Ellerston Australian Market Neutral Fund

PERFORMANCE REPORT April 2018

Fund performance^ (Net)

Net	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD
2018	-0.03%	0.54%	-0.34%	-1.19%									-1.02%
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	-1.19%	0.12%	-1.31%	-1.42%	Positive months	73%
3 Months	-0.99%	0.36%	-1.35%	-1.05%	No. Relative Value positions	103
6 Months	0.90%	0.73%	0.16%	1.43%	No. Special Situations	27
1 Year	3.68%	1.49%	2.19 %	5.28%	Net Equity Exposure	+24.2%
2 Years p.a	4.41%	1.53%	2.88%	6.43%	Gross Portfolio Exposure	187.0%
3 Years p.a	4.92%	1.69%	3.23%	7.11%	Beta Adjusted	4.4%
Since inception p.a	9.14%	2.00%	7.14%	12.33%	Correlation Coefficient (vs ASX 200 Accum)	-8.98%
					Net Sharpe Ratio (RFR = RBA Cash)	1.88

Performance

The Fund had a very disappointing month in April, returning -1.2% compared with the benchmark return of +0.1%. Despite a fall in both US and Australian 10-year bonds (US yields closed at 2.95% from 2.74%, Australian yields closed at 2.77% from 2.60%), large-cap REITs surged in the last few days of the month, with the sector up 4.5% in the period.

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Net exposure of the Fund was steady at +24.2% with a beta-adjusted net of +4.4%. Gross exposure continued to increase, closing the month at 187%.

Within Relative Value, the late rally in large-cap REITs had the most impact on performance. Paired positions that featured a short in Goodman Group (+7.6%), Growthpoint Properties (+4.2%) and Mirvac (+4.2%) in particular, detracted from the value of the Fund with relevant longs failing to keep pace with their larger peers. We couldn't reconcile the unusual move, which was even more difficult to understand, given the fall in both US and Australian bonds over the same period.

The emergence of Brookfield Renewable Partners (-2.6%) on the register of Infigen Energy (+17.9%), caused a spike in the share price, with the market anticipating a full takeover bid for the company will eventuate. Infigen also announced that it had achieved financial close on their refinancing, improving the flexibility of its debt facility and paving the way for the resumption of dividend payments. Our long position in Infigen, hedged with a short in AGL Energy (+0.2%), was the largest contributor to performance in April. Given the company is now "in play", we reduced the exposure of our paired position and moved part of our holding from Relative Value to Special Situations.

Our long position in Fletcher Building (+7.0%), hedged with shorts in Adelaide Brighton (+3.5%) and CSR Ltd (+8.9%) was another positive contributor during the month. During the period, Fletcher Building completed a NZ$725m equity raise and announced its intention to divest its international Formica and metal roof tile businesses over the next 12-18 months. Whilst the equity raise was a surprise, the company pitched the raise as necessary to remove the perception that Fletcher Building was distressed – a perception that may have emerged during the USPP note negotiations.

Increased speculation of Merger and Acquisitions within the Out Of Home Media sector, caused stocks within the sector to rally. The interest was sparked by the announcement from HT&E (+23.9%) that oOh! Media (+6.1%) had tabled an unsolicited bid for Adshel – the street furniture division of HT&E. Our paired position between QMS Media (+5.5%) and oOh! Media added value, with the smaller QMS perceived to be a likely target within the space.

As previously mentioned, we moved part of our Infigen holding into Special Situations during the month, with the position adding value in both Relative Value and Special Situations.

The Sundance Energy (+8.8%) equity raise settled during April, with the newly issued shares boosted by the rallying oil price. The capital raised was used to purchase 21,900 net acres in the Eagle Ford region of South Texas from a joint venture operated by Pioneer Natural Resources (+17.3%). The company also refinanced its existing debt, resulting in available liquidity of approximately US$130m for the development of its assets. Following the equity raise, acquisition and refinancing, we think Sundance is one of the best listed energy plays in Australia and retain a long position accordingly.

We were surprised by the performance of ImpediMed (-24.8%) during April, with the company disclosing the preliminary data from the PREVENT clinical trial. The trial data suggests the ImpediMed technology is associated with a 67% reduction in the risk of patients developing breast cancer related lymphedema after treatment. The result is well in excess of the 20% hurdle, however the market was unimpressed, with the stock trading down to 12 month lows in the period.

Our index put option protection also detracted from the value of the Fund, with the Australian market rallying and volatility falling in the period.

