

Ellerston Australian Market Neutral Fund

Performance Report | April 19

FUND PERFORMANCE (%)

	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.	Since Inception p.a.
Fund Net	3.28	-1.59	-6.76	-12.63	-1.61	3.37	5.12
RBA Cash Rate	0.13	0.36	0.74	1.51	1.52	1.80	1.91
Alpha	3.15	-1.95	-7.50	-14.14	-3.16	1.57	3.21

Source: Ellerston Capital Limited

	Jan	Feb	Mar	April	May	June	July	Aug	Sep	Oct	Nov	Dec	YTD
2019	-0.92	-0.72	-4.03	3.28									-2.50
2018	-0.03	0.54	-0.34	-1.19	-0.28	1.05	-2.78	-0.99	-0.80	-2.60	-1.89	-2.54	-11.30
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. Past performance is not a reliable indication of future performance. The benchmark is the RBA Cash Rate.
Source: Ellerston Capital Limited

PORTFOLIO METRICS

Positive months	63%	Net Equity Exposure	+24%
No. Relative Value positions	63	Gross Portfolio Exposure	236.8%
No. Special Situations	27	Correlation Coefficient (vs ASX 200 Accum)	2.13%
Beta Adjusted	-9.8%	Net Sharpe Ratio (RFR = RBA Cash)	0.64

PERFORMANCE

The Fund returned +3.3% in April, outperforming the benchmark return of +0.1% in the period. The positive return saw strong contributions from both the Special Situations (+0.9% gross) and Relative Value (+2.5% gross) strategies. Net exposure was +24% with a beta-adjusted net of -10%. Gross exposure continued to drift higher, closing the month at 237%.

Importantly, the small modifications we have made to the process at the start of the year have started bearing fruit, with the strike rate of new positions in both strategies tracking above the long-term average. In particular, Relative Value is running at a strike rate of 84% in 2019 (since inception average 75%), whilst Special Situations is running at 93% (85%).

The spread between the Australian and UK listings of BHP Billiton (-2.8%) and Rio Tinto (-2.6%) continued to narrow during the month, aided by a strengthening GBPAUD cross rate and adding value to the Fund.

Investment Objective

The Fund targets Absolute Returns with an annualised return objective of 5% above the RBA Cash Rate over rolling five year periods.

Investment Strategy

The Fund will seek to provide investors with a return profile that has low correlation with traditional asset classes. The fund aims to generate positive returns in all market environment by reducing the majority of market risk and focusing on capital preservation and alpha generation. The Fund will utilise a Relative Value and a Special Situations strategy.

Key Information

Strategy Inception Date	3 June 2013
Fund Net Asset Value	\$221.4M
Liquidity	Daily
Application Price	\$0.9218
Redemption Price	\$0.9172
Management Fee	1.20%
Buy/Sell Spread	0.25%
Performance Fee	20% of outperformance
Firm AUM	Over \$5 billion

The property sector traded lower in April, with weakness in short positions including Charter Hall (-4.5%) and GPT Group (-7.7%) adding to the Fund's performance. Outside DLC positions, the paired position between Ingenia Communities (+1.7%) and GPT was the largest contributor to performance within Relative Value.

Our paired position between Infigen Energy (+4.5%) and AGL Energy (+2.1%) also added in the month with the Infigen share price recovering from the stock's removal from the S&P/ASX200 index in March. Despite the rally, Infigen continues to look cheap, trading at just 9.6x FY20 earnings, compared with AGL which trades at 14.3x.

After rallying in March, the share price of Peet Group (-0.5%) retraced modestly, whilst still outperforming the property sector. We remain confident in our holding, with nearest peer, Villa World (+0.9%), receiving a revised proposal from PE-backed AVID Property Group during the month. The revised proposal is pitched at a 17.8% premium to the last pre-bid share price and a 5.2% premium to the previous approach. Importantly, the proposal implies a value for Peet that is more than 20% higher than the current share price.

For the second month in a row, sports analytics company Catapult (+27.7%) was a positive contributor to performance, with the company announcing deals with both the French Football Federation and the NRL during the period.

The share price of Superloop (+14.2%) continued to rebound, following the equity raise held earlier in the year. Rumours of a takeover bid helped fuel the rally, with the rumours confirmed in early May with QIC Private Capital presenting an indicative proposal to acquire Superloop for \$1.95 per share.

