Ellerston Global Equity Managers Fund – GEMS C

PERFORMANCE REPORT June 2017

Investment Objective

The investment objective is to generate superior returns for Unitholders with a focus on risk and capital preservation.

Investment Strategy

> Global long/short equity
> Overlays fundamental stock selection with macroeconomic outlook
> Bias toward Australia

Key Information

Strategy Inception Date	1 Dec 2009
Fund Net Asset Value	$160.5M
Liquidity	Monthly
Application Price	A$1.6266
Redemption Price	A$1.6184
No Stocks	96
Gross Exposure	135%
Net Exposure	85%
Management Fee	1.50% p.a
Buy/Sell Spread	0.25%
Performance Fee	16.50%
Firm AUM	A$5,281M

Fund performance^

	1 Month	3 Months	1 Yr	3 Yr p.a	5 Yr p.a	Strategy Since Inception p.a
GEMS C (Net)	3.16%	2.41%	4.22%	15.17%	14.96%	11.84%

Commentary

US equity markets experienced a volatile June, impacted by the global “risk-off” trade and prompted by the ongoing political events pertaining to Trump's sacking of former FBI Director and the pending Russian intervention probe. The S&P500 ended the month +0.6%, with economic data painting an increasingly positive picture and activity surveys continuing to suggest economic expansion. The S&P500 reached an all-time high of 2,453 mid-month, but couldn’t hold that level, finishing the period at 2,423. The tech sell-off in the US in the middle of the month was the event that really caught investors off-guard, with some of the more crowded names falling by as much as 10%.

During the month, Federal Reserve officials forged ahead with an interest-rate increase and delivered additional plans to tighten monetary policy, despite growing concerns over weak inflation numbers. Policy makers agreed to raise their benchmark lending rate for the third time in six months, maintained their outlook for one more rate hike in 2017 and set out the details on how they intend to unwind their $4.5 trillion balance sheet later this year. The Federal Reserve’s decision brings the Fed funds target rate to a range of 1.0% to 1.25%.

Immediately following the rate hike, US Treasuries rallied, with the yield on 10-year notes falling 9 basis points to 2.13% on the weak readings for inflation, where core inflation (excluding key food and energy components) slowed for the fourth straight month to 1.7% in May.

European markets sold off in June, with British and German politics taking center-stage. The UK market was not immune to the continental election fallout with the FTSE100 falling 2.5% in the month. Whilst the hung parliament in the UK was a surprise to the investment community, the impact was broadly contained to Foreign Exchange markets, with equities globally mostly shrugging it off as a non-event. The euro weakened against most major currencies, while the British Pound weakened heavily against all other major currencies following the election result.

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The importance of China in the Asian investment region has been further elevated with the China A-shares finally qualifying for inclusion into the MSCI Emerging Markets Index following a lengthy two year process. The rebalance will be implemented over the next 12-18 months, with the weight of MSCI China A stocks being approximately 0.3% of MSCI Emerging Markets Index after the 5% partial inclusion factor. It is estimated that the expected passive inflows into China A shares could be roughly USD2.1 billion.

The Australian share market (+0.2%) underperformed its global peers in the month of June, after digesting a raft of local earnings downgrades during the so called "confession season". Hot on the heels of a plethora of downgrades in May, companies including QBE Insurance (-8.4%), Infigen Energy (-16.6%), Ardent Leisure (-8.7%) and Retail Food Group (-8.6%), all issued profit warnings and were punished by the market.

On the commodities front, iron ore rallied 14% to end the month at US$65/t as sentiment improved around China with June PMIs holding in expansionary mode. Oil (-4.5%) was weaker in the period as supply concerns ratcheted up. Base metals rebounded, with the LME Metals Index up 3.4% whilst Gold declined 2.2%, halting its recent rally, amidst hawkish comments from major central banks.

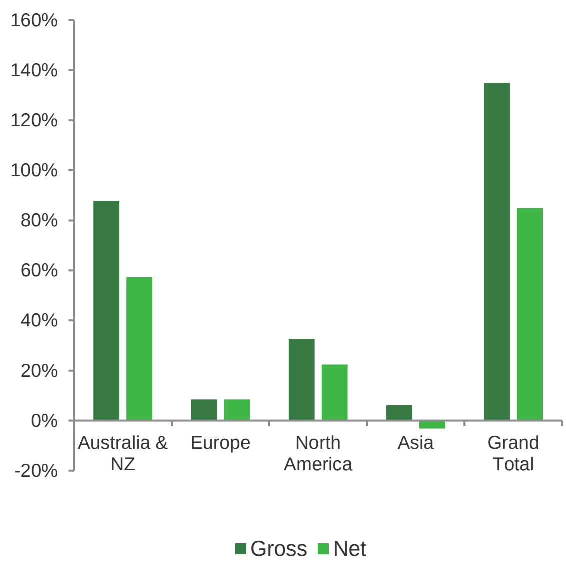
The question in the markets is how aggressively will the Fed hike rates and what impact will the unwinding of quantitative easing have on financial assets and the real economy. Global bond markets have sold off over the past month as stronger global growth is leading to expectations than Central bank tightening will be greater than previously anticipated. The one missing ingredient is inflation. Wage growth is pedestrian, even in the U.S., where unemployment is at historically low levels, and commodity prices are weak, having fallen year on year. Inflation remains below 2% in most major economies. The market is currently pricing in a modest amount of tightening over the next few years, as the view is that Central Banks are unlikely to be aggressive in an environment of low inflation.

