. We continue to see PUMP as a key AI beneficiary through its 'behind-the-meter' power solution business, where we expect contract announcements in the coming months.

GFL Environmental (GFL-US) declined 16% through the month. Despite reporting good results, the market remains focused on the recent acquisition of Secure Waste Infrastructure, which was potentially viewed as not complimentary to the core business.

Appendix: Neoclouds and AI

What is a Neocloud?

The fund's two best performers in May were SharonAI (SHAZ-US) and Nebius (NBIS-US).

Both are recent entrants to a category the market has labelled 'Neoclouds'. Other high-profile listed examples include Coreweave (CRWV-US) and IREN Ltd (IREN-US), and unlisted businesses such as Firmus and Lamda.

Neoclouds offer cloud-based AI compute, operating similarly to the traditional CPU clouds run by hyperscalers (AWS, Azure, GCP) but with several important distinctions:

Neocloud vs. Hyperscaler: Infrastructure Comparison		
	Neocloud	**Hyperscaler**
Architecture	Homogeneous, GPU-native infrastructure purpose-built for AI/HPC workloads	Heterogeneous mix of internal and third-party hardware across general-purpose cloud
Pricing Model	Bare metal access — customers pay for raw GPU compute only	Bundled pricing — GPU compute packaged with managed services, software, and cloud overhead
Infrastructure	Greenfield, purpose-built data centers optimised for high-density GPU cooling and power efficiency	Legacy and retrofitted facilities with suboptimal cooling, power density, and rack configurations
Scalability	Rapid provisioning and deployment — single-purpose fleet enables faster rollout	Slower allocation due to internal demand competition, testing requirements, and multi-tenant constraints

The end result is that neocloud customers can run AI workloads faster and more cheaply than on a traditional hyperscaler offering the same services. As a result, the neoclouds continue to grow share in a rapidly growing market.

Typical customers are AI-native labs and startups, established companies building their own large language models (e.g. quant hedge funds), and enterprises needing rapid GPU scalability. Given the current compute shortage, the hyperscalers themselves have also signed sizeable contracts.

A second, less-discussed rationale for the neocloud proliferation is Nvidia itself.

Nvidia, the dominant supplier of AI architecture globally, wants to diversify its customer base away from a handful of hyperscalers - each of which is developing competing custom silicon that may one day threaten its position.

To that end, Nvidia has backed the neoclouds with financing (equity injections and implicit guarantees on debt raises), preferential access to latest-generation GPUs, and warm customer introductions. Critics have labelled this 'circular financing', but it is a strong deal for Nvidia strategically over the long term and commercially in the near term, given that for every dollar of equity the neoclouds raise they typically borrow another four - most of which is spent on Nvidia GPUs. Hence, we believe Nvidia has a strong incentive to see these businesses survive and thrive, with an implicit backstop.

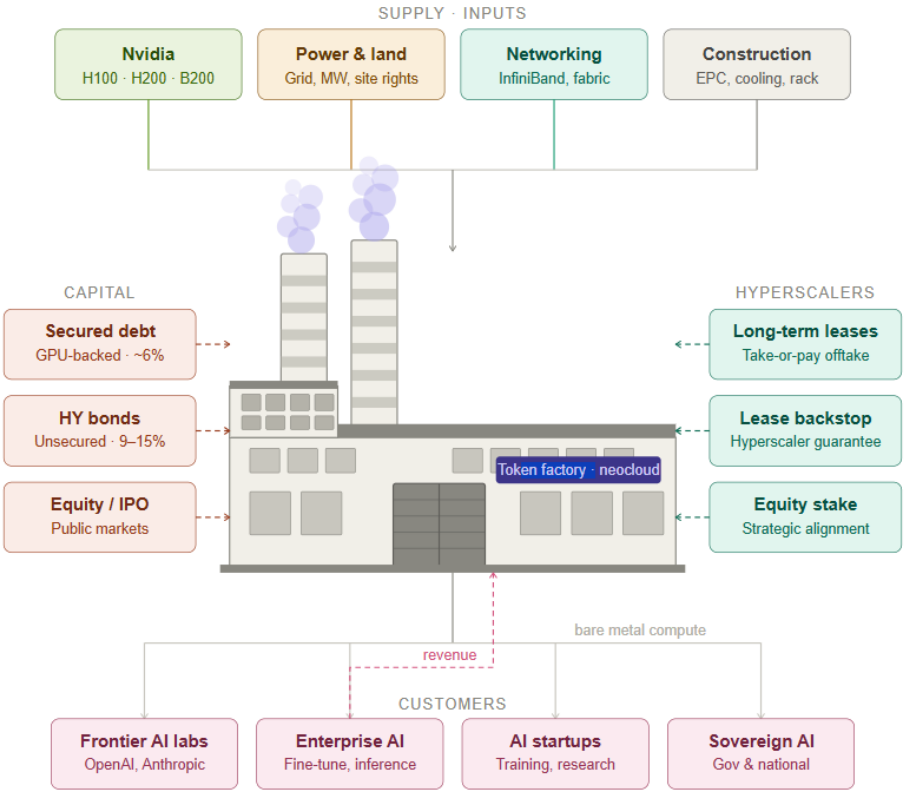
Are neoclouds sustainable businesses?