The sale of PGG Wrightson's (+8.2%) Seed and Grain business to DLF Seeds finally received Overseas Investment Office approval in April, with the sale settling early in May. The company is now considering its options with regard to a capital distribution, with up to NZD0.38 per share expected to be returned to shareholders.

Also during April, Oneview Healthcare (-31.6%) conducted an equity placement, raising \$25m, subject to security holder approval. Proceeds from the placement will be used to strengthen the balance sheet, accelerate sales of its core Inpatient product and accelerate the market launch of the Senior Living product. Following the announcement, the share price tracked lower, with our modest holding detracting from the Funds' performance.

ACTIVITY

Relative Value – Gross Contribution +2.45%

During the month, Charter Hall Retail (0.0%) announced the acquisition of Rockdale Plaza in Sydney for \$142m on a 6.25% capitalisation rate. The REIT raised \$150m in equity to fund the purchase, issuing the stock at a modest 3% discount to last. The liquidity event enabled a number of our paired positions to be unwound, including those where Charter Hall was paired with Peet Group, Australian Unity Office Fund (+1.5%) and Elanor Retail Property Fund (+1.2%).

A block trade in Sydney Airport (+2.6%) provided an opportunity to establish a long position, which was simultaneously hedged with a short in toll-road-owner Transurban (+1.8%). The spread between the two stocks narrowed quickly and we were able to unwind the position before the end of the month.

Following a rejection of its takeover proposal, Cromwell Property Group (+2.7%) announced that it did not intend to make an offer for UK-listed RDI REIT (-17.0%). We capitalised on the subsequent strength in the Cromwell share price to establish a short position, hedging the exposure with a long in the Australian Unity Office Fund (+1.5%).

Flight Centre Travel (-8.7%) downgraded FY19 earnings by about 14% in April, citing subdued trading conditions in the Australian leisure market. Following the downgrade, Flight Centre is trading at an FY20 Price/Earnings multiple of <14x, a substantial discount to peer Webjet (+15.9%), which trades at almost 18x. We took advantage of the pullback in the Flight Centre share price to establish a long, hedging the position with a short in Webjet.

Special Situations – Gross Contribution +0.93%

The share price of Megaport (+39.9%) rallied strongly during April, providing an opportunity to exit our modest position. The share price rally followed an industry event in San Francisco where Google spoke positively about Megaport's multi-cloud connectivity solution.

Paradigm Biopharmaceuticals (-18.2%) raised equity in the month, with the proceeds earmarked to fund pivotal phase 3 studies in their Osteoarthritis program. The raise was accompanied by positive phase 2b trial endpoints in Osteoarthritis of the knee. We capitalised on the liquidity event, using the discounted issue to establish a modest long position.

We also participated in a Credit Corp (+7.5%) \$125m capital raise with the proceeds being used to accelerate its expansion into the US and reduce gearing. At the time of the raise, the company re-affirmed NPAT and EPS guidance and expects to maintain an ROE of between 18 and 20%.

We reduced our exposure to the outperforming Johns Lyng (+9.9%) and Superloop and completely exited our Charter Hall Education (+7.2%) position.

SECTOR ALLOCATION

Sector	Long Equity	Short Equity	Net Equity
Banks	0.0%	0.0%	0.0%
Div Financials	0.5%	0.0%	0.5%
Insurance	0.0%	0.0%	0.0%
Regional Banks	0.0%	0.0%	0.0%
REITs	58.0%	-39.9%	18.1%
Financials	58.4%	-39.9%	18.5%
Builders	1.4%	0.0%	1.4%
Consumer Disc	1.5%	-1.5%	0.0%
Consumer Staples	4.4%	0.0%	4.4%
Contractors	0.0%	0.0%	0.0%
Gaming	0.0%	0.0%	0.0%
General Industrials	3.5%	0.0%	3.5%
Health Care	5.4%	0.0%	5.4%
Information Technology	0.3%	0.0%	0.3%
Infrastructure	0.0%	0.0%	0.0%
Materials	0.0%	0.0%	0.0%
Media	4.4%	-1.1%	3.3%
Telcos	0.0%	0.0%	0.0%
Utilities	2.6%	-2.7%	-0.1%
Industrials	23.5%	-5.3%	18.1%
Bulk Metals	40.4%	-40.1%	0.3%
Energy	0.0%	0.0%	0.0%
Gold	0.0%	0.0%	0.0%
Resources	40.4%	-40.1%	0.3%
Hedge	3.3%	-16.5%	-13.2%
Index	3.3%	-16.5%	-13.2%
Total	125.6%	-101.9%	23.7%