Equity markets have historically performed well in the early stages of tightening cycles and only reacted negatively later in the cycle, when the interest rate increases actually impact the real economy. The low level of interest rates, improving global growth, and a strong earnings outlook should continue to support equity markets. Earnings estimates continue to be revised upwards in both Europe and the U.S.. The risk for markets is that valuations are historically expensive.

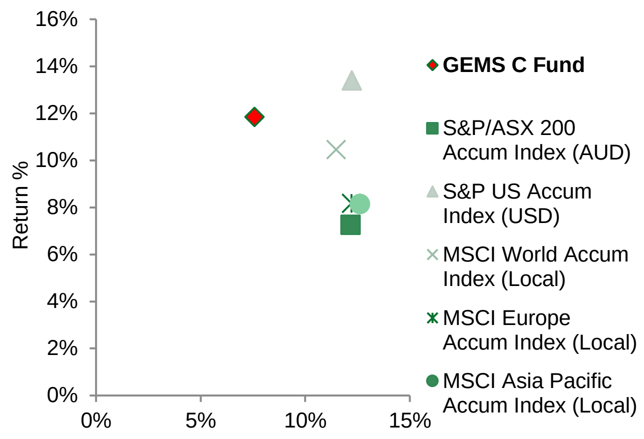
The fund’s largest exposure remains in Australia. The exposure is concentrated in a number of high conviction names that have significant upside over the next year. The U.S. is the next largest exposure followed by Asia. Asia offers above average growth at lower valuations. Our preferred market in Asia is India. India is the best structural growth play in the region. The fund has a modest exposure in Europe.

The Star Entertainment Group (SGR) is a core holding of the fund in Australia. SGR owns and operates the Star Casino in Sydney, the Treasury Casino and Hotel in Brisbane, and Jupiter’s Gold Coast on the Gold Coast. Star is a long term beneficiary of the ongoing growth in inbound Chinese and SE Asian tourism into Australia. Star has de-rated on concerns around the VIP business, which has given the fund the opportunity to invest in the company. Concerns are overplayed by the market and furthermore we see solid growth prospects for Star, driven by its capital investment program and growth strategy. We believe the market has mispriced the fair value of the Star and as market fear dissipate, the stock should re-rate to its historical average. SGR is trading at an undemanding multiple (8.5x EBITDA and 16.6x PE FY18E) and at a significant discount (>1 standard deviation) to its historical PE relative multiple. The balance sheet is robust with net debt/EBITDA approximating 1.7x on our estimates.

Market Exposure as a % of NAV



GEMS Class C Performance & Volatility ^



Standard Deviation (Since Inception) % p.a. ^

The GEMS Class C since inception has achieved higher returns than most major indexes since inception with lower risk over the same time period.

Top Holdings (Alphabetical, Long only)

- AMAYA INC
- PSC INSURANCE GROUP LTD
- EZCORP INC
- HEALTHSCOPE LTD
- TREASURY WINE ESTATES LTD
- LENNAR CORP
- ORION ENGINEERED CARBONS SA
- PAYPAL HOLDINGS INC
- NUFARM LTD
- NEWCREST MINING LTD

Key Service Providers

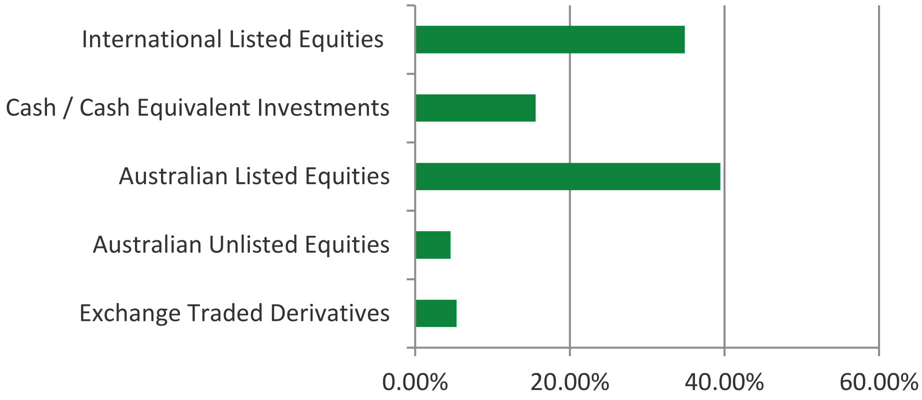
- **Registry**: Link Market Services Limited
- **Auditor**: Ernst & Young
- **Prime Broker**: Morgan Stanley Intl & Co PLC & Goldman Sachs International
- **Administrator**: Citco Fund Services (Australia) Pty Ltd
- **Custodian**: State Street Australia Limited

Material Matters

During the month there were no material changes to the Fund in terms of its risk profile, investment strategy or changes to investment staff which would impact this strategy. There have been no changes to the key service providers described above.

