

Ellerston Global Investments Limited (ASX:EGI)

Performance Report | June 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	Since Inception (p.a.)
Net [^]	1.93%	23.90%	-6.69%	8.92%	7.40%	8.59%
Benchmark*	2.36%	18.46%	-5.34%	3.29%	6.91%	7.45%
Alpha	-0.43%	5.44%	-1.35%	5.62%	0.49%	1.14%

Source: Ellerston Capital

[^] The net return figure is calculated before all tax provisions, after fees & expenses, includes the effects of the share buyback, and excluding the effects of option exercise dilution. Past performance is not a reliable indication of future performance

*MSCI World Index (Local)

PORTFOLIO COMMENTARY

The EGI portfolio increased 1.9% net during the month of June taking FY 2020 net performance to 8.9% which represented 5.6% outperformance compared with the MSCI World Index (Local) over the same period. The NTA (before tax) at the end of the month was \$1.1899.

Over the past twelve months larger cap companies have attracted more investor inflow relative to mid smaller caps and this is not unusual in times of extreme uncertainty and volatility. The relationship was clearly evident this year as the S&P 500 finished the year 5.4% above where it started while the Russell 2000 ended the year down 8.0% - quite a stark relative difference.

As markets continue to rebound strongly off the late March lows we seem to be in a bit of Goldilocks scenario where news around a resurgence in COVID-19 prompts more speculation of increased fiscal and monetary support, or at the minimum extensions, while better economic progress or positive vaccine news supports those looking for a V-shaped recovery. JP Morgan cites government sources which recently highlighted about 40% of the US has halted or reversed reopening with the majority of this concentrated in four States. We have also seen this domestically with COVID-19 flare ups in Victoria resulting in delayed openings and renewed lockdowns. While this does increase market anxiety around resurgence risk it seems that liquidity in the system is currently more than compensating for this concern.

As we move towards the June quarter earnings season it will be interesting to see how much is already priced into the market and we consider there could be quite a divergence between single names on the back of the varied COVID-19 reopening pace globally. We also continue to believe that operating leverage coming out of this economic vacuum may be underestimated by the market as many of the companies we have talked to have indicated new productivity initiatives have been discovered/accelerated and not all costs that have been taken out are coming back. Digital technologies have come to the rescue during the pandemic with many companies highlighting two years of digital advancement has been condensed into the past two months. It does seem anything digital or digital infrastructure that is empowering a distributed workforce has been embraced and this is creating new cost saving and productivity opportunities right now.

The EGI portfolio's top 3 contributors **Cerence, Anritsu and National Vision added 197bps** to performance while **LiveRamp, Keysight and Willscot detracted 119bps**. Most of our companies reported results in May so the Fund had a much quieter month in June with only Ciena reporting results.

Ciena's results demonstrated its industry leading financial performance as it delivered revenue growth with expanding margins even as it experienced supply chain and operating disruptions associated with COVID-19. Over the medium to long term the rise of remote everything will accelerate the drive towards cloud-based models with customers increasingly seeking trusted, financially sound partners such as Ciena. With a business model driven by growth in data and bandwidth requirements generating strong cash flow with just over \$300m of net cash on its balance sheet, Ciena is in a strong operating and financial position.

Willscot announced that it had completed its merger with Mobile Mini (MINI) on July 1st and while there has been some weakness in the stock leading up to the announcement (which we can only put down to arb activity) the combined group will become the leader (by a factor) in the North American modular office and portable storage solution markets. We consider that while there are significant cost synergies associated with the merger, the revenue opportunities are far more exciting after seeing several sites in the US (before the travel restrictions) with one of each or both of these companies being utilised by the same customer set. Accordingly, we have been adding to our position to take advantage of the share price weakness.

Key Facts

Listing Date	20 October 2014
NTA (before tax)*	\$1.1899
NTA (after realised tax)[^]	\$1.1844
NTA (after tax)**	\$1.1558
Share Price at 30/06/20	1.03
EGI Market Capitalisation	\$108.5 Million
Management Fee	0.75%
Performance Fee	15%

* NTA (before tax) - Includes taxes that have been paid.























[^] NTA (after realised tax) - Includes a provision for tax on realised gains from the Company's Investment Portfolio.

** NTA (after tax) - Includes any tax on unrealised gains and deferred tax.

STOCK IN FOCUS: Reynolds Consumer Products (REYN US, US\$7.3bn Mkt Cap)

Reynolds is a relatively new IPO which listed in the US at the end of January 2020 at \$26.00 per share and at the time of writing it is trading at just under \$35.00. We received a small allocation in the IPO and subsequently bought the bulk of our position in the open market after it listed with an average just over \$29.00. Our view was that it was a very strong franchise with dominant market shares being listed and then subsequently trading at a several point discount to listed comparables and represented very compelling value.