Activity

Relative Value – Gross Contribution -0.93%

Our Fairfax Media (+5.9%) buy-write position was increased during the month, with the stock falling 4.5% intra-month, before rallying to close the month higher. We still like the Fairfax story, with a trading update in early May indicating a material improvement in revenue trends since February. The trading update for Domain Holdings (-4.9%) was also positive, with revenue growth tracking at +13% from +11% guided in February. Fairfax still retains a 60% equity stake in Domain and it accounts for approximately 2/3 of our Fairfax valuation.

We continued to reduce our exposure to IVE Group (+3.2%), taking advantage of increased interest following the FY18 first half result. The remaining position continues to be hedged with PMP Ltd (+1.8%).

A paired position was established between infrastructure stocks Transurban (+1.6%) and Sydney Airport (+6.3%) during the month. We see value in Transurban's pipeline of toll road projects, and took the opportunity to create a long position ahead of the analyst investor day (which we attended). The recent acquisition of the Montreal A25 toll-road gives the company a beachhead into the Canadian market, and continues to provide evidence of prudent capital deployment by management. A hedged short position was created in Sydney Airports following a recent rally in the stock. We see near-term catalysts as limited in this name, despite the new CEO re-invigorating the debate regarding the strict operation restrictions the airport operates under.

A block sale of shares in Aventus Retail Property (+0.0%) provided the opportunity to increase our holding, hedging the exposure with shorts in GPT Group (+2.1%), Mirvac and Shopping Centres Australasia (+2.1%). Aventus is one of Australia's largest large-format retail (LFR) centre owners with over 20 centres held within its portfolio. The concern around Aventus has been its exposure to Steinhoff Asia Pacific, the local division of South African retailer Steinhoff International, which is currently in financial distress following an accounting scandal. Asia Pacific accounts for 9% of Aventus' revenue across 30 stores, with well-known brands including Freedom, Fantastic Furniture and Snooze. Interest in acquiring Asia Pacific seems to be increasing, with Nick Scali (+3.3%) the latest to publicly confirm their interest in the business, if offered for sale. This follows on from a number of press articles that speculated that private equity firms including Blackstone and KKR were circling.

We unwound our remaining holdings in the Pact Group (+3.6%) – Orora (+1.2%) pair, following a period of outperformance from Pact. Since reporting in mid-February, Pact has returned almost 19%, handsomely outperforming its packaging peer Orora, which returned 3.1% over the same period.

Special Situations – Gross Contribution -0.49%

A relatively quiet month within Special Situations, with only one new position added to the portfolio.

We established a long position in Catapult (+1.3%) following a $25m equity raise in the period. Catapult is an Australian grown technology company and the market leader in providing elite sporting teams and professional athlete's real time data analytics to monitor and measure performance. While we have always liked Catapults technology, the recent capital raise at $1.10 per share represents much better value, compared to the stock price back in August 2016 of circa $4.00. The company has undertaken a significant amount of work over that period and transitioned the business from a founder lead organisation, to a management team that has successfully grown businesses before. As such, we believe the recent capital raise provided an attractive entry point and gives us access to a genuine global market leader in the space. We see upside from the release of the new prosumer product over coming months which could see a step change in earnings. Now with a much stronger balance sheet, and trading on around 3x recurring revenue, we should start to see good operating leverage over the next 12 months.

We sold our remaining holdings in Integral Diagnostics (+4.4%), Propertylink (+2.5%) and Emeco Holdings (-3.4%), following a period of outperformance.

Sector Allocation

Sector	Long Equity	Short Equity	Net Equity
Banks	0.5%	0.0%	0.5%
Div Financials	0.0%	0.0%	0.0%
Insurance	0.7%	0.0%	0.7%
Regional Banks	0.0%	0.0%	0.0%
REITs	58.6%	-51.0%	7.6%
Financials	59.9%	-51.0%	8.8%
Builders	4.7%	-3.8%	1.0%
Consumer Disc	4.2%	-0.4%	3.8%
Consumer Staples	0.0%	-0.7%	-0.7%
Contractors	1.1%	0.0%	1.1%
Gaming	0.3%	0.0%	0.3%
General Industrials	1.5%	0.0%	1.5%
Health Care	4.6%	0.0%	4.6%
Information Technology	0.5%	0.0%	0.5%
Infrastructure	2.7%	-2.8%	0.0%
Materials	0.0%	0.0%	0.0%
Media	5.2%	-3.6%	1.6%
Telcos	0.0%	0.0%	0.0%
Utilities	4.2%	-0.8%	3.4%
Industrials	29.1%	-12.0%	17.1%
Bulk Metals	12.4%	-12.2%	0.2%
Energy	2.1%	0.0%	2.1%
Gold	0.0%	0.0%	0.0%
Resources	14.5%	-12.2%	2.3%
Hedge	0.0%	-4.0%	-4.0%
Index	0.0%	-4.0%	-4.0%
Total	103.5%	-79.3%	24.2%

