ELLERSTON CAPITAL

Ellerston Global Equity Managers Fund (GEMS)

Performance Report | March 19

PERFORMANCE SUMMARY

Net %	1 Month	3 Months	1 Yr p.a.	3 Yr p.a.	5 Yr p.a.	Strategy Since Inception p.a.
GEMS A	0.35	0.13	-15.16	3.86	10.23	11.75
GEMS B	0.35	0.13	-15.16	3.85	10.23	11.58

Past performance is not a reliable indicator of future performance.

MARKET COMMENTARY

Market Overview

The rally in global equity markets continued in March, capping off a very strong period, with the MSCI World Index up an impressive 12.6% for the quarter. The ASX 200 delivered its best quarterly return in almost a decade. In March, Developed Markets outperformed Emerging Markets by 0.4%. But the notable feature of the month was the strong rally in global bonds in response to more dovish overtures from the Federal Reserve. The US yield curve inverted for the first time in more than a decade, sparking a debate on the likelihood of a pending US recession and slowing global growth.

USA

The S&P 500 Index and the Dow Jones Industrial Average Index were again in positive territory with returns of 1.9% and 0.2% respectively. The NASDAQ had a stronger month and was up 2.7%. This crowned a very impressive 3-months from each of the S&P 500, Dow Jones Industrial Average and NASDAQ, with returns of 13.7%, 11.8% and 16.8% respectively.

On 19 March, the yield on the US 10-year Treasury note fell to 2.44%, below the yield on the 3-month Treasury note of 2.45%. The inversion of the yield curve followed more dovish commentary from the Fed (with no hikes in rates expected in 2019 now) and a moderation in global activity indicators. This also raised concerns with investors over a likelihood of a recession, given prior inverted yield curves have generally preceded US recessions in the post-war period. The Fed has signalled patience in assessing the outlook beyond 2019 and now has no bias to tighten or ease.

Europe

European equity markets also continued to deliver positive returns, with the Euro STOXX 50 Index up 1.8%. Economic data continued to moderate. Euro area composite PMI fell 0.6 points to 51.3 in March, reversing the increase in February. Brexit indecision and uncertainty continued to dominate the headlines in the UK, which proved to be a major distraction for Europe too.

However, most key European indices continued to trend upwards. Despite the chaos of Brexit, the FTSE 100 was up 3.3%, while France's CAC was up 2.3%, but Germany's DAX was roughly flat with a return of +0.1%.

Asia

Asian equities were mixed. The Indian market, as represented by the BSE Sensex, was the standout performer, up 7.9%. It was followed by the Chinese market - the SSE Total Market Index - which was up 5.5%, as optimism on the rebound in the Chinese economy saw investors continue to bid up local shares. The Hang Seng Index posted a more modest 1.6%, but Korea's KOPSI Composite Index (-2.5%) was again in negative territory.

Investment Objective

The investment objective is to generate superior returns for Unitholders with a focus on risk and capital preservation.