Source: Ellerston Capital Limited

MARKET COMMENTARY

Market Overview

Global markets climbed again in April and ended the month close to the all-time highs reached in January 2018. The MSCI World Index was up 4.5% in AUD terms with Developed markets outperformed Emerging markets by 1.4%. The developed market that stood out was Germany's DAX (+7.1%) and April also saw continued strength in the US markets. Gains were driven mostly by an expansion in the Price to Earnings (P/E) multiples of the markets. Strength in global PMI data, accommodative central banks, renewed talk of a resolution to the US-China trade dispute, and expectations of a recovery in Chinese growth all buoyed markets.

USA

The S&P 500 Index and the Dow Jones Industrial Average Index recorded very strong gains with returns of +4.1% and +2.7% respectively. The NASDAQ had an even stronger month, up 4.8%.

The US market was driven by a much higher than expected Q1 GDP growth print of 3.2% annualised. While the US economy is expected to slow from its above-trend pace of growth, an accommodative monetary policy and better manufacturing data spurred investor optimism. Also, last month's fears of an imminent recession from a temporarily inverted yield curve were allayed.

Europe

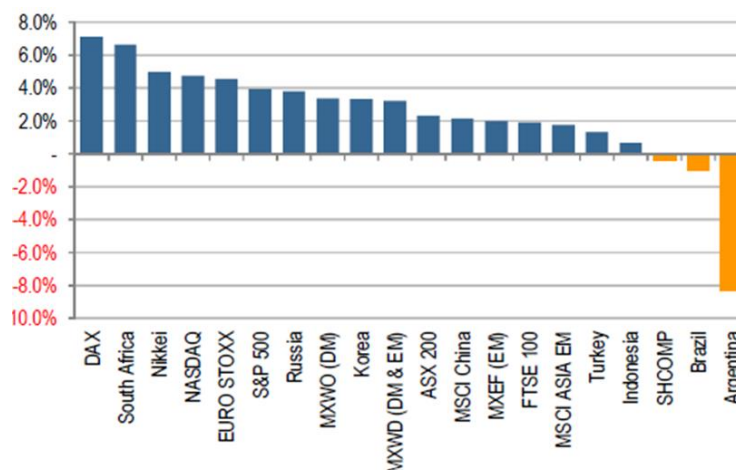
European equity markets also continued to deliver positive returns despite manufacturing being a weak spot. Manufacturing PMI only improved slightly to 47.8 in April but the Euro STOXX 50 Index was up strongly, rising 5.3%. The ECB left rates unchanged and expects them to remain at current levels at least through 2019. Markets were encouraged by a new series of targeted longer-term refinancing options announced by the ECB to safeguard bank lending conditions. Growth in Italy and Spain surprised on the upside, lifting Eurozone Q1 GDP to 1.5% annualised. Despite the political uncertainty, UK economic data was also a positive surprise.

Accordingly, the key European indices continued their upward trend. As previously mentioned, Germany's DAX was the standout performer, while France's CAC 40 and the FTSE 100 were also up strongly with returns of +4.9% and +2.3% respectively.

Asia

Asian equities caught the global rally. Japan's Nikkei 225 was up almost 5%, Korea's KOSPI Composite Index up 2.9% while the Hang Seng Index rallied 2.3%. In China, GDP grew 6.4% year-on-year in 1Q19 – this was above market expectations. Not too surprisingly, Chinese equities lost some momentum in April after a strong rally in Q1. The SSE Total Market Index was up 0.8%.

