# Ellerston Global Equity Managers Fund

PERFORMANCE REPORT August 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 January 2002 |
| Fund Net Asset Value | A$165.6M |
| Liquidity | Quarterly |
| Class A Redemption Price | A$ 1.4755 |
| Class B Redemption Price | A$1.4384 |
| No. Stocks | 97 |
| Gross Exposure | 131% |
| Net Exposure | 97% |
| Management Fee | 1.50% p.a |
| Buy/Sell Spread | 0.25% |
| Performance Fee | 16.50% |
| Firm AUM | A$5,043M |

## Fund performance^

| | 1 Month | 3 Months | 1 Yr | 3 Yr p.a | 5 Yr p.a | Strategy Since Inception p.a |
|---|---|---|---|---|---|---|
| GEMS A Net | 2.05% | 6.42% | 1.46% | 14.40% | 15.31% | 13.04% |
| GEMS B Net | 2.05% | 6.42% | 1.45% | 14.39% | 15.07% | 12.85% |

## Commentary

The equity markets kicked off on a reasonably positive note in August, with key indices such as the S&P500 hitting new record highs, at least until investors quickly pressed the 'risk-off' button as geopolitical tensions in the Korean peninsula escalated. US Equities finished August higher, with the Dow Jones (+0.65%) and S&P 500 (+0.3%) notching five-month winning streaks, and the Nasdaq recording its 9th positive month of the last 10. US/North Korean tensions further ratcheted up, with President Trump warning North Korea about facing “fire and fury” if the regime of Kim Jong-un continued threatening the US. North Korea responded by saying it was “carefully examining” its strategy of a missile strike on the island of Guam. Towards month end, North Korea tested a missile which travelled over Japan’s northernmost island, Hokkaido. President Trump's continuing political battles and Hurricane Harvey in the Gulf didn't help sentiment.

Against this backdrop, in Europe, the Euro Stoxx 50 Index (-0.7%) floundered while Asian equities were mixed through August. The Nikkei 225 fell 1.4%, whilst Singapore and Korean markets both fell 1.6% respectively. Hong Kong’s Hang Seng was the best performer, finishing 2.4% higher, despite the arrival of Tropical Cyclone Hato.

Emerging markets also outperformed (MSCI World Emerging Markets index +2.1%), aided by rising commodity prices.

The main feature in commodity markets during the month was the sharp rally in base metal prices, with aluminium, copper, nickel and zinc hitting multi-year highs on optimism around synchronized global growth, ongoing supply constraints and a weakening U.S. Dollar. Not surprisingly, the gold price rallied in August to close at a 9 month high of US$ 1,321/oz, as US/North Korean tensions persisted and investors rushed into the yellow metal as a store of value/safe haven.

Economic data was generally supportive, as the OECD noted that all 45 countries it tracks were poised to grow this year, the first period of synchronised for July rose a stronger-than-expected 209,000 (consensus 180k) and the unemployment rate fell to 4.3%. The CPI for July also rose a weaker-than-expected 0.1%m/m (vs. consensus +0.2%). Real GDP for Q2 was revised up to a better-than-expected 3.0%q/q annualised (consensus: 2.7%) from a previously estimated 2.6% print.

In Europe, activity indicators were also strong, with the flash Eurozone manufacturing PMI for August rising to a stronger-than-expected 57.4 (consensus: 56.4).

