Ellerston Australian Market Neutral Fund

PERFORMANCE REPORT January 2018

Fund performance^ (Net)

Net	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD
2018	-0.03%												-0.03%
2017	0.54%	-0.98%	0.47%	-0.01%	-0.57%	1.64%	-0.40%	0.87%	0.12%	1.09%	-0.20%	2.14%	4.76%
2016	-0.97%	-1.03%	0.80%	0.10%	1.34%	0.55%	0.71%	1.93%	0.73%	-0.53%	0.29%	0.02%	3.96%
2015	-0.15%	1.09%	1.41%	1.04%	-0.11%	1.29%	0.71%	1.11%	0.88%	0.59%	1.37%	1.09%	10.81%
2014	2.50%	0.33%	0.93%	-0.47%	2.31%	3.60%	1.24%	2.42%	3.16%	-0.82%	1.53%	-0.95%	16.82%
2013						0.48%	1.12%	1.74%	1.38%	2.87%	-0.34%	2.54%	10.18%

^ The net return figure is calculated after fees & expenses. The gross return is calculated before fees & expenses. Past performance is not a reliable indication of future performance. The benchmark is the RBA Cash Rate. The Fund commenced on 3 June 2013.

Return	Net	BM	Alpha	Gross	Portfolio Metrics	
1 Month	-0.03%	0.13%	-0.15%	0.03%	Positive months	77%
3 Months	1.91%	0.38%	1.53%	2.58%	No. Relative Value positions	88
6 Months	4.03%	0.75%	3.28%	5.38%	No. Special Situations	33
1 Year	4.17%	1.50%	2.68%	6.10%	Net Equity Exposure	+24.4%
2 Years p.a	4.86%	1.60%	3.26%	7.10%	Gross Portfolio Exposure	167.8%
3 Years p.a	6.51%	1.75%	4.76%	9.16%	Beta Adjusted	3.4%
Since inception p.a	9.89%	2.03%	7.86%	13.30%	Correlation Coefficient (vs ASX 200 Accum)	-9.98%
					Net Sharpe Ratio (RFR = RBA Cash)	2.09

Performance

The Fund produced a flat return in January, compared with the benchmark return of +0.1% in the period. Net exposure closed the month at +24.4% with a beta-adjusted net of +3.4%. The gross exposure of the Fund was relatively stable,

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closing the month at 167.8%. We are increasingly confident that the recent period of low volatility is over and have doubled the size of our index put option exposure accordingly.

Paired positions featuring a long in Ingenia Communities (-1.1%) generally added value in the month, with the stock outperforming most of its REIT peers, despite retreating modestly in the month. During the period, the company announced that development approval had been secured for 200 homes in Hervey Bay and for an additional 41 homes at Latitude One. This means that all approvals are now in place for the company to achieve its FY19 settlement target, giving the market confidence that FY19 earnings have been de-risked. In comparison, the REIT sector fell 3.3% in the month.

A research piece that highlighted the difference between the valuation of Ruralco Holdings (+2.3%) and Elders (-4.0%) led to a contraction in the spread, adding to the performance of the Fund in the month. At the time of the research, Ruralco was trading on a PE ratio of 11.5x, compared with Elders which was trading at almost 16x. By the end of the month, the multiples had narrowed to 11.4x and 14.1x respectively. The spread has continued to narrow in early February.

Our paired position between Infigen Energy (-8.7%) and AGL Energy (-3.8%) detracted from performance following a newspaper article that reported that Infigen was preparing to raise around A$500m in debt. The refinance had previously been announced by the company, however the report speculated that Infigen was looking to institutional investors for the debt, rather than banks. Institutional investors are less likely to provide duration to the debt, however the rate is expected to be relatively competitive. We remain confident that any refinance, if completed, will be beneficial to shareholders and may lead to the resumption of dividends.

A strengthening GBP helped narrow the spread between the Australian and UK listings of BHP Billiton (+2.1%), adding to the performance of the Fund in January. The GBPAUD cross-rate rallied to close at 1.75 from 1.73 at the end of December.

Our long position in Elk Petroleum (+49.3%) added value in the period, with the company's 2Q results impressing the market with both production and sales. Since the capital raising in September, Elk has completed the Aneth oilfield acquisition and has made excellent progress on the Grieve EOR project, which is scheduled to begin production in April. A debt refinancing in 2H18 is also expected, with the resultant interest savings expected to boost earnings in FY19.

