Ellerston Global Equity Managers Fund

PERFORMANCE REPORT October 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$175.4M
Liquidity	Quarterly
Class A Redemption Price	A$1.5792
Class B Redemption Price	A$1.5395
No. Stocks	108
Gross Exposure	137%
Net Exposure	99%
Management Fee	1.50% p.a
Buy/Sell Spread	0.25%
Performance Fee	16.50%
Firm AUM	A$5,249M

Fund performance^

	1 Month	3 Months	1 Yr	3 Yr p.a	5 Yr p.a	Strategy Since Inception p.a
GEMS A Net	4.11%	9.22%	9.20%	17.37%	16.10%	13.38%
GEMS B Net	4.11%	9.22%	9.19%	17.36%	15.88%	13.19%

Commentary

In October, world equity markets recorded strong gains, supported by solid earnings growth and increasing evidence of synchronized global growth. The US economy recorded its fastest six-month stretch of growth in three years; 3% in the third quarter of 2017, following a 3.1% print in the second quarter. US stocks had their best month since February and the dollar strengthened as investors assessed the prospects for the much anticipated tax cuts. The Dow Jones Industrial Average Index ended the month up 4.4%, adding nearly 1,000 points. The broader S&P 500 Index finished October up 2.3%. US markets were also supported by positive company earnings growth, especially in the technology sector. Shares in companies like Amazon, Alphabet and Microsoft reached near record highs. However, it was the global bellwether, Caterpillar's market-beating third quarter earnings that really excited markets. Caterpillar's results showed that not only is US construction booming, but the company was seeing strength across a number of industries and regions, including construction in China, on-shore oil and gas in North America and increased capital investment by mining customers. As a result, Caterpillar materially increased its forward guidance. Further evidence of the continued pick up in the US economy emerged with McDonald's reporting strong restaurant sales in the period.

Despite the US Federal Reserve signaling an increase in official interest rates in September, the modest increase in inflation; 2.2% in September, up from 1.9% in August - has commentators speculating on the timing of the next hike. Additionally, in October, speculation over the new chair of the Federal Reserve continued. On 2 November, President Trump named Jay Powell as the next chair of the Federal Reserve. Mr. Powell is a lawyer and former partner of private equity firm Carlyle and has been serving as a governor on the Federal Reserve since 2012. He is well credentialed and is not expected to deviate from the policy path set out by Janet Yellen, the exiting chair.

In Europe, the European Central Bank extended it quantitative easing program despite economic growth being strong across most regions. However, the ECB said that it was reducing the quantum of its asset purchases to €30 billion a month from €60 billion, effectively scaling back its QE program. The Bundesbank president, who expressed his concern that the European economy was growing more strongly than expected and therefore suggested that further stimulus was unnecessary, attacked the ECB's decision. But with inflation within the ECB's target, Mr. Draghi said that further QE was justified. Markets, helped by positive earnings reported by companies including food group Danone, reacted positively to this delicate dual balancing act of managing growth and inflation. European equity markets were stronger in the month, with the Euro Stoxx 50 index up 2.3%, while Germany and France both rallied 3.1%. In contrast, the Spanish market was up only about 1% as that country's political unrest - Catalonia wanting independence from Madrid's control - took its toll on investor confidence.

The UK economy expanded faster than expected in the third quarter of 2017 with GDP growing 0.4%. Inflation over the last 12 months reached 3%. The governor of the Bank of England (when giving evidence before a Treasury committee) said that the fall in the pound since Brexit meant that inflation was likely to rise over 3% in the near future. The BOE had previously voiced its concern over inflation and on 2 November raised interest rates for the first time in a decade by a quarter of a percentage point to 0.50%, signaling the start of a gradual increase in borrowing costs. The UK equity market returned +1.8% in the period.

Most major Asian exchanges recorded very strong rises in October, led by the Nikkei which rose by 8.1%, the Indian exchange up 6.4%, and the Hang Seng up almost 3% while the Chinese market fell by 3.1%.