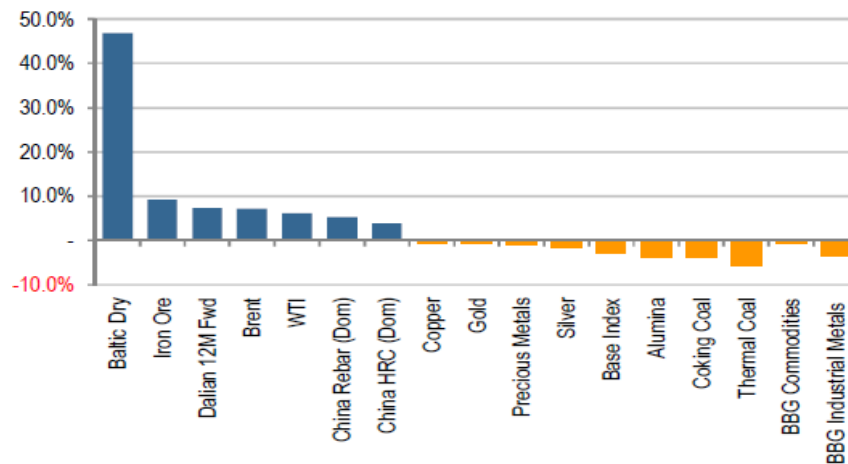
Global Equity Markets' Performance in April 2019



Source: JP Morgan, Bloomberg.

Commodities

In April, base metals fell, led by Aluminium (-6.7%) and Nickel (-5.9%), giving back some of the strong gains made in Q1. The LME base Metal Index fell 2.8%. Oil had another strong month, with Brent +7.2% and WTI +6.0%. The strength was in part due to action taken by the US to end a set of waivers on importing oil from Iran, and continued optimism that OPEC and Russia would cut supply. Iron ore prices held at elevated levels as ongoing supply-side tightness persisted, alongside robust Chinese steel demand. The key 62% index rose over 9% to US \$94.9 per ton. Thermal coal fell 5.9%.



Source: JP Morgan, Bloomberg.

Bonds

Global bonds rallied strongly in March as the Fed signalled a more dovish stance and the US yield curve inverted. But in April, fears of a likely recession in the US abated and the inversion was considered temporary. The US 10-year bond ended the month at 2.50% with the 2-year bond ending at 2.27%.

In Australia, an expectation of a rate cut has led to the short end falling. The 2-year bond fell 14 basis points to 1.32%. The spread between LIBOR and OIS tightened and is now trading below its 5-year average.

Australia

The **S&P/ASX 200 Accumulation Index ended the month up 2.4%** - trading to a 12-year high of 6,388 into month end. The best three performing sectors were Financials (+4.4%), Consumer Staples (+7.4%) and Consumer Discretionary (+5.0%). The bottom three sectors were Materials (-2.0%), Real Estate (-1.9%) and Utilities (-0.5%).

In April, the Small Ordinaries Accumulation Index was the best performer, up 4.1%, followed by the ASX 200 Industrial Accumulation Index, up 3.7%. The ASX 200 Resources Accumulation Index was the laggard and returned -2.5%.

The top five stocks that detracted from the performance of the S&P/ASX 200 Accumulation Index were BHP Group (-19 points), South32 (-12 points), Scentre Group (-9 points), Rio Tinto (-5 points) and GPT Group (-5 points).

Among the top five stocks that added to the positive index return were three of the major banks, namely, Commonwealth Bank of Australia (+41 points), Westpac Banking Corporation (+33 points) and Australia and New Zealand Banking Group (+20 points), with Woolworths Group (+12 points) and a2 Milk Company (+10 points) the remaining two.

In Australia, the budget occupied the headlines at the start of the month with a forecast return to surplus in 2019/20. Both the Coalition government and the Labor opposition then promised significant spending if elected to power when the Federal election is held on 18 May.

A weak Q1 CPI reading and concerns over slowing growth have the markets expecting a rate cut from the RBA either in May or June. The AUD fell 0.9% through April, dropping to a low of USD 0.6988 but ended the month at USD 0.7048.

CONTRIBUTION

Relative Value Gross Contribution +2.45%

Positive		Negative	
RIO TINTO - RIO TINTO	0.69%	BWP TRUST - CARINDALE PROPERTY TRUST	-0.20%
GPT GROUP - INGENIA COMMUNITIES GROUP	0.29%	CENTURIA METROPOLITAN REIT - GROWTHPOINT PROPERTIES	-0.07%
BHP BILLITON - BHP BILLITON	0.24%	DEXUS PROPERTY GROUP - PEET	-0.05%
CENTURIA CAPITAL - GPT GROUP	0.19%	AUSTRALIAN UNITY INVESTMENT REAL ESTATE - CROMWELL PROPERTY GROUP	-0.03%
OOH!MEDIA - QMS MEDIA	0.14%	FLIGHT CENTRE TRAVEL GROUP - WEBJET	-0.02%

