

# Ellerston Global Equity Managers Fund (GEMS)

Performance Report | April 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	0.59	0.03	-15.17	2.77	10.26	11.73
GEMS B	0.59	0.03	-15.17	2.76	10.25	11.56

Past performance is not a reliable indicator of future performance.

## 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%.

### Investment Objective

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

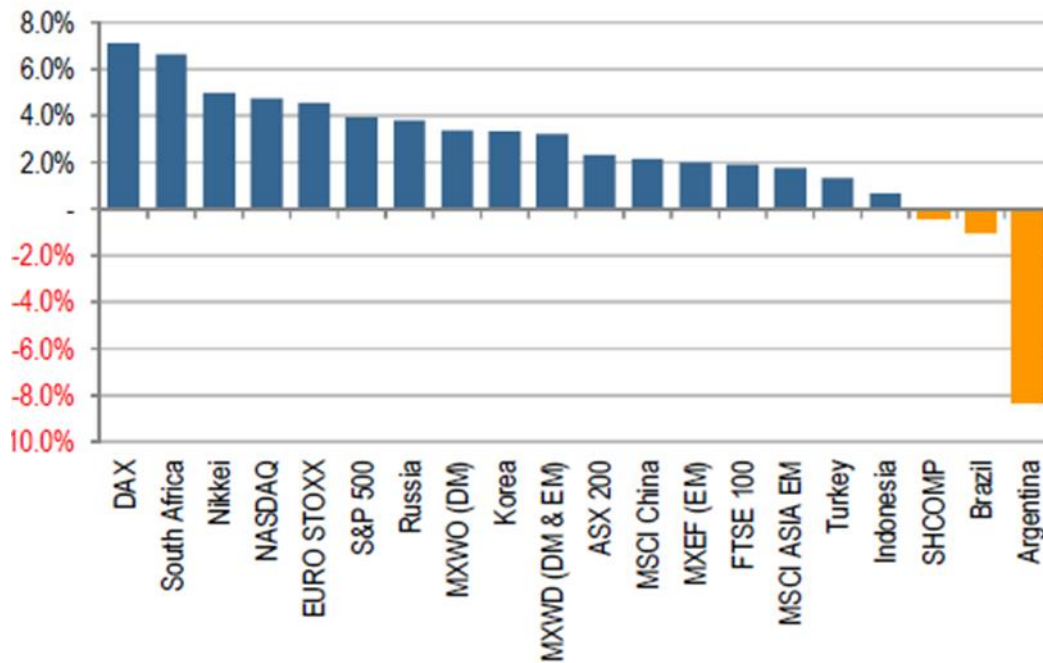
### Investment Strategy

- 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\$162.2M
Liquidity	Quarterly
Class A Redemption Price	A\$ 1.3029
Class B Redemption Price	A\$ 1.2718
No. Stocks	78
Gross Exposure	104%
Net Exposure	73%
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 April 2019

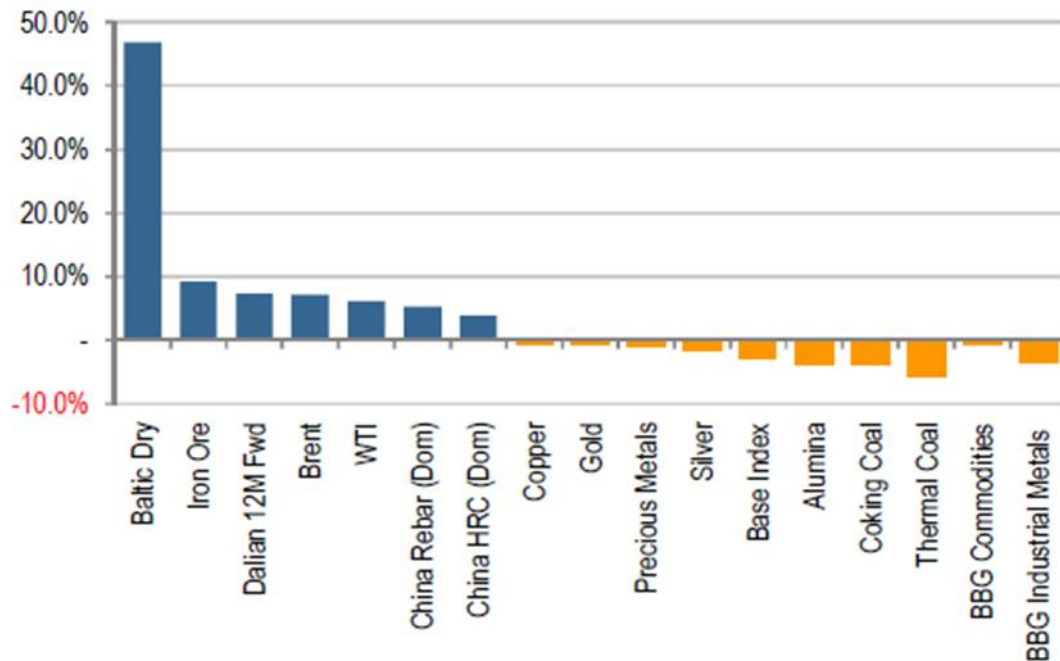


Source: JP Morgan, Bloomberg.