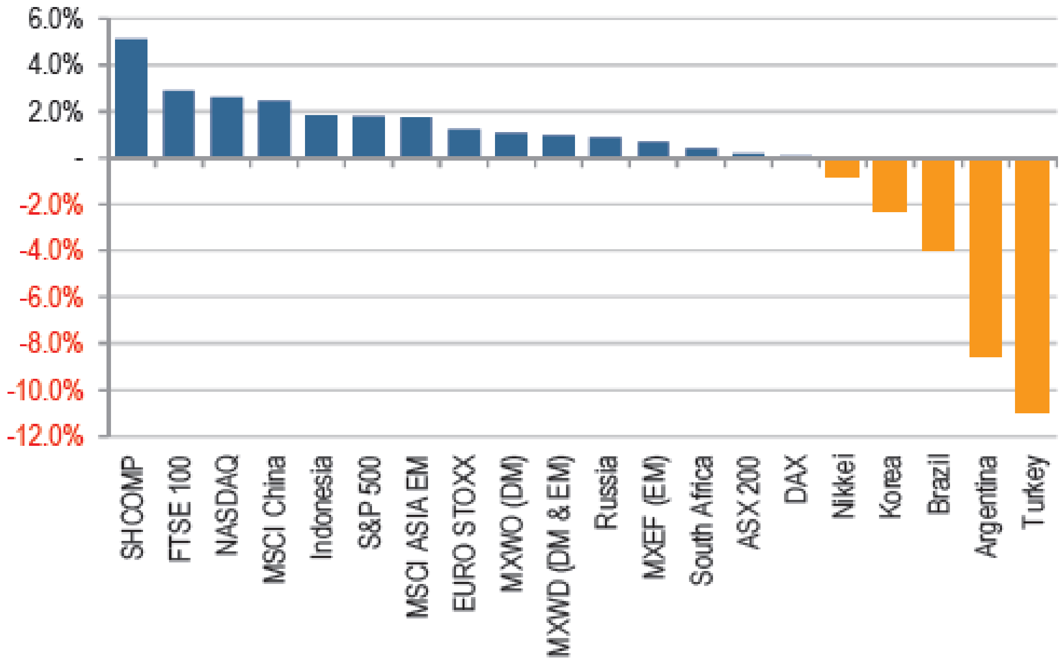
Investment Strategy

- Global long/short equity
- Overlays fundamental stock selection with macroeconomic outlook
- Bias towards Australia

Key Information

Strategy Inception Date	1 January 2002
Fund Net Asset Value	A$161.0M
Liquidity	Quarterly
Class A Redemption Price	A$ 1.2953
Class B Redemption Price	A$1.2643
No. Stocks	76
Gross Exposure	98%
Net Exposure	61%
Management Fee	1.50% p.a.
Buy/Sell Spread	0.25%
Performance Fee	16.50%
Firm AUM	Over A$5b

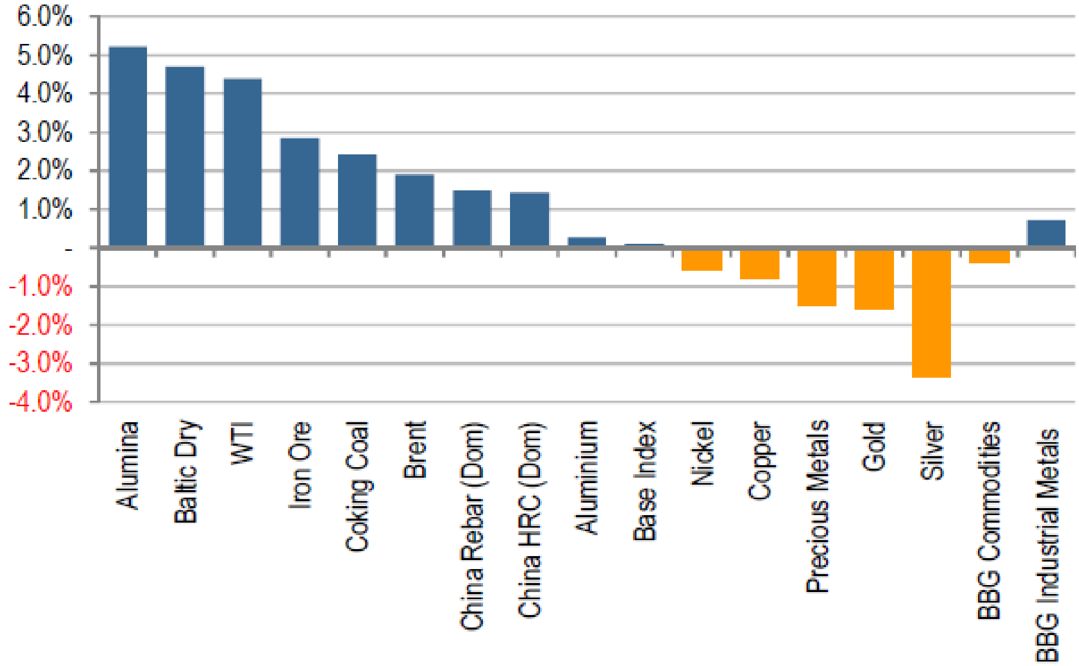
Global Equity Markets' Performance in March 2019



Source: JP Morgan, Bloomberg.

Commodities

Metals were broadly flat in March, with Zinc (+6.6%) being the exception. Lead fell 6.7% along with Tin (-1.4%), Copper (-1.1%) and Nickel (-0.6%). Brent (+1.9% to US$67.58 per barrel) and WTI (+4.4% to US$60.14 per barrel) were higher on tighter supply and more disciplined OPEC compliance. The iron ore price was firmer again, up 2.8% to end the month at US$86.9 per ton, as disruptions by Vale in Brazil and in the Pilbara continued to impact supply.