It is a market-leading consumer products company with a presence in 95% of households across the United States. It produces and sell products across three broad categories: cooking products, waste & storage products and tableware and as the chart below demonstrates, it has dominant market positions across its portfolio:

Our brands have #1 positions across nearly all our categories			
Category	Brand	Position	Brand share of total category
Aluminum foil (U.S.)			64%
Aluminum foil (Canada)			72%
Parchment paper			51%
Wax paper			59%
Slow cooker liners			77%
Oven bags			93%
Freezer paper			94%
Slider bags			34%
Party cups			22%
Foam dishes			43%
Trash bags			20%

Source: Nielsen xAOC last 52 weeks ended September 28, 2019.

Reynolds is also very focused on innovation with an objective to generate 20% of its revenue each year from new products introduced within the prior three years. All of its key product lines include newly developed innovative products such as Hefty Ultra Strong™ trash bags, Reynolds KITCHENS® Slow Cooker Liners, Parchment Pop Up Sheets and 75% Unbleached Compostable Parchment Paper.

In its most recent result Management indicated that its categories experienced an increase in both purchase and usage in March and April, driven mainly by COVID-19 shelter in place requirements, as well as the Easter and Passover holidays. The purchase behaviour was seen with increases in dollar sales across all channels and elevated in-home usage.

Also, recent polling highlighted that well over half its consumers are cleaning, cooking, baking, doing yard work and organizing more often than compared to three months ago with about two-thirds predicting they will maintain this higher level of engagement. Additionally, 80% of consumers indicate they are cooking more meals and the majority say they are generating more trash and using disposable tableware to ease the burden of cleaning dishes.

Revenue and EBITDA grew 9.8% and 22.7% respectively in the first quarter with Management upgrading full year guidance based on the first quarter strength and strong consumer follow through as it benefits from work from home and consume at home trends. We consider the upgraded guidance could prove conservative as it continues to benefit from more at home cooking, delayed restaurant openings and operating cost tailwinds from lower commodity prices.

Reynolds has proven to be a strong category leader with dominant market shares in consumer categories which will see elevated demand for some time as secular changes in our consumption activity post COVID-19 likely remain entrenched. It has a relatively high degree of earnings visibility and is one of the few companies in the market that actually raised profit guidance last quarter.

Kind Regards,

Bill Pridham and Arik Star

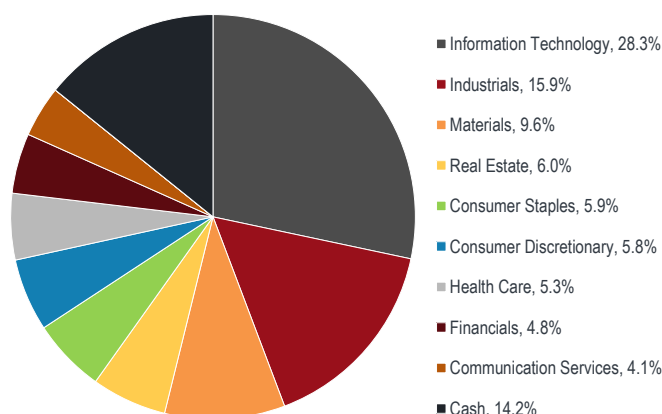
EGI Co-Portfolio Managers

PORTFOLIO CHARACTERISTICS

HOLDINGS

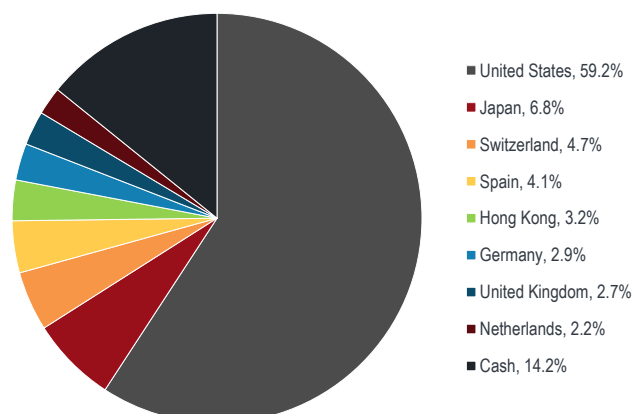
Top 10 Holdings	Country	Sector	%
Cellnex Telecom	Spain	Communication Services	4.07%
Keysight Technologies Inc	United States	Information Technology	4.03%
Ciena Corporation	United States	Information Technology	3.77%
Anritsu Corporation	Japan	Information Technology	3.62%
Amedisys	United States	Health Care	3.60%
Assurant Inc.	United States	Financials	3.55%
WillScot Mobile Mini Holdings	United States	Industrials	3.52%
LiveRamp Holdings	United States	Information Technology	3.31%
Graphic Packaging	United States	Materials	3.28%
Sensata Technologies Holding	United States	Industrials	3.26%

SECTOR ALLOCATION



Source: Ellerston Capital

GEOGRAPHIC ALLOCATION



All holding enquiries should be directed to our share registrar, **Link Market Services** on 1300 551 627 or EGI@linkmarketservices.com.au

Should investors have any questions or queries regarding the company, please contact our **Investor Relations team** on 02 9021 7701 or info@ellerstoncapital.com or visit us at <https://ellerstoncapital.com/>

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