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

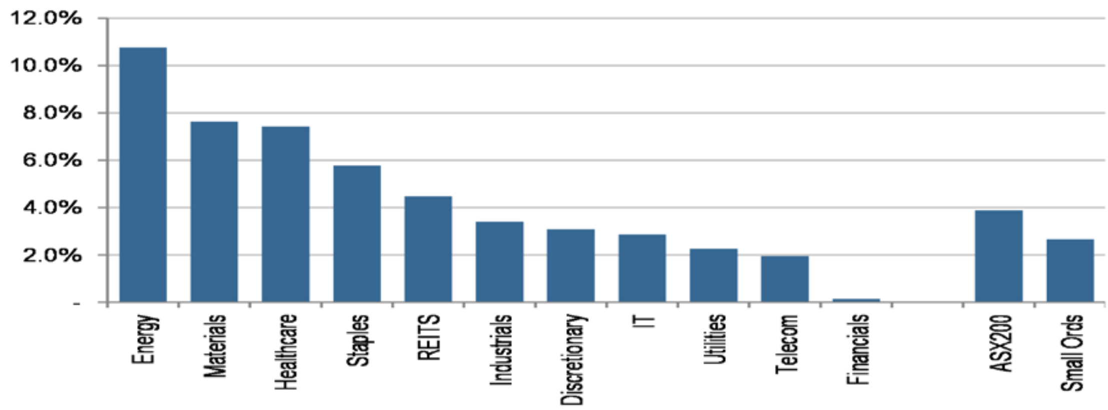
Global bond yields backed up as bonds continued their sell off. The US 10-year treasury yield briefly broke through the 3% threshold for the first time since 2014. US inflation measures remained firm and not surprisingly, the Fed signalled its intention to keep raising rates if the positive trends in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

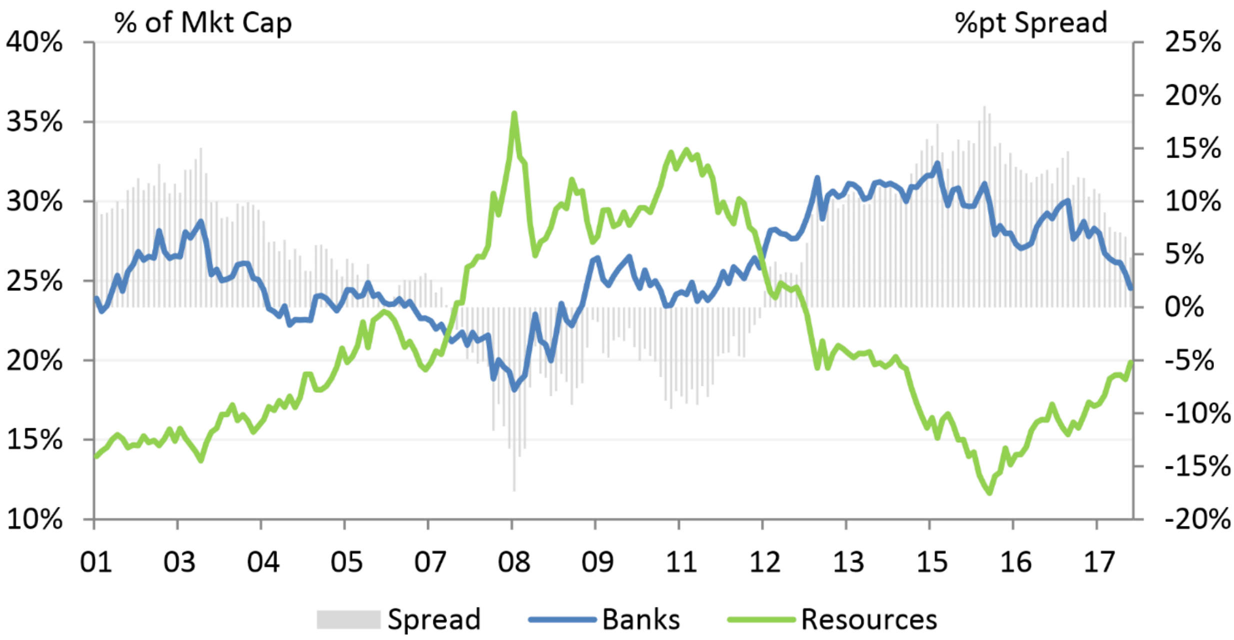
The sharp rebound in iron ore and the oil price propelled large miners and energy stocks, with all sectors adding value, though financials, telecommunications and utilities were the laggards. See chart below.

Returns for March 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.

