ELLERSTON CAPITAL

Ellerston Global Equity Managers Fund

PERFORMANCE REPORT April 2018

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$191.3M
Liquidity	Quarterly
Class A Redemption Price	A$ 1.7424
Class B Redemption Price	A$1.6986
No. Stocks	134
Gross Exposure	157%
Net Exposure	101%
Management Fee	1.50% p.a
Buy/Sell Spread	0.25%
Performance Fee	16.50%
Firm AUM	Over A$5b

Fund performance^

	1 Month	3 Months	1 Yr	3 Yr p.a	5 Yr p.a	Strategy Since Inception p.a
GEMS A Net	0.60%	-0.70%	23.56%	15.45%	16.33%	13.63%
GEMS B Net	0.60%	-0.70%	23.56%	15.44%	16.18%	13.45%

Market Commentary

Market Overview

In April, global equity markets rebounded modestly from the depressed levels in March as markets assessed the prospects of a trade war and geopolitical tensions eased. Chinese President Xi's conciliatory tone on trade and encouraging talks of denuclearisation on the Korean peninsula buoyed sentiment. Equity markets were also fuelled by continued evidence of economic strength and strong US corporate earnings. It was a choppy start to the month, as US sanctions hit metal prices and Russian companies (and the oligarchs who own those companies) extremely hard. But volatility, as measured by the VIX Index, actually fell in April, while US10-year treasury yields rose sharply, finally cracking the 3% level, before ending the month marginally below the figure. The Australian market outperformed global bourses despite the Financial Services Royal Commission dominating media headlines and casting a long shadow on financial stocks.

USA

The S&P 500 Index and the Dow Jones Industrial Average Index ended April up 0.4% and 0.3%, respectively. After selling off early in April when trade tensions between the US and China hit fever pitch, stocks recovered their poise after Chinese President Xi struck a more appeasing tone on trade, and US companies reported earnings that in aggregate were well ahead of consensus expectations. Also, the new Chair of the FOMC, Jerome Powell, provided an update that suggested that above-trend growth was continuing and that the Fed was prepared to gradually increase the Federal Funds rate. In other words, the US economy was continuing its strong recovery and interest rates were heading up. The US10-year bond yields traded above 3% for the first time since 2014.

Europe

European stocks rebounded strongly in April after a poor first quarter, with the Euro STOXX 50 Index returning 5.8%. France's CAC 40 and the UK's FTSE 100 were amongst the top performers, returning 7.1% and 6.8% respectively. The European Central Bank kept rates on hold in April and said that it expected "interest rates to remain at their present levels for an extended period of time, and well past the horizon of net asset purchases". Russian stocks were particularly weak in early April after the US sanctioned several Russian oligarchs, officials, businesses and agencies. This led to a rally in aluminium and nickel prices. But Russian aluminium giant, Rusal, saw its share price halve in one day on the Hong Kong stock exchange after Washington announced the sanctions. Later in the month, commodity prices pared their gains and Rusal's share price rallied after the US government said it would not impose previous sanctions immediately if the oligarchs divested their interests in certain enterprises.

Asia

Asian markets were also broadly higher as trade tensions eased and relations on the Korean peninsula showed signs of improvement. The historic meeting between the leaders of North and South Korea was hailed as opening "up a new era of peace". The Hang Seng Index closed up 2.5%, while Japan's Nikkei 225 Index was up 4.7%, with investors in Japan relieved that the US did not make fresh trade demands during the summit between Prime Minister Abe and President Trump.

During the month, China's central bank announced a 100 basis point reserve requirement ratio cut - currently 17% for large institutions and 15% for smaller banks. This effectively released RMB1.3 trillion in liquidity, lowered funding costs for banks and lowered corporates' financing costs, helping sentiment across the region.

