ELLERSTON CAPITAL

Ellerston Australian Share Fund (ASF)

Performance Report | March 19

PERFORMANCE SUMMARY

Gross %	1 Month	3 Months	FYTD	1 Yr	3 Yr p.a.	5 Yr p.a.	Strategy Since Inception p.a.
ASF	-0.55	6.79	-5.68	-2.21	8.99	7.00	9.89
Benchmark	0.73	10.89	3.31	12.06	11.46	7.40	10.18

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 for the Ellerston Australian Share Fund is to outperform the S&P/ASX 200 Accumulation Index (Benchmark).

Investment Strategy

The Fund uses a benchmark-independent, high conviction approach that looks beyond investing in the Top 20 stocks in order to capture the neglected opportunities created by under-researched stocks in the broader Australian market.

Key Information

Strategy Inception Date	1 April 2009
Fund Net Asset Value	$0.9608
Liquidity	Daily
Application Price	$0.9632
Redemption Price	$0.9584
No Stocks	21
Management Fee	0.90%
Buy/Sell Spread	0.25%
Performance Fee	15%
Firm AUM	Over $5 Billion

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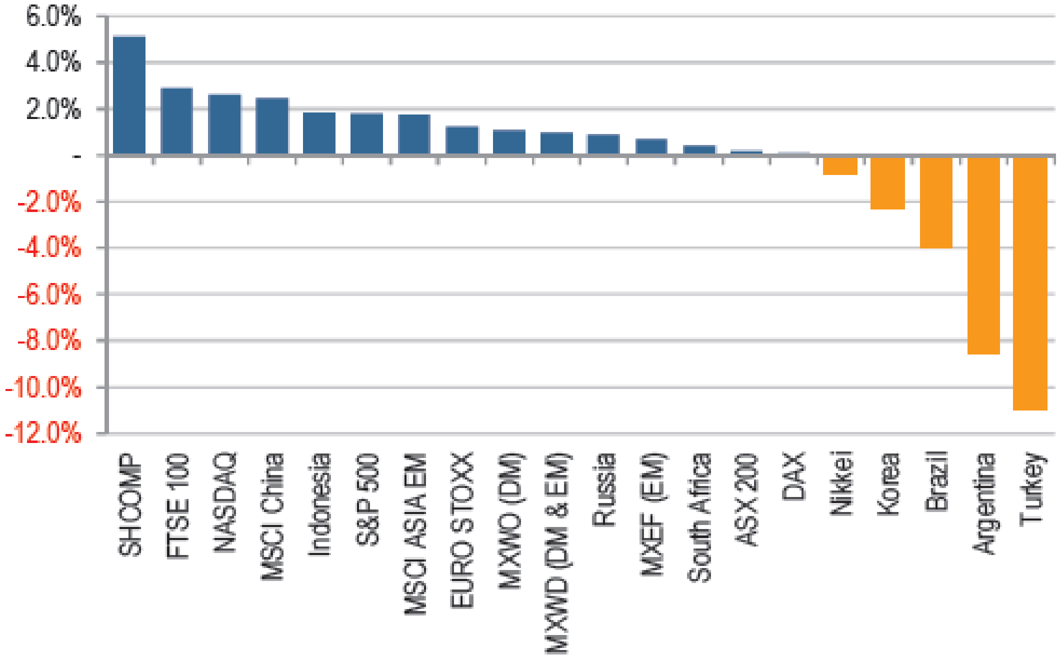
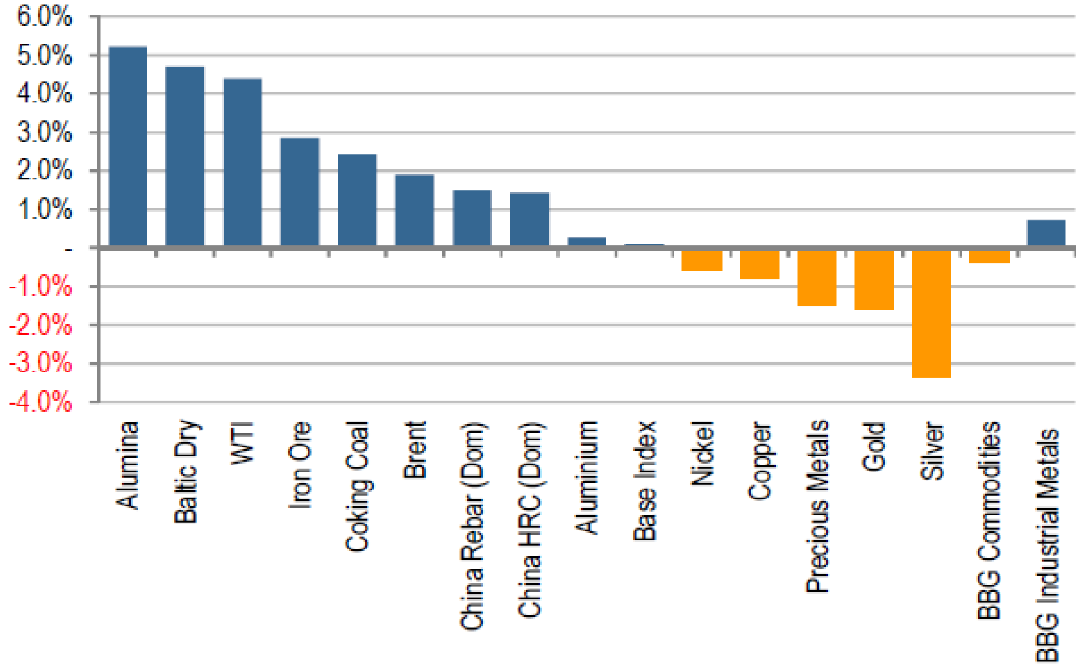
Global Equity Markets' Performance in March 2019