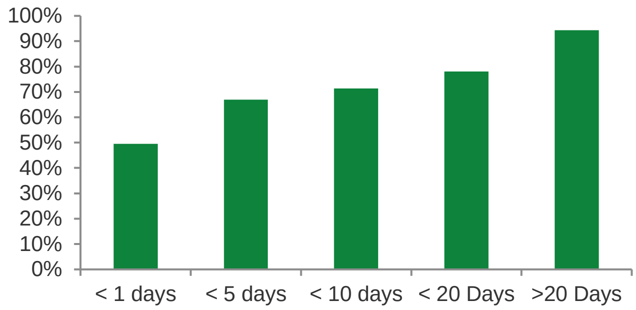
Annual Reporting (including additional ASIC RG 240 benchmark requirements)

1. **Asset Type Allocation^**



^ based on the funds gross portfolio exposure

2. **Liquidity Profile (Cumulative)**



3. **Maturity Profile of liabilities**

Financial liabilities of the Fund comprise financial liabilities at fair value through profit or loss, due to brokers, management and administration fees payable, interest and dividends payable, distributions paid and payable and other payables. Other payables have no contractual maturities but are typically settled within 30 days. Financial liabilities at fair value through profit or loss include securities sold short, which are settled within 3 days after trade.

4. **The Funds Gross Portfolio Exposure as a measure of the leverage ratio at the end of the period:** 135%

5. **Derivative Counterparties: Morgan Stanley Intl & Co PLC & Goldman Sachs**

6. **Annual return series^:**

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
GEMS C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.8%	18.2%	-4.9%	9.7%	14.2%	12.5%	35.1%	6.6%

^ See disclaimer.

7. **Any changes to key Service Providers: No**

Disclaimer

^ Actual performance for your account may vary from that set out in this newsletter and will vary for investments made in different classes, or at different times throughout the year. Some performance data is estimated and preliminary and subject to change.

^^For the period 1 January 2002 to 30 April 2006, the CPH Group GEMS Portfolio was not operated within a separate fund structure. The underlying investment assets of the CPH Group GEMS Portfolio were owned during that time within corporate entities of the CPH Group for which audited accounts were prepared on an annual basis. Accordingly, in order to provide relevant historical performance information for the period 1 January 2002 to 30 April 2006 (Historical Returns) net returns were calculated on the basis of the actual dollar returns of the CPH Group GEMS Portfolio adjusted to reflect a fund structure similar to the Fund and including all fees. For GEMS B, GEMS A returns have been used between 1 May 2006 and 2 November 2009.
The returns of the Fund and the relevant Indices are net of fees, expenses and taxes and assuming distributions are reinvested.

The returns and risk of the Fund and the relevant Indices are net of taxes, fees and expenses and assuming distributions are reinvested. The performance figures presented are for the Ellerston Global Equity Managers Fund GEMS C Units. The one month return figure may be an estimate and not the final return. This estimate also impacts other performance information provided. Estimated performance figures are preliminary and subject to change. Returns for other classes may differ slightly. Past performance is not indicative of future performance. Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000 is the responsible entity of the Ellerston Global Equity Managers Fund ARSN 118 887 0 95 (Fund). This newsletter has been prepared by Ellerston Capital Limited without taking account of the objectives, financial situation or needs of investors. Before making an investment decision you should consider your own individual circumstances and obtain a copy of the Product Disclosure Statement for the Fund dated 31 January 2014 which is available by contacting Ellerston Capital. This material has been prepared based on information believed to be accurate at the time of publication. Assumptions and estimates may have been made which may prove not to be accurate. Ellerston Capital undertakes no responsibility to correct any such inaccuracy. Subsequent changes in circumstances may occur at any time and may impact the accuracy of the information. To the full extent permitted by law, none of Ellerston Capital Limited, or any member of the Ellerston Capital Limited Group of companies makes any warranty as to the accuracy or completeness of the information in this newsletter and disclaims all liability that may arise due to any information contained in this newsletter being inaccurate, unreliable or incomplete.

The standard deviation is often used by investors to measure the risk of an asset. The standard deviation is a measure of volatility: the more an asset's returns vary from the average return, the more volatile the asset. A higher standard deviation means a greater potential for deviation of return from the average return of the asset.