The share price of Impedimed (-21.2%) fell dramatically during January, following two months of strong outperformance. The market was disappointed with the 2Q sales results which showed that the conversion of US user sites over to the SOZO platform remained slow. We believe the upcoming release of the PREVENT clinical trial data will confirm the efficacy of the SOZO platform and are content to maintain our position until then.

Our long position in takeover target Carindale Property Trust (-2.7%), detracted from performance during the month, despite outperforming peers. With Scentre Group (-1.0%) still on the register with over 56% of Carindale (and regularly purchasing additional stock), we think that Carindale will eventually be taken over by Scentre.

Activity

Relative Value – Gross Contribution 0.6%

We added to our Fairfax Media (-9.0%) buy/write following a fall in the share price during the month. The fall was precipitated by the sudden resignation of the CEO of Domain Holdings (-7.9%), a company in which Fairfax retains a 60% share. While the departure of the CEO creates near-term uncertainty around the strategy, we think Domain remains well placed to compete against REA Group (-3.9%). By the end of January, the share price of Fairfax had recovered half of its initial loss.

We halved our position in the spread between the Australian and UK listing of BHP Billiton during the month, capitalising on a narrowing of the spread.

The share price of Fletcher Building (+2.8%) rallied in the month, following speculation that Spanish-listed Acciona (+7.2%) was looking to buy their construction business. Forecast earnings from Fletcher's construction business were downgraded four times in CY17 and the market has been looking for anything to provide confidence that the downgrade cycle was over. We took advantage of the share price strength and unwound the balance of our long position, which was hedged with a short in Adelaide Brighton (-0.5%).

Our short position in oOh! Media (+1.8%) was increased during the month, with the stock outperforming media peers as well as the broader market. The short position is hedged with a long in QMS Media (-1.5%), which we believe represents better relative value at current levels.

Special Situations – Gross Contribution -0.6%

We increased our holdings in takeover targets Propertylink (-3.5%) and Carindale Property Trust (-2.7%) in the month, with both stocks falling in line with peers during the period. We also modestly added to positions in Abano Healthcare (-0.9%) and Integral Diagnostics (+0.0%). Our exposure to Elk Petroleum and MMA Offshore (+0.0%) was reduced following a period of strong outperformance.

The spread between Unibail-Rodamco (-1.6%) and Westfield Corp (-3.7%) flipped from positive to negative during the month, with Westfield now trading at a premium to the implied bid price. We capitalised on the move, unwinding our existing position and instead establishing a short in Westfield, hedged with a long in Unibail. Our current exposure will deliver a modest profit if the deal concludes at the announced terms.

As expected, ANZ Bank (-0.6%) announced the repayment of the remaining ANZ Convertible Preference Shares (-0.3%) with the last day of trade expected to be 12 February. We will receive par ($100) plus accrued interest for our remaining position.

Sector Allocation

Sector	Long Equity	Short Equity	Net Equity
Banks	0.6%	0.0%	0.6%
Div Financials	0.0%	0.0%	0.0%
Insurance	0.7%	0.0%	0.7%
Regional Banks	0.0%	0.0%	0.0%
REITs	53.7%	-41.8%	11.9%
Financials	55.0%	-41.8%	13.2%
Builders	0.7%	0.0%	0.7%
Consumer Disc	4.0%	0.0%	3.9%
Consumer Staples	1.4%	-1.2%	0.2%
Contractors	1.0%	0.0%	1.0%
Gaming	0.0%	0.0%	0.0%
General Industrials	3.3%	0.0%	3.3%
Health Care	3.5%	0.0%	3.5%
Information Technology	0.3%	0.0%	0.3%
Infrastructure	0.2%	-0.2%	0.0%
Materials	0.9%	-0.9%	0.0%
Media	4.4%	-2.1%	2.3%
Telcos	0.0%	0.0%	0.0%
Utilities	3.8%	-2.1%	1.7%
Industrials	23.8%	-6.6%	17.2%
Bulk Metals	13.8%	-13.6%	0.2%
Energy	0.1%	0.0%	0.1%
Gold	0.0%	0.0%	0.0%
Resources	13.9%	-13.6%	0.3%
Hedge	0.0%	-6.3%	-6.3%
Index	0.0%	-6.3%	-6.3%
Total	**92.7%**	**-68.4%**	**24.4%**