### 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%.

### Commodity Performance in April 2019



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.

## OUTLOOK AND PORTFOLIO COMMENTARY

Global equity markets continued to march upwards during April with the wall of worry seemingly climbed and a sense of invincibility creeping into investor psyche's after witnessing one of the great market rebounds.

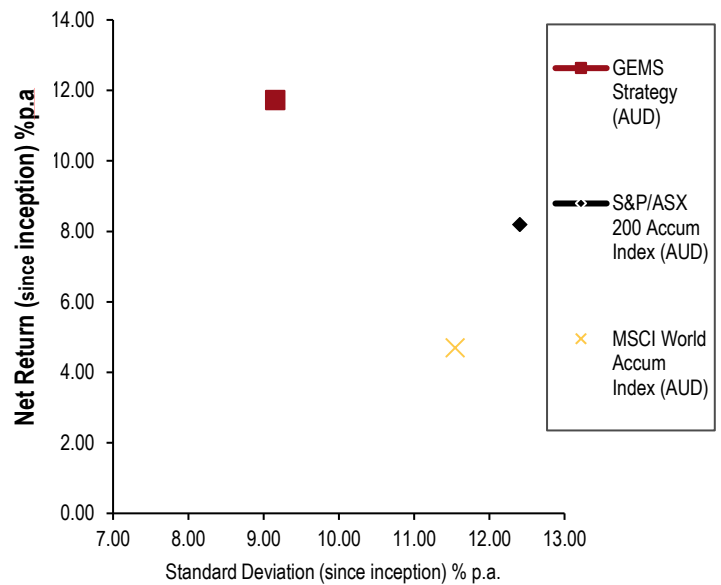
Where to from here though is the true question, and in a world where central banks and macro issues drive the bus, anything is possible. The potential impact of a single tweet has never been greater for financial markets.

For the month of April the portfolio delivered a return of 0.59%. The portfolio's long exposure at the end of April was 89% while short exposure was 16% and has reduced materially post the end of the month. During the period contributors to performance included: **Catapult Group** which has rallied very strongly since reporting first half earnings during February, with strong revenue growth and reaffirming of fiscal year 2019 guidance. **Clover Corp** continued its valuation rerating after it also posted strong results back in February. **Stars Group** performed solidly during the month after hosting an investor day at the end of March that outlined financial targets for the company. Detractors included: **GrainCorp** which continued to drift lower as it found a new level post LTAP walking away from its non-binding offer. The company has articulated a clear and sound strategy which should unlock material value for shareholders over the next 6 to 12 months. **Shorts** across the board edged up in value in what was a broad strong month for equity markets.

### 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

<b>REGISTRY:</b>	LINK MARKET SERVICES LIMITED
<b>AUDITOR:</b>	ERNST & YOUNG
<b>PRIME BROKER:</b>	MORGAN STANLEY INTL & CO PLC & GOLDMAN SACHS INTERNATIONAL
<b>ADMINISTRATOR:</b>	CITCO FUND SERVICES (AUSTRALIA) PTY LTD
<b>CUSTODIAN:</b>	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.

## SIGNIFICANT EVENT NOTICE

In other Ellerston news, Chris Hall has been appointed to the position of Chief Investment Officer of Ellerston Capital Limited, reporting to the Executive Chairman, Ashok Jacob. Chris joined Ellerston in September 2018 as Senior Investment Officer. Over his 28 years in investment management, Chris has built a wealth of experience in risk oversight, investment process improvement and business expansion alongside producing an impressive track record of investing in equity markets.

Prior to joining Ellerston, Chris was Managing Director and Senior Portfolio Manager and Co-Head of Research for BlackRock’s Alpha strategies Group in Hong Kong, where he was the lead Co-PM on the BlackRock Asia Pacific Equity Income fund, BGF Pacific Equity fund and BGF Asean Leaders fund, as well as being a member of the Management Committee overseeing the Asian Fundamental Equities Team with A\$35 billion in assets.

Ashok Jacob remains the Executive Chairman of Ellerston Capital Limited and continues to provide guidance and investment insight to the Ellerston team.

## CONTACT US

Should investors have any questions or queries regarding the fund,  
please contact our [Investor Relations team](#) on 02 9021 7797 or [info@ellerstoncapital.com](mailto:info@ellerstoncapital.com)  
or visit us at <https://ellerstoncapital.com/>

### SYDNEY OFFICE

Level 11, 179 Elizabeth Street,  
Sydney NSW 2000

### MELBOURNE OFFICE

Level 4, 75-77 Flinders Lane,  
Melbourne VIC, 3000

All holding enquiries should be directed to our registrar, Link Market Services on 1800 992 149 or [ellerston@linkmarketservices.com.au](mailto:ellerston@linkmarketservices.com.au)

## DISCLAIMER

<sup>^</sup> 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.

<sup>^^</sup> 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.