Commodities

Bulk commodity prices were mixed in April, with iron ore and thermal coal prices up modestly, but hard coking coal prices fell sharply. The big movements were in the base metals complex, with aluminium hitting multi-year highs after the previously mentioned US sanctions. However, metal prices generally retraced after the US pulled back from its initial rhetoric. Oil was the standout performer and rallied US$4.90 per barrel on concerns over renewed US sanctions on Iran, falling Venezuelan production and stronger global demand. Gold prices eased as the dollar firmed and geopolitical tensions eased.

Bonds

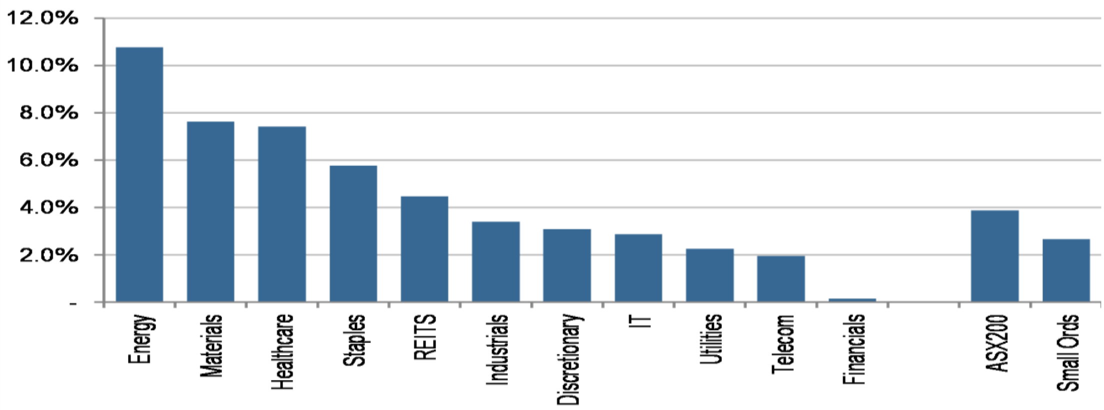
Global bond yields backed up as bonds continued their sell off. The US 10-year treasury yield briefly broke through the 3% threshold for the first time since 2014. US inflation measures remained firm and not surprisingly, the Fed signalled its intention to keep raising rates if the positive trends in the economy continued.

Australia

The Australian equity market had an excellent month despite the big 4 Bank share prices constrained by fallout from the Royal Commission. The S&P/ASX 200 Accumulation Index ended April up 3.9%. The ASX 200 Resources Accumulation Index was the star performer (after taking out the wooden spoon for two months in a row), returning 9.8%, while the Small Ordinaries Accumulation Index lagged and returned 2.8% with the ASX 200 Industrials Accumulation Index returning a more modest 2.6%.