Market Commentary

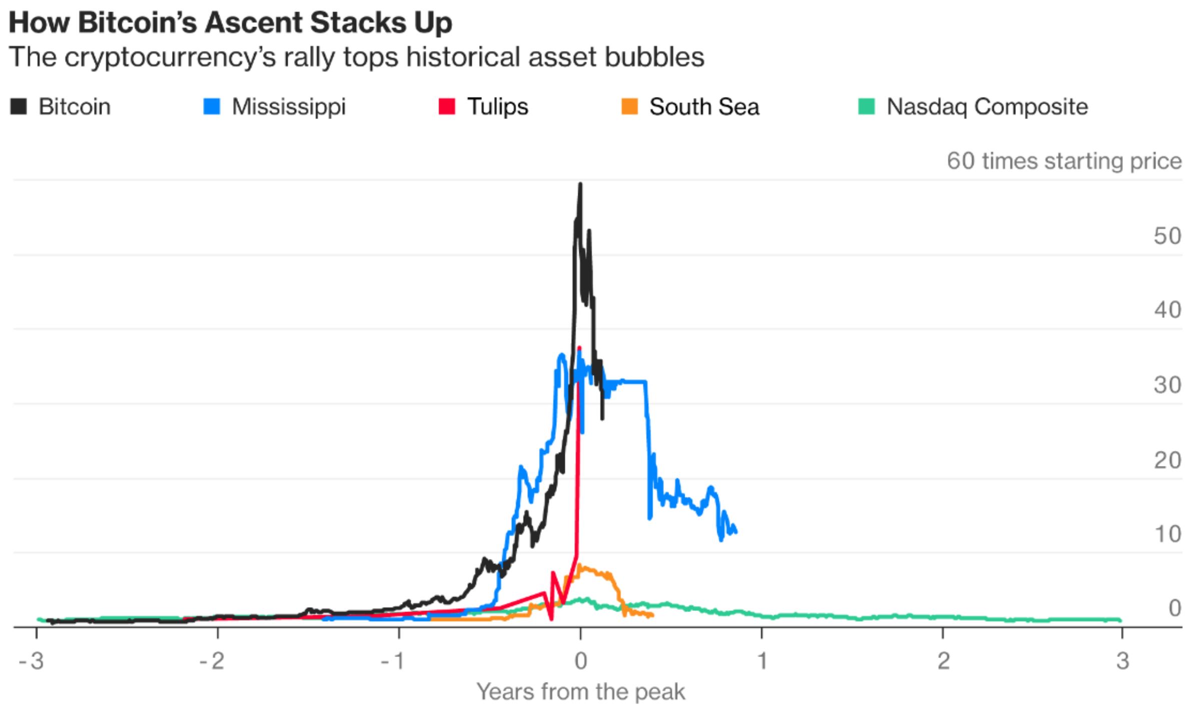
In January, equity markets continued their upward charge, taking their lead from the US. The Dow Jones and S&P 500 drove the rally in developed equity markets, delivering their tenth consecutive month of positive returns, maintaining their stellar performances and hitting new record high levels as the month progressed. The major Eurozone and Asian equity markets were all in positive territory, buoyed by strong earnings delivered by corporates and positive economic outlooks reinforced by central bankers, politicians and business leaders at the gathering at Davos. However, the month ended with markets trading off their intra-month highs, as US bond yields backed up sharply, signalling inflationary concerns and potentially highlighting stretched equity valuations.

USA: Equity markets in the US continued their explosive rally, with the broader S&P 500 index logging its strongest start to a year since 1987. Solid earnings, positive benefits from Trump's corporate tax cuts and confidence in the economy saw the S&P 500 and the Dow Jones end the month up 5.6% and 5.8% respectively. Surprisingly, the US economy's GDP expanded at an annual rate of 2.6% in the last quarter of 2017. This was lower than the 3% growth expected by the market, with a surge in imports blamed for the lower print.