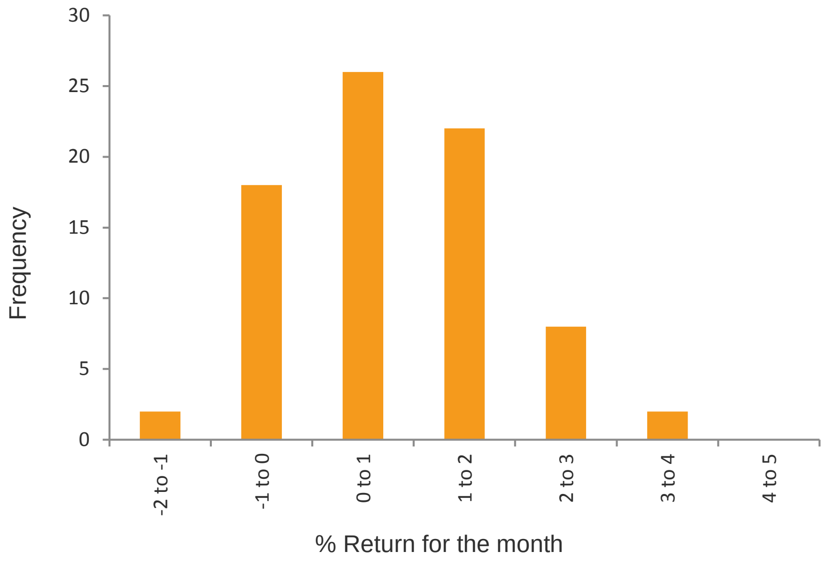
Round 2 of the Hayne Royal Commission cut a swath through the country's financial planning industry, which is meant to play a major role in helping consumers manage their $2.6 trillion in superannuation savings. The news flow was brutal and AMP was by far the worst hit in terms of reputational damage 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.

Contribution

Relative Value Gross Contribution	-0.93%	Special Situations Gross Contribution	-0.49%
Positive		**Positive**	
AGL ENERGY LTD - INFIGEN ENERGY	0.51%	INFIGEN ENERGY	0.15%
CSR - FLETCHER BUILDING	0.19%	SUNDANCE ENERGY AUSTRALIA LTD	0.10%
ADELAIDE BRIGHTON - FLETCHER BUILDING	0.06%	UNIBAIL-WESTFIELD GROUP	0.06%
OOH!MEDIA - QMS MEDIA	0.06%	NUFARM FINANCE NOTE	0.05%
IVE GROUP - PMP	0.05%	MSL SOLUTIONS	0.04%
Negative		**Negative**	
GOODMAN GROUP - INGENIA COMMUNITIES GROUP	-0.22%	IMPEDIMED	-0.51%
AVEO GROUP - GOODMAN GROUP	-0.20%	S&P/ASX 200 INDEX PUT OPTIONS	-0.31%
GROWTHPOINT PROPERTIES - INGENIA COMMUNITIES GROUP	-0.16%	ONEVIEW HEALTHCARE	-0.10%
INGENIA COMMUNITIES GROUP - MIRVAC GROUP	-0.14%	SUPERLOOP	-0.07%
GOODMAN GROUP - GATEWAY LIFESTYLE	-0.13%	ABANO HEALTHCARE GROUP LTD	-0.03%

Distribution of Net Returns



TOP RELATIVE VALUE POSITIONS

- RIO TINTO - RIO TINTO PLC
- BHP BILLITON - BHP BILLITON PLC
- ADELAIDE BRIGHTON - FLETCHER BUILDING
- SYDNEY AIRPORT - TRANSURBAN GROUP
- AVEO GROUP - GOODMAN GROUP
- OOH!MEDIA - QMS MEDIA
- CENTURIA METROPOLITAN REIT - GROWTHPOINT PROPERTIES
- ELANOR RETAIL PROPERTY FUND - SHOPPING CENTRES AUSTRALASIA
- AUSTRALIAN UNITY INVESTMENT REAL ESTATE - NATIONAL STORAGE REIT
- AVEO GROUP - DEXUS PROPERTY GROUP

TOP SPECIAL SITUATION POSITIONS

- S&P/ASX 200 INDEX PUT OPTIONS
- NUFARM FINANCE NZ LTD
- UNIBAIL-WESTFIELD GROUP
- INFIGEN ENERGY
- SUNDANCE ENERGY AUSTRALIA LTD
- CARINDALE PROPERTY TRUST
- IMPEDIMED LTD
- SUPERLOOP LIMITED
- PARAGON CARE LTD
- PRO-PAC PACKAGING 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: $1.1717

Redemption price: $1.1659

Market Neutral Fund AUM: $613.30M

Australian Equity Team AUM: $4.16bn

Firm AUM: Over $6 billion

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.

Further Information

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