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.

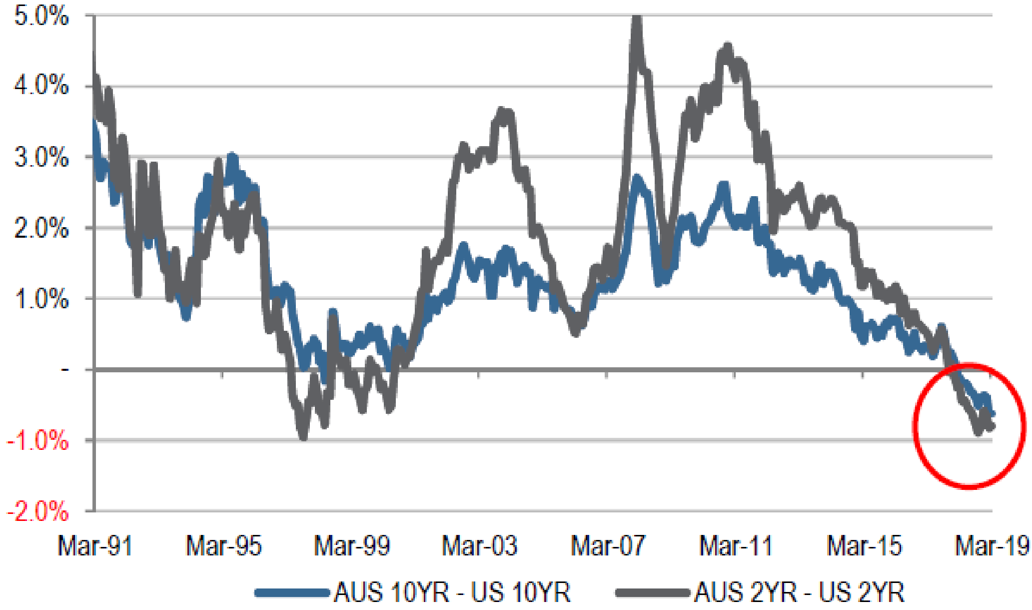


Source: JP Morgan, Bloomberg.

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%.

COMPANY SPECIFIC NEWS

The Market Misses

Eclipx Group (ECX -67.6%)

ECX was rocked by earnings downgrades, the forced sale of assets and scrapping of its planned merger with McMillan Shakespeare. The rapid plunge in its earnings outlook really spooked the market. ECX gave earnings guidance in January which suggested FY19 NPATA would be in line with FY18 at circa $78 million. A mere 7 weeks later, the company announced NPATA was tracking down 42% on a like-for-like basis and that it was in no position to provide FY19 guidance.

Ardent Leisure Group (ALG -30.2%)

After a decent run post its 1H19 result, ALG came under sustained selling pressure during the month. Stock specific news was limited, although tourism numbers are expected to remain sluggish. A significant line of 15.8 million shares was crossed at $1.60, a level from which the share price quickly retreated.