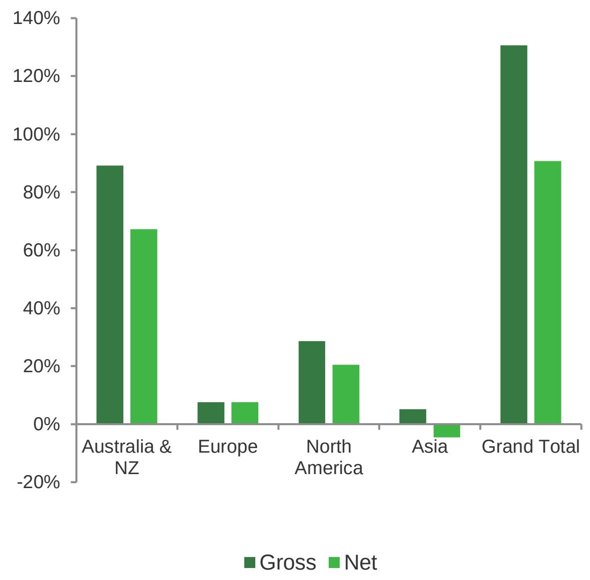
The Australian equity market absorbed an incredibly volatile reporting season, bouncing off an index low of circa 5,680 five times through the month, but also failing to break the 5,800 point threshold on the upside. The S&P/ASX200 Accumulation Index finished +0.71%, but with significant variation between sector returns. The positive August total return was due entirely to the +80bps dividend contribution, with the ASX200 price index falling 0.1% in the period.

Global equity markets have continued to perform well despite geopolitical concerns (i.e. North Korea), a volatile U.S. political environment, and historically expensive valuations. While these concerns exist, an environment of abundant global liquidity, low inflation, and modest but improving economic growth continues to support global equity markets. Central Bank balance sheets have continued to grow strongly, even with the United States ending quantitative easing. The combination of QE and low inflation has resulted in global interest rates residing at historically low levels. Seven years into an economic recovery, U.S. short rates are just over 1% and 10 year bonds are just above 2%. Ten year bonds in most of the other major developed markets are sub 1%. The low level of interest rates makes equities attractive relative to other assets.

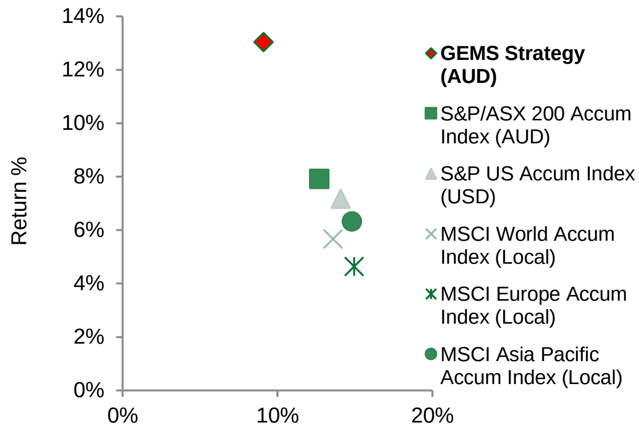
Excluding a geopolitical shock or a surprising increase in inflation, global equity markets should continue to grind higher. The earnings outlook remains positive with markets being supported by positive global earnings revisions. There still exists the potential for corporate tax cuts in the U.S. Market expectations are low, so any tax cuts would be taken positively. European growth continues to surprise positively, and in China, the macro data has been positive, with economic growth estimates having been revised up since the beginning of the year.

The fund’s largest exposure remains in Australia. While we see modest upside in the overall Australian market, the fund’s holdings are concentrated in a limited number of names with significant upside and company specific catalysts. The fund’s next largest exposure is to the U.S. market. Within a relatively expensive market, there remain a number of attractive investment opportunities. Additionally, U.S. equities should be supported by the weak U.S. dollar, which has depreciated by about 9% year to date. The fund continues to maintain a core investment position in Asia. Asian markets offer above average growth at lower valuations than their developed market counterparts. The fund’s preferred market within Asia is India, due to its structural growth story.

## Market Exposure as a % of NAV




## GEMS Strategy Performance & Volatility ^




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

The GEMS strategy since inception has achieved higher returns than all of the major indexes highlighted in this table since inception with lower risk over the same time period.

## Top Holdings (Alphabetical, Long only)

- THE START GROUP INC
- PSC INSURANCE GROUP LTD
- TREASURY WINE ESTATES LTD
- HEALTHSCOPE LTD
- AUSTOCK GROUP LTD
- ALPHABET INC
- LENNAR CORP
- STAR ENTERTAINMENT GROUP LTD
- EZCORP INC
- TPI ENTERPRISES 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.

## 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 performance figures presented are for the Ellerston Global Equity Managers Fund GEMS A and B 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 118 887 095 (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.