Nonetheless, the American economy finished the year on a firm footing and is poised for strong growth in the months ahead. Key economic data was supportive : the ISM manufacturing index in December rose to a better-than-expected 59.7, industrial production for December grew a stronger-than-expected +0.9% month on month, durable goods orders grew +2.9% month on month and initial jobless claims fell to the lowest level since February 1973. Markets were encouraged by climbing business investment, depleted inventories, a lower jobless rate and surging consumer confidence that all pointed to a resilient US economy.

A falling USD also most likely boosted US stocks (and the USD returns of other markets). Towards the end of the month, inflation and valuation concerns from rising bond yields, and President Trump's more protectionist tone at the State of the Union address (reviving concerns of a potential trade war), somewhat dampened the market's enthusiasm. The Federal Reserve, however, kept the federal funds rate unchanged when they met at month end, but emphasised that they expected economic conditions to evolve in a manner that would warrant further interest rate increases.

Bitcoin continued its extremely volatile price moves, dropping by 9% in US dollar terms on the last day of January and ending a 41% slide from the intra-month's peak recorded on January 7. The plunge was attributed to the threat of tighter regulation of trade in the blockchain-based currency in the US, plus a decision by Facebook to ban cryptocurrency advertisements from its network.



Starting price is the price three years prior to each asset's high, or the earliest available price in cases with fewer than three years of data.

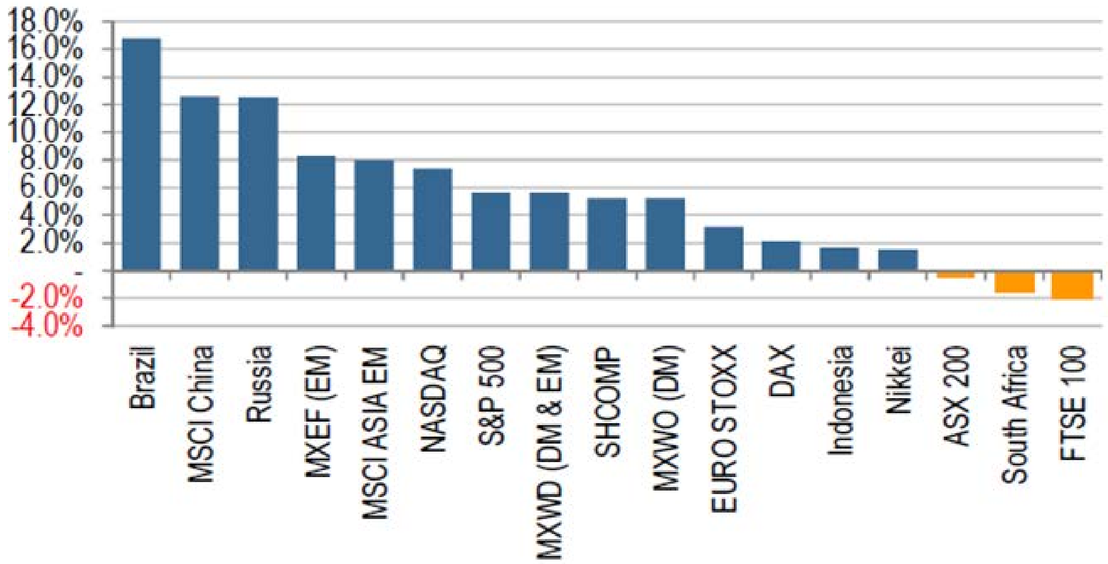
Source: Bloomberg, International Centre for Finance at Yale School of Management, Peter Garber

Europe: Most European markets squeezed higher, supported by an earnings turnaround in the region. Of note, luxury goods group LVMH delivered healthy revenue and earnings growth that pointed to the strength of the consumer and global demand for its products. The rally in the Euro, in part reflecting improved economic conditions (with Eurozone

PMIs continuing to rise), offset stronger corporate earnings and dampened the earnings of Europe's major exporters. But the outlook for the economy and earnings remains positive. The Euro Stoxx 50 ended the month up 3.0%, with the French and German markets up 3.2% and 2.1% respectively. The UK market was the main laggard in the region and ended the month down 2.0%, weighed down by a rising pound and ongoing political issues pertaining to Brexit. The UK economy expanded by a better-than-expected 0.5% in the last quarter of 2017, but growth in 2017 was a woeful 1.8% - the slowest since 2012.