New Hope Corp (NHC -28.3%)

NHC slumped after the release of its 1H19 results which showed higher costs and weaker thermal coal prices. The cost blowout, rising by ~$15/t to $70/t was particularly concerning and saw earnings cut significantly across the street.

Automotive Holdings Group (AHG -23.9%)

The observant reader would note that AHG featured in the 'Market Hits' in February after a strong 1H19 result and the announcement of a strategic review of its refrigerated logistics operations. However the removal from the S&P/ASX 200 index was enough to see the company share price rapidly come back to earth.

St Barbara (SBM -23.9%)

SBM was hammered during the month as it downgraded production expectations for its Gwalia gold mine. SBM decided against implementing hydraulic hoisting in favour of trucking, which lowered the mining rate from 1.4Mtpa to 1.1Mtpa. This saw EPS cuts in the vicinity of 15%.

Syrah Resources (SYR -21.9%)

SYR suffered yet another downgrade, with guided graphite pricing cut from US$500-US$600/t to US$460-US$470/t. The change was attributed to unfavourable product mix and contract timing. In addition, production guidance was shifted to the bottom end of the range at 45kt.

Platinum Asset Management (PTM -16.9%)

Insiders selling stock is generally a bad signal for shareholders and this was exacerbated when it's the well-respected founder Kerr Neilsen, parted with 60 million shares at $5, a discount of approximately 9% to the prevailing share price. With another 252 million shares still in his hands, a perceived overhang may limit short term upside.

Sigma Healthcare (SIG -14.6%)

SIG formally rejected industry peer, Australian Pharmaceutical Industries (API) takeover offer (a combination of cash and scrip) as the Board felt it undervalued the company. The SIG Board was of the view that its plan to restructure the business, post the loss of the Chemist Warehouse contract, will deliver a better outcome for shareholders over the longer term. The decline in the API share price since the approach was first made has not helped API's case. There is also a real risk that the ACCC would knock back the proposal. However, we suspect API's first offer is probably not its last and the takeover dance may yet have a few more steps.

The Market Hits

Bellamy's Australia (BAL +36.2%)

The rollercoaster ride that is Bellamy's continued, with the company topping the charts in March. Stock specific news centred on the launch of its new Omega-3 formula and whilst little is known of its market impact, the stock clearly benefited from the improved sentiment in China.

WiseTech Global (WTC +20.1%)

WTC continued on its merry way despite tapping the market for $300m of new equity at $20.90. Interestingly, the capital was raised without a specific purpose but to add firepower to the company's balance sheet. The opportunistic raise came after a near 40% rally in the name this calendar year.

Lynas Corp (LYC +18.8%)

After what could only be described as a troubled year for the company, market observers were stunned when a hostile bid from giant conglomerate Wesfarmers hit the tapes. After 12 months of cleaning up its operations and divesting non-core businesses, Wesfarmers appears to have flicked the M&A switch. LYC has quickly rebuffed the suitor's approach and it seems like it will be a game of cat and mouse from here.

Estia Health (EHE +17.4%)

Finally a little bit of good news for the aged care sector that has rightfully been under siege. Operators were informed that extra government funding would be paid in full before June year end, rather than throughout the calendar year. Whilst additional government funding will go some way to alleviating the significant margin squeeze, the sector remains susceptible to any potential bad news from the ongoing Royal Commission.

Fortescue Metals Group (FMG +17.3%)

The FMG train continued to rattle along with the stock up 80%+ this calendar year. Iron Ore spot prices remain elevated as continued disruption from Vale's mine shutdowns were exacerbated by tropical cyclone Veronica, which impacted production in the Pilbara.

Charter Hall Group (CHC +16.7%)

In another strong month for the REIT sector, Charter Hall topped the sector after a positive update from the group in late February, where it proceeded to upgrade FY19 guidance. Funds under management increased by an impressive 22%, with the diversified portfolio now standing at $28 billion.

JB Hi-Fi (JBH +15.0%)

Consumer discretionary names came back into favour during March as the market began to factor in the potential for both fiscal and monetary stimulus. JBH is among the cheapest of the discretionary retailers in terms of valuation and arguably the most cost efficient. With approximately 18 million shares or 16% of the company sold short, a more constructive backdrop for the consumer could underpin a further re-rating.