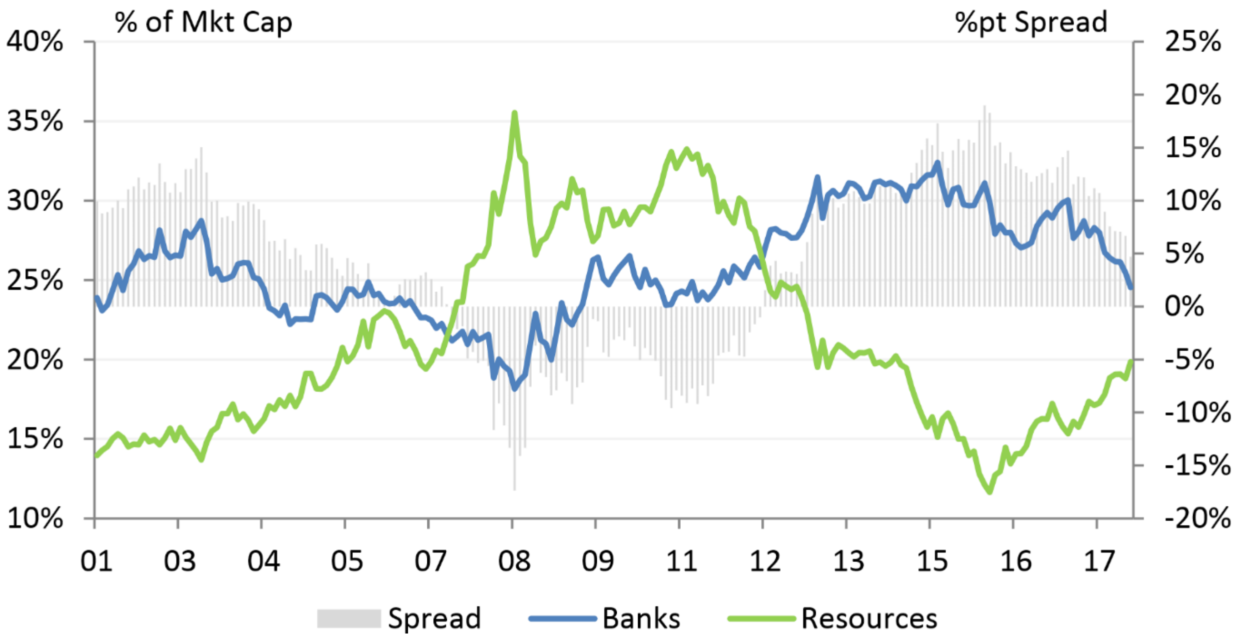
The sharp rebound in iron ore and the oil price propelled large miners and energy stocks, with all sectors adding value, though financials, telecommunications and utilities were the laggards. See chart below.

Returns for April 2018



Source: Bloomberg, April 2018.

Resources contributed over half of the ASX 200's total return, continuing to gain index share at the expense of the banks. See chart below.



Source: Factset, Morgan Stanley Research, April 2018.

Round 2 of the Hayne Royal Commission cut a swath through the country's financial planning industry, which is meant to play a major role in helping consumers manage their $2.6 trillion in superannuation savings. The news flow was brutal and AMP was by far the worst hit in terms of reputational damage and share price. Evidence presented and cross examination revealed that AMP was charging fees for no service, had lied to the regulator and that the Chairperson had apparently interfered with an independent report. There were necessary casualties, with AMP's Chair forced to fall on her sword while the CEO brought forward his retirement and instead quit suddenly. IOOF was also caught up in the negative sentiment from the Royal Commission, as investors speculated on the implications for integrated advice and platform businesses. The bank sector was only modestly in positive territory (having suffered badly in the first round of the commission's public hearings). The evidence in the second round suggested that banks continue to offend with respect to advice being provided. While all banks had a charge sheet of transgressions, Commonwealth Bank stood out and took line honours as it was accused of charging dead people! More negative headlines are expected, as further rounds of the Royal Commission are scheduled to take place before it concludes in September.

Not surprisingly, the Reserve Bank of Australia (RBA) chose to keep rates on hold at 1.5% in April. The outlook for growth was relatively unchanged compared to last month. The RBA did however note that credit spreads were wider, with tighter US dollar funding conditions flowing through to higher short-term rates in Australia. The Australian dollar fell 1.2 cents against the US dollar to 0.755.

Outlook and Portfolio Commentary

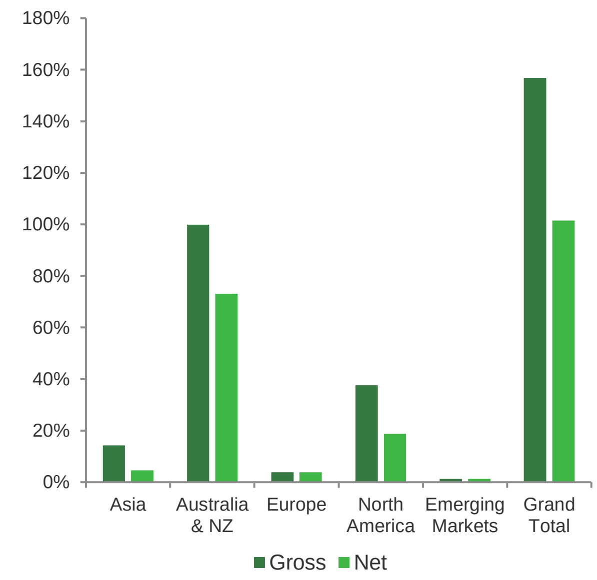
Volatility has increased as we enter the later stages of the equity bull market. The slowing of quantitative easing combined with an increase in geopolitical concerns has led to an increase in equity market volatility. The level of quantitative easing has slowed, as the U.S. has switched to quantitative tightening and Europe is expected to end quantitative easing by the end of 2018. By year end, globally, there should be net quantitative tightening. Geopolitical concerns, such as the risk of a China U.S. trade war and the change in U.S. Policy toward Iran are also worrying markets.