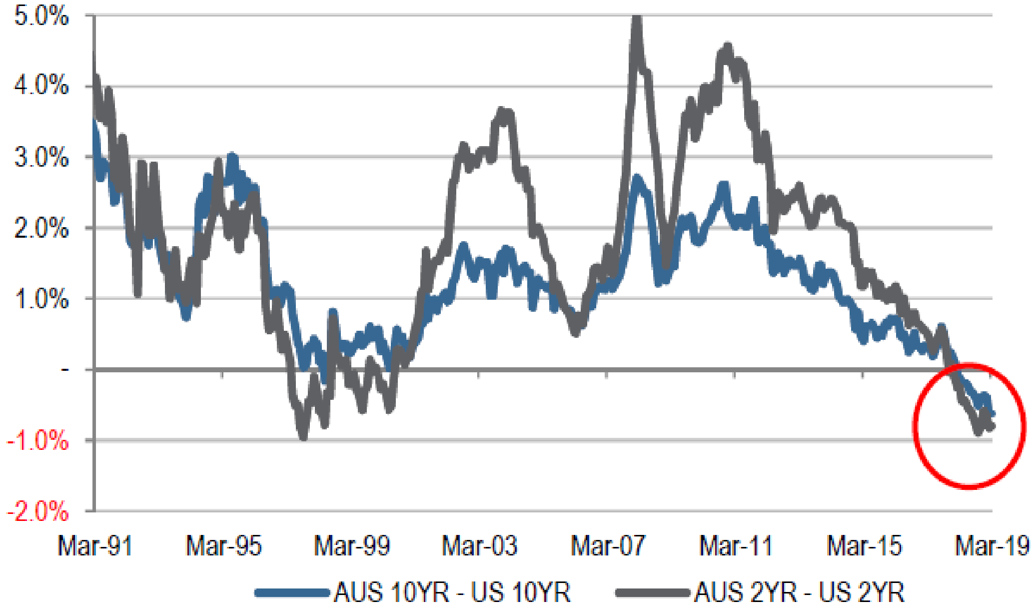


Source: JP Morgan, Bloomberg.

Bonds

Global bonds rallied strongly as the Fed signalled a more dovish stance and the US yield curve inverted. Over the past 40 years, inversion has happened on 5 occasions, with the last instance in 2006. The spread between the long end and the short end narrowed, as the 2-year bond yield fell 25.4 basis points to 2.26% and the 10-year bond yield fell 31 basis points to 2.41%.

The Australian curve flattened too, with the 3-year bond yield falling to 1.39% and the 10-year bond yield falling to all-time lows of 1.772%.



Source: JP Morgan, Bloomberg.

Australia

The **S&P/ASX 200 Accumulation Index ended the month up 0.7%.** The best three performing sectors were Materials (+3.5%), Real Estate (+5.6%) and Consumer Staples (+3.9%). The bottom three sectors were Financials (-2.7%), Energy (-4.1%) and Utilities (+1.3%).

In March, the **ASX 200 Resources Accumulation Index was once again the best performer**, up 2.0% with the most significant contributions coming from BHP Group (+5.5%) and Rio Tinto (+8.4%). The **ASX 200 Resources Accumulation Index** is now up an impressive 19.0% over the past three months. The ASX 200 Industrial Accumulation Index delivered a return of 0.4% and the Small Ordinaries Accumulation Index brought up the rear with a return of -0.1%.

The top five stocks that detracted from the performance of the S&P/ASX 200 Accumulation Index were Commonwealth Bank of Australia (-35 points), Australia and New Zealand Banking Group (-35 points), Westpac Banking Corporation (-22 points), Woodside Petroleum (-9 points) and AMP (-5 points).

The top five stocks that added to the index return were all leaders, notably, BHP Group (+37 points), Rio Tinto (+17 points), Woolworths Group (+14 points), Telstra Corporation (+14 points) and Transurban Group (+12 points).

In Australia, GDP was very soft for the second consecutive quarter in 4Q, at 0.2% quarter-on-quarter, while 2H18 annualised print of 0.9%, was the worst reading since the GFC. Australia has technically entered a per-capita recession. GDP growth was saved from turning negative by booming public demand which offset flat private demand, as consumption dropped to a near 6-year low.