Asia: Asian markets recorded another stellar month. Hong Kong's benchmark index, the Hang Seng, ended the month up an impressive 9.9%, amid renewed optimism on global economic growth and accelerated money inflows from mainland China. The Chinese market (CSI 300) also had an impressive month, up 6.1%, supported by the global economy hitting its stride and solid domestic GDP growth momentum. The Nikkei was up 1.5%, bolstered by confidence in the Japanese economy and expectations of a sustained recovery in corporate profitability. The Indian stock market reached an all-time high in January (up 5.6% in the month), fuelled by renewed global investment flows.

Global Markets Performance - January 2018



Source: JP Morgan estimates, Bloomberg.

Commodities: Commodity prices continued to rally in January and will likely support earnings upgrades for listed resources companies. The best performing commodity was oil, up 7.1% to US$64.70 a barrel. The iron ore price was volatile and finished the month marginally lower.

Bonds: The month was characterised by rising treasury yields, leading to underperformance in fixed income markets and commensurate risk assets. US 10-year government bond yields gapped 30 basis points higher and ended the month at 2.7%, but despite the sell-off in December 2017 and January 2018, remain a full percentage point below their 20-year average. 10-year bond yields in Europe and Australia also gapped up, reflecting similar concerns over the threat of inflation taking off.

Australia: The Australian market struggled to keep pace with its global counterparts despite renewed confidence in the domestic economy. The unwinding of the investment boom in resources appears to be largely complete. Business confidence and investment have picked up and employment data is strong despite consumer spending and sentiment being more muted.

The S&P/ASX Accumulation Index ended January down 0.45%. The bond market taking fright was a contributing factor, with bond yield-sensitive sectors (like utilities, banks and real estate) underperforming materially. The month was also characterised by a lack of meaningful corporate news flow ahead of the February reporting season. On an accumulation basis, the resources index was the best performing sub-sector, returning +0.80%, with the small cap index returning -0.54% and the industrial index lagging with a return of -0.74%.

The best performing sectors were Health Care (+3.2%, led by Sirtex Medical, up 66.2% following a mind-snapping bid from Varian Medical, ResMed which was up 13.5% and Sonic Healthcare, up 4.3%), Information Technology (+1.9%, led by strong performances from Altium, WiseTech Global and Link Administration), Telecommunication Services (+0.8%) and Materials (+0.5%, led by BHP up 2.1%, South32 up 9.5% and Orica up 6.1%).

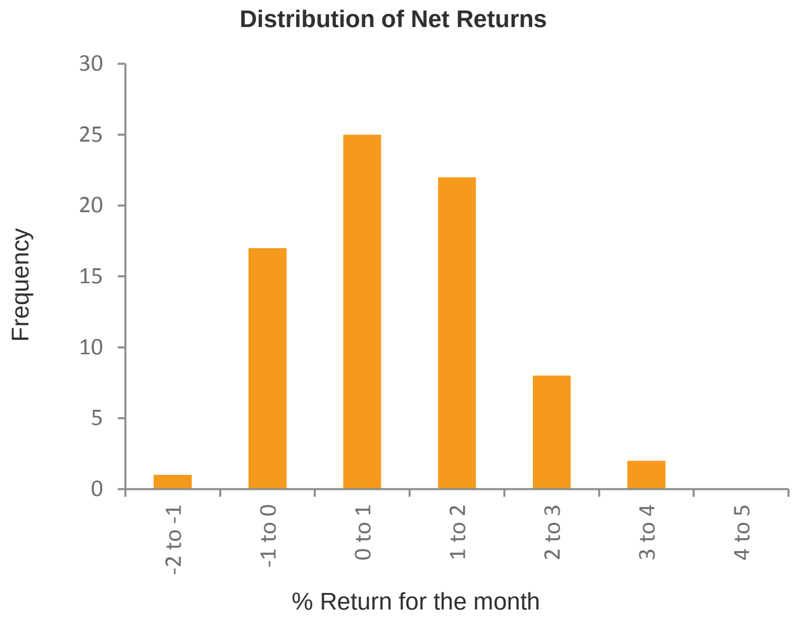
Given the back up in bond yields, not surprisingly, the worst performing sectors were Utilities (-4.5%) and Real Estate (-3.3%), as long duration, interest-rate sensitive stocks were sold off with the correction in the bond market. Industrials (-2.1%) and Financials also fared poorly (-0.8%, led by underperformance from the major banks).