Special Situations Gross Contribution +0.93%

Positive		Negative	
SUPERLOOP LTD (AT*)	0.44%	APRIL 19 PUTS ON AS51 (5800)	-0.31%
IMPEDIMED LTD (AT*)	0.37%	ONEVIEW HEALTHCARE PLC-CDI (AT*)	-0.16%
ECLIPX GROUP LTD (AT*)	0.25%	PARAGON CARE LTD (AT*)	-0.04%
JOHNS LYNG GROUP LTD (AT*)	0.13%	GRAINCORP LTD (AU)	-0.03%
PGG WRIGHTSON LTD (NZ*)	0.10%	VOLPARA HEALTH TECHNOLOGIES (AT*)	-0.02%

Source: Ellerston Capital Limited

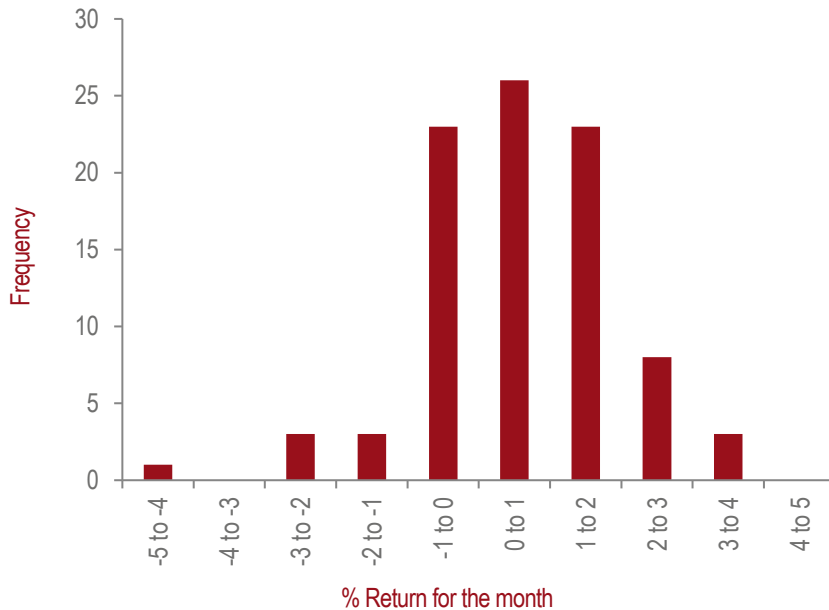
TOP 10 RELATIVE VALUE POSITIONS

- RIO TINTO - RIO TINTO
- BHP BILLITON - BHP BILLITON
- GROWTHPOINT PROPERTIES - INGENIA COMMUNITIES GROUP
- CHARTER HALL GROUP - PEET
- BWP TRUST - CARINDALE PROPERTY TRUST
- AUSTRALIAN UNITY INVESTMENT REAL ESTATE - NATIONAL STORAGE REIT
- BWP TRUST - CENTURIA CAPITAL
- INGENIA COMMUNITIES GROUP - NATIONAL STORAGE REIT
- OOH!MEDIA - QMS MEDIA
- AUSTRALIAN UNITY INVESTMENT REAL ESTATE - CROMWELL PROPERTY GROUP

TOP 10 SPECIAL SITUATION POSITIONS

- MAY 19 PUTS ON AS51
- NUFARM FINANCE NZ LTD-NSS (AU)
- ELANOR RETAIL PROPERTY FUND (AT*)
- SUPERLOOP LTD (AT*)
- IMPEDIMED LTD (AT*)
- GRAINCORP LTD (AU)
- SUNCORP GROUP NOTE (AU)
- PGG WRIGHTSON LTD (NZ*)
- PARAGON CARE LTD (AT*)
- PARADIGM BIOPHARMACEUTICALS (AT*)

DISTRIBUTION OF NET RETURNS



Source: Ellerston Capital Limited

Key Service Providers

Registry: Link Market Services Limited

Auditor: Ernst & Young

Prime Broker & Derivative Counterparty:

Morgan Stanley Intl & Co PLC

Goldman Sachs International

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.

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