Neoclouds remain untested given both the business model and the rise in AI compute demand are recent.

At their core, neoclouds are highly levered and asset-intensive which is complicated further by the short useful life of GPUs (estimated 4-7 years by different pundits) and rapid obsolescence (a new generation every 18 months), leaving little residual value over a relatively short timeframe.

To mitigate this, neoclouds have signed large take-or-pay contracts with their larger customers: five-year GPU terms, substantial upfront pre-payments that help fund capex, and attractive cash payback periods on the underlying GPUs (typically 2–3 years). Innovative finance structures such as asset-backed debt and convertible notes have also delivered abundant debt at relatively low rates, enabling further growth.

On paper, unit economics for equity holders are highly attractive, though headline profitability is obscured by rapid growth and high fixed costs. Coreweave's adjusted operating profit still sits well below its net interest expense.



Source: Claude

What is the outlook for neoclouds?

The market has been deeply sceptical of these businesses, though this has shifted sharply in the past few months, driven by three factors:

GPUs are lasting significantly longer than the market expected. Nebius for example is re-contracting H100s (first released in 2022) on multi-year terms at prices 'at or above' the original terms. Against 4-5 year depreciation schedules, this implies both appropriate accounting for asset llife and material value creation for shareholders as GPU's extend beyond initial contracts at very high pre-tax margins.

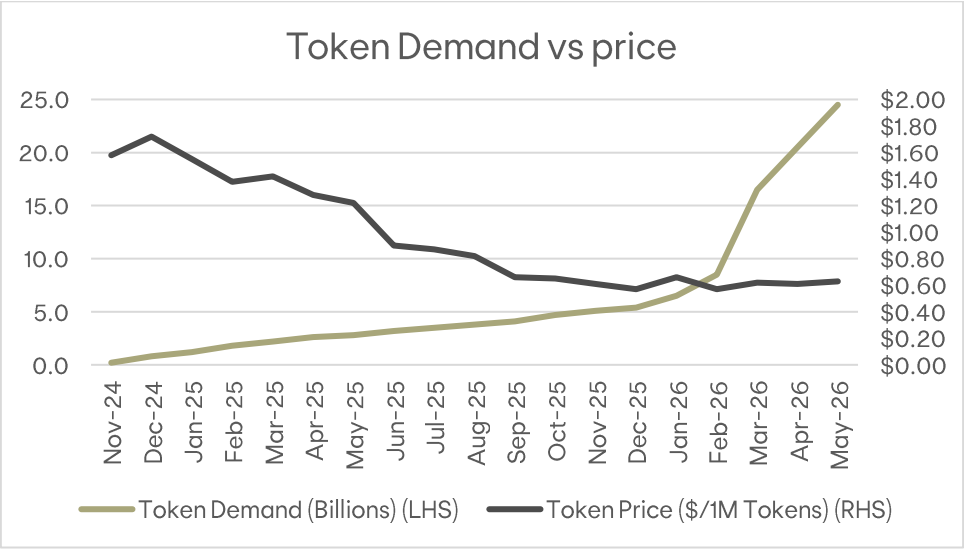
Financing costs are falling quickly. Coreweave's recent US$8.5bn non-recourse facility was priced at 5.9% compared to a group weighted-average cost of debt of 10% at IPO just over twelve months ago.