National CoreLogic dwelling prices fell 0.6% month-on-month in March, which brought the year-on-year decline to -6.9%, the worst fall since February 2009.

Not surprisingly, the RBA left rates unchanged at 1.5% in March. The Australian dollar was unchanged against the US dollar. In trade-weighted terms, the AUD depreciated -0.3%.

OUTLOOK AND PORTFOLIO COMMENTARY

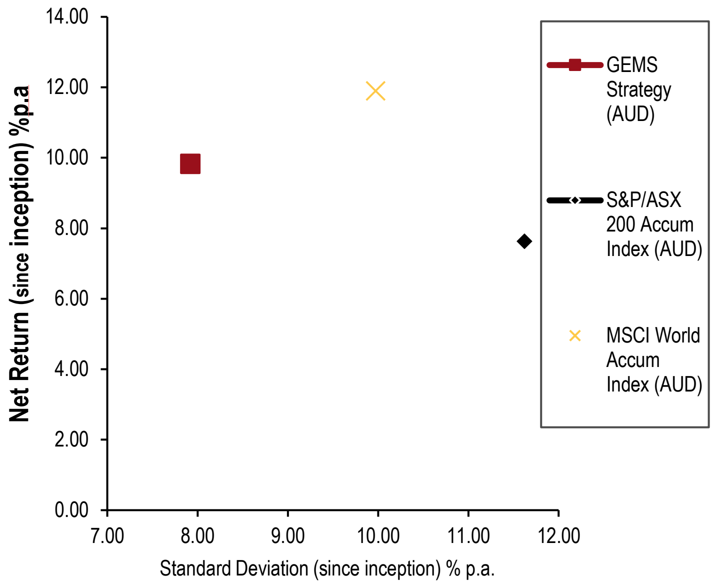
The performance of equity markets during the March quarter was exceptionally strong however put in context through the lens of bond king Jeffrey Gundlach, "The S&P 500 is basically at the same level as it was back in the fall and at the same level as it was back in January 2018. So, it's not doing really well. It went way down at the end of last year and then most of the way back up. But that's not booming, that's just volatile."

As markets are set to test previous highs and with GDP growth and earnings growth both having uncertainty around them we remain vigilant and focussed on making sure we have the right investments and levels of exposure.

The portfolio's long exposure increased slightly during March to 79% (from 76%) while the short exposure increased to 19% (from 14%). During the period contributors to performance included: **Clover Corp** with strong half yearly results released during the month showing revenue growth north of 10% and NPAT increasing 40% combined with a strong net cash balance sheet and a solid dividend increase. **Alphabet** continued to perform strongly having reported solid results during February. A detractor from performance was **GrainCorp** which has largely traded in band of $9.00 to $9.75 since receiving a takeover offer at $10.42 back in December from Long-Term Asset Partners. While the bidder continues to conduct due diligence, post the end of the month GrainCorp announced a proposal to demerge its global malting business and consideration of a long term grain production derivative instrument to help smooth cash flows for the combined grains and oils businesses.

Market Exposure as a % of NAV

GEMS Strategy Performance & Volatility



Top Holdings (Alphabetical, Long only)

- ALPHABET
- BP PLC
- CANN GROUP
- CATAPULT GROUP
- CLOVER CORP
- GENERATION DEVELOPMENT GROUP
- GRAINCORP
- NEWCREST MINING
- PSC INSURANCE
- STARS GROUP

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

Source: Ellerston Capital

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.

ABOUT THE ELLERSTON GLOBAL EQUITY MANAGERS FUND

The Fund aims to achieve its performance objectives by adopting a fundamental "bottom-up" investment approach to stock selection which is focused on identifying and then constructing a portfolio of the highest conviction ideas.

Investment opportunities for the Fund are identified by analysing and understanding the factors affecting (amongst other things): business model, industry structure, management team and overall valuation. Ellerston Capital typically favours businesses that can sustain high returns or improve their return on capital and looks to invest in businesses with a market value below the value we attribute to them.

Benchmark weightings do not drive our stock decisions, our approach is totally benchmark independent.

Due to the high conviction nature of the portfolio and the resulting deviation in portfolio composition relative to benchmark weighting, it is expected that the returns from the Fund will differ significantly from the broader market indices.

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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 18 December 2017 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 ABN 34 110 397 674 AFSL 283 000, 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.