FUND PERFORMANCE

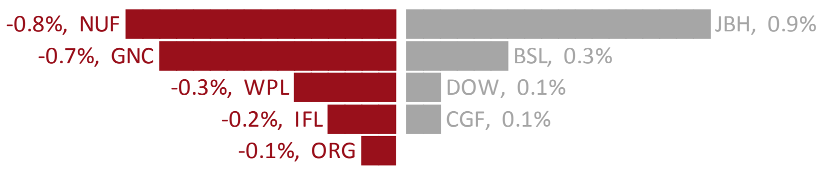
The month of March saw investors continue to allocate capital toward the perceived safety of Large Caps. The fund returned -0.55% for the month, and failed to keep pace with the Benchmark return of 0.73%.

With mid caps continuing to underperform their broader cap peers, this brings the return for the FYTD to -5.68%, lagging the benchmark return of 3.31%.

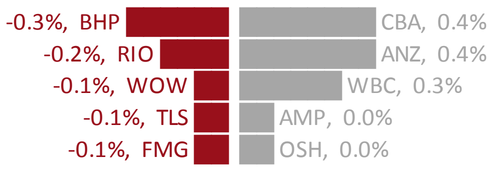
RETURNS[1] (%)	GROSS	BENCHMARK*	EXCESS	NET
1 MONTH	-0.55	0.73	-1.28	-0.64
3 MONTHS	6.79	10.89	-4.10	6.51
FYTD	-5.68	3.31	-8.99	-6.44
ROLLING 12 MONTHS	-2.21	12.06	-14.27	-3.29
3 YEARS (P.A.)	8.99	11.46	-2.47	7.85
5 YEARS (P.A.)	7.00	7.40	-0.40	5.88
SINCE INCEPTION (P.A.)	9.89	10.18	-0.29	8.72
SINCE INCEPTION (CUM)	156.80	163.69	-6.89	130.64

Past performance is not a reliable indicator of future performance.

Securities Held



Securities Not Held



The main positive contributors to this month's performance were overweight positions in JB Hi-Fi (JBH +15.0%), Bluescope Steel (BSL +4.1%), Downer EDI (DOW +3.2%) and Challenger (CGF +2.9%).

Having zero holdings in Commonwealth (CBA -4.5%), ANZ (ANZ -7.0%), Westpac (WBC -3.9 %), AMP (AMP -11.0%) and Oil Search (OSH -4.8%) also contributed positively.

The main detractors from performance, that more than offset the above, were overweight positions in Nufarm (NUF -10.1%, following a downgrade to its previous earnings guidance given tough seasonal conditions and an adverse glyphosate judgement handed down to Bayer/Monsanto), Graincorp (GNC -5.9%), Woodside (WPL -4.5%), IOOF (IFL -7.0%) and Origin Energy (ORG -0.8%).

Having a zero holding in BHP (BHP +5.5%), Rio Tinto (RIO +8.4%), Woolworths (WOW +6.0%), Telstra (TLS +6.0%) and Fortescue Metals (FMG +17.3 %) also acted as a drag on the portfolios relative performance.

[1] The return figures are calculated using the redemption price for Class A Units and on the basis that distributions are reinvested. The Gross and Excess return figures are before fees and expenses whereas the Net Return figures are net of fees and expenses for the Class A Units. Returns of the Fund may include audited and un-audited results. Past performance is not a reliable indicator of future performance.

* The benchmark was changed from the S&P/ASX 200 Accumulation Ex REITS Index to the S&P/ASX 200 Accumulation Index on 1 July 2012.

Fund Activity

The Fund has again been very active in March.

We introduced three new stocks into your portfolio (see below) and continued to strengthen core holdings where we still feel there is significant medium to longer term valuation upside. We reduced some JB Hi-Fi following its strong outperformance in the month of March.

NEW STOCKS ADDED	STOCKS EXITED
• Orica	
• Ooh! Media	
• Flight Centre	

POSITIONS INCREASED	POSITIONS DECREASED
• Macquarie Group	• JB Hi-Fi
• Star Entertainment Group	
• Treasury Wine Estates	
• Computershare	

Orica (ORI)

ORI is the world's largest supplier of commercial explosives with an estimated leading market share of ~30%, operating in over 50 countries. The company has experienced a difficult period, starting in 2015 as commodity prices (particularly bulks) fell sharply. This was compounded by the fact that major customers were forced to change mine plans (by high grading resources to generate higher cash flow) and reduced their strip ratios, postponed many expansion plans and demanded price reductions from their key service providers. Consequently, Orica has had to cut costs and renegotiate ammonium nitrate (AN) pricing contracts, while the senior management team has also been reshaped under CEO Alberto Calderon.