Demand for inference compute is skyrocketing, reflected in rising token consumption and higher GPU rental rates.

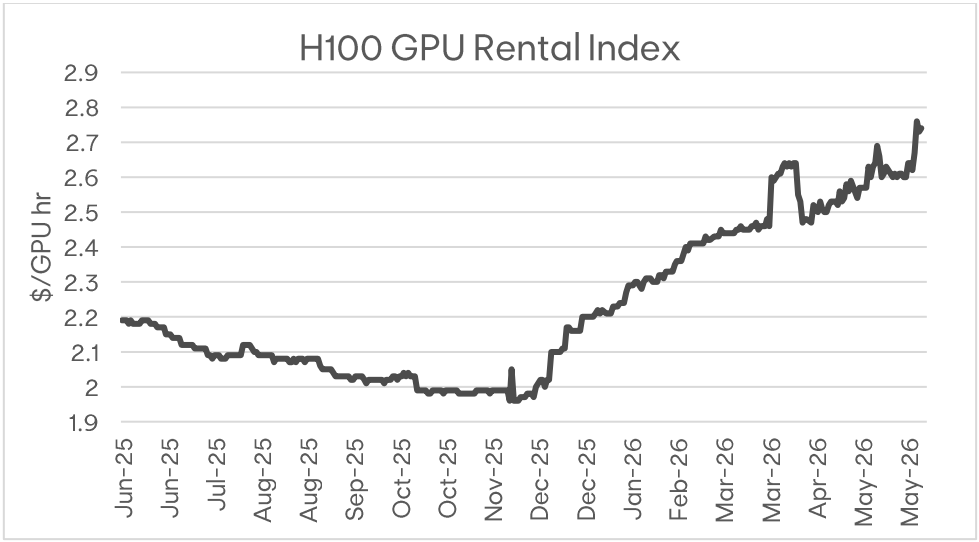
This last factor is a major near-term revenue opportunity. Following the emergence of real-world applications for AI coding and agentic reasoning (covered in previous newsletters), demand for AI compute measured in tokens (the input/output of AI models) accelerated in March. Hourly GPU rental prices rose in parallel, as users competed for a relatively fixed pool of token-producing GPUs in spot markets, with capacity allocated to the highest bidder; those with the highest-value AI use cases, or simply the largest budgets. Nebius has noted four customers are currently bidding for every spare GPU and has raised short-term rental prices by 30–50% as a result. This is material for neoclouds given that rising GPU rental prices fall directly to the bottom line.

One observation worth flagging is that despite rising token demand and GPU rental rates, token prices have remained flat. This likely reflects increasingly powerful GPUs entering the market, with each capable of producing more tokens than the prior GPU generation, thus keeping token prices steady. In our view, this is a very strong signal for AI demand, with demand clearly keeping up with the wave of token supply in the market.

Longer term, more powerful GPUs, and shifting of GPU fleets from training to inference should see further declines in token prices, which based on existing demand elasticity, should make more AI applications economic, and see demand increase further.



Source: Yippit, A16Z



Source: Bloomberg

Our view:

At a high level, our investment in neoclouds (as well as other AI datacentres) is based on two fundamental views:

- Demand for AI products is likely to continue growing alongside the supply of tokens,
- Power is likely to remain a key constraining factor.

We believe vertically integrated neoclouds (NBIS) as well as those with strong power relationships (SHAZ) are likely to remain well placed in this market and will be rewarded by further contracts wins and revenue growth in spot inference markets.

In addition, despite their meteoric share price rises, the valuations in our view remain reasonable, with these stocks trading on low single digit EBITDA multiples in outer years, with much of this EBITDA contracted.

- **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.

Contact Us

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Find out more:

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All holding enquiries should be directed to our registry, Automic Group on 1300 101 595 or ellerstonfunds@automicgroup.com.au.

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