Markets are expected to trade in a relatively tight range over the next few months. The S&P appears to be caught in a range of 2550 to 2850. Historically low interest rates, strong corporate earnings, a high level of corporate buybacks and m&a should support markets at the low end of the range, while the top end is capped by concerns over a tightening in monetary policy, geopolitical issues, and concerns of a U.S. recession in the second half of 2019 or 2020. In the U.S., earnings estimates continue to be revised up and corporate buybacks are at record levels. Companies are using the extra cashflow from the tax cuts to buy back their own stock.

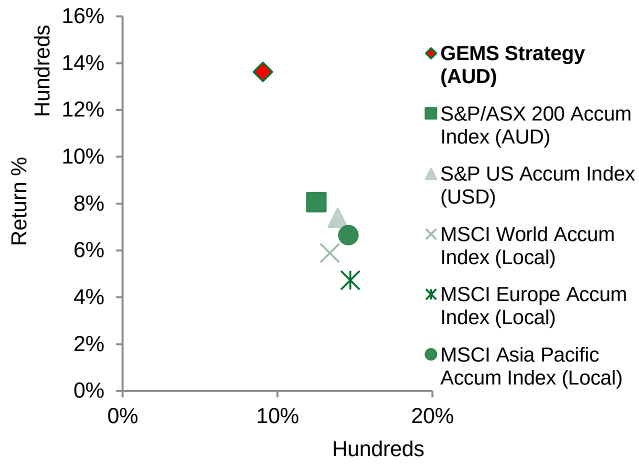
The fund continues to remain long as the most likely scenario for the remainder of the year is that equity markets move modestly higher. The earnings outlook is positive and equities are attractively valued relative to alternative assets. The Australian market trades on a prospective June 2019 P/E ratio of 15x and on a prospective dividend yield of 4.5%. This is relative to a 10 year bond yield of 2.8% and short term interest rates of a bit over 2%. In the U.S., the S&P 500 trades on a prospective December 2018 P/E ratio of 17x. However as equity market risks have increased significantly relative to the past few years, the fund continues to hold significant put option exposure 5-10% below current market levels, to protect against a large down move in markets.

The Portfolio's largest exposure remains in Australia, where the fund holds a number of core holdings with significant upside. The upside in these stocks is predicated on company specific catalysts rather than on the market moving higher. These holdings include Catapult Group, Clover Corporation, Healthscope, Lynas Corporation, PSC Insurance, and Treasury Wine Estates. The U.S. represents the fund's next largest exposure. Core holdings in the U.S. include Alphabet, EZCORP, Nutrien, Orion Engineered Carbons, and The Stars Group. The fund continues to hold a core position in Asia, with India being the preferred market. India has the best domestic demand story in Asia. Valuations in India are attractive when adjusted for prospective earnings growth relative to other Asian markets.

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
- CATAPULT GROUP INTL PLA
- CLOVER CORP LTD
- EZCORP INC
- GRAINCORP LTD
- HEALTHSCOPE LTD
- LYNAS COPRORATION LTD
- PSC INSURANCE GROUP LTD
- THE STARS GROUP INC
- 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.