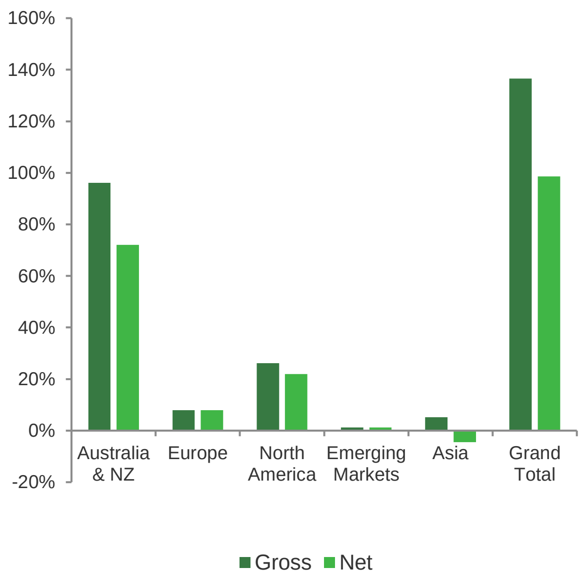
In Australia, the government was in chaos after the High Court ruled that the Deputy Prime Minister, Barnaby Joyce, was ineligible to sit in parliament because he was a dual citizen of New Zealand when elected. The ruling means that the government no longer has a one-seat majority on the floor of the lower house and forces Barnaby Joyce to contest his seat of New England again in a bi-election. The government now faces weeks of uncertainty and will struggle to pass any legislation, including any attempts to pass company tax cuts. However, the S&P/ASX 200 Accumulation Index shrugged off the political imbroglio to close up 4.0%. After lagging the rest of the world over the past six months, the Australian market finally began to respond to the increased evidence of a global growth pick up. With commodity prices holding up, analysts upgraded earnings for the resources sector, adding to the earnings growth for the market as a whole for FY18 (after a lack of earnings upgrades for FY18 during the reporting season). Stronger global growth, sustained higher commodity prices and earnings upgrades have combined to lift confidence about the Australian economy. Australian consumer sentiment has also picked up despite patchy data for retail sales and wages. Taken together, this has seen many investors return to the market.

Global equity markets continue to benefit from a combination of low inflation, strengthening global growth, and solid corporate earnings growth. The positive for equity markets has been that global economies have strengthened, while inflation has remained at historically low levels. Inflation numbers have tended to come in below market expectations. The lack of inflation has meant that Central Banks have been able to maintain interest rates at historically low levels. Developed market interest rates in the 1-2% range have provided significant support for equity markets, as equities appear attractively valued relative to bond markets. In the majority of developed equity markets, the market dividend yield is higher than the 10 year bond yield.

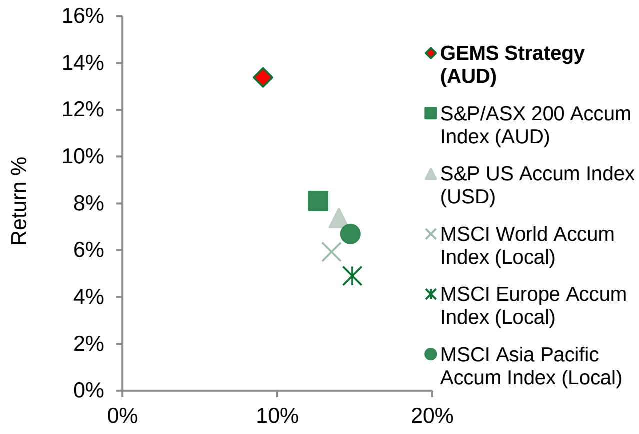
The risk for markets would be if inflation were to reappear and Central Banks needed to tighten monetary policy faster than markets expected. For the moment this appears unlikely. Central Banks are still employing quantitative easing in Europe and Japan, and in the US, expectations are a modest increase of 75 basis points over the next 12 months. As long as markets feel Central Banks are ahead of the curve on inflation, equity markets should continue to grind higher. A good sign for when there is potential trouble is when the interest rate curve inverts (i.e. short term rates are higher than long term rates), signaling the market feels Central Banks are behind the curve on inflation, and that Central Banks will need to aggressively tighten interest rates over the next 6-12 months.

The fund remains positioned similarly to last month. Australia remains the fund's largest exposure, where the portfolio is concentrated in a limited number of names with significant upside. These include Healthscope, Nufarm, PSC Insurance Group, Star Entertainment Group, and Treasury Wine Estates. The US market continues to be the fund's next largest exposure. Solid earnings growth and the potential for tax reform supports the US market. Holdings include Alliance One, Alphabet, EZCORP, and The Stars Group. The fund continues to hold significant exposure to Asia, as Asia offers above average growth at lower valuation levels. 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)

- ALPHABET INC
- EZCORP INC
- HEALTHSCOPE LTD
- LYNAS CORP LTD
- ORION ENGINEERED CARBONS
- PSC INSURANCE GROUP LTD
- STAR ENTERTAINMENT GROUP LTD
- THE STARS GROUP INC
- TPI ENTERPRISES LTD
- TREASURY WINE ESTATES 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.