The stocks that moved the index higher in January were CSL (+14 points), BHP Billiton (+12 points), South32 (+10 points), Macquarie Group (+7 points), Treasury Wines Estates (+5 points) and ResMed (+5 points). The main detractors were Commonwealth Bank (-16 points), Westpac Banking Corporation (-8 points), National Australia Bank (-7 points), Amcor (-6 points), Transurban Group (-5 points) and Tabcorp Holdings (-5 points).

The AUD continued to strengthen against the USD and was up 3.2% in January, it's highest level since May 2015. But it would appear to be more as a result of the USD weakening, with the USD selling off against a basket of currencies.

Contribution

Relative Value Gross Contribution	0.6%	Special Situations Gross Contribution	-0.6%
Positive		**Positive**	
BHP BILLITON - BHP BILLITON PLC	0.18%	ELK PETROLEUM LTD	0.09%
ABACUS PROPERTY GROUP - INGENIA COMMUNITIES GROUP	0.13%	JOHNS LYNG GROUP PTY LTD	0.03%
INGENIA COMMUNITIES GROUP - MIRVAC GROUP	0.11%	EMECO HOLDINGS LTD	0.03%
ELDERS - RURALCO HOLDINGS LTD	0.09%	NUFARM FINANCE NOTE	0.02%
AVEO GROUP - MIRVAC GROUP	0.08%	NATIONAL AUSTRALIA BANK NOTE	0.01%
Negative		**Negative**	
AGL ENERGY LTD - INFIGEN ENERGY	-0.26%	IMPEDIMED	-0.44%
AUSTRALIAN UNITY INVESTMENT REAL ESTATE - GPT GROUP	-0.08%	CARINDALE PROPERTY TRUST	-0.09%
GPT GROUP - VIVA ENERGY REIT	-0.06%	YOWIE GROUP	-0.08%
CHARTER HALL GROUP - VIVA ENERGY REIT	-0.05%	SUPERLOOP	-0.08%
OOH!MEDIA - QMS MEDIA	-0.05%	COSTA GROUP HOLDINGS LTD	-0.06%



TOP RELATIVE VALUE POSITIONS

- RIO TINTO - RIO TINTO PLC
- BHP BILLITON - BHP BILLITON PLC
- AUSTRALIAN UNITY INVESTMENT REAL ESTATE - GPT GROUP
- AGL ENERGY LTD - INFIGEN ENERGY
- CENTURIA METROPOLITAN REIT - GROWTHPOINT PROPERTIES
- PEET - SHOPPING CENTRES AUSTRALASIA
- GOODMAN GROUP - INGENIA COMMUNITIES GROUP
- AVEO GROUP - MIRVAC GROUP
- GROWTHPOINT PROPERTIES - INGENIA COMMUNITIES GROUP
- ELANOR RETAIL PROPERTY FUND - SHOPPING CENTRES AUSTRALASIA

TOP SPECIAL SITUATION POSITIONS

- S&P/ASX 200 INDEX PUT OPTIONS
- NUFARM FINANCE NOTE
- SUPERLOOP
- CARINDALE PROPERTY TRUST
- IMPEDIMED
- PROPERTYLINK GROUP
- AUSTRALIA AND NEW ZEALAND BANKING
- PRO-PAC PACKAGING LTD
- ONEVIEW HEALTHCARE
- INTEGRAL DIAGNOSTICS LTD

Key Information

Fund Inception Date: 3 June 2013

Liquidity: Daily

Management Fee: 1.20%

Performance Fee: 20% of outperformance

Buy/Sell Spread: 0.25%

Application price: $1.1834

Redemption price: $1.1774

Market Neutral Fund AUM: $636.55M

Australian Equity Team AUM: $3.55bn

Firm AUM: $5.79bn

Key Service Providers

- Registry: Link Market Services Limited
- Auditor: Ernst & Young
- Prime Broker & Derivative Counterparty: Morgan Stanley Intl & Co PLC
- Administrator: 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.

Closure of the Market Neutral Fund

Please note that the Ellerston Australian Market Neutral Fund was closed on the 31st October 2016. From 1 November, the Fund ceased to accept new or additional applications. Redemptions from the Fund will be processed as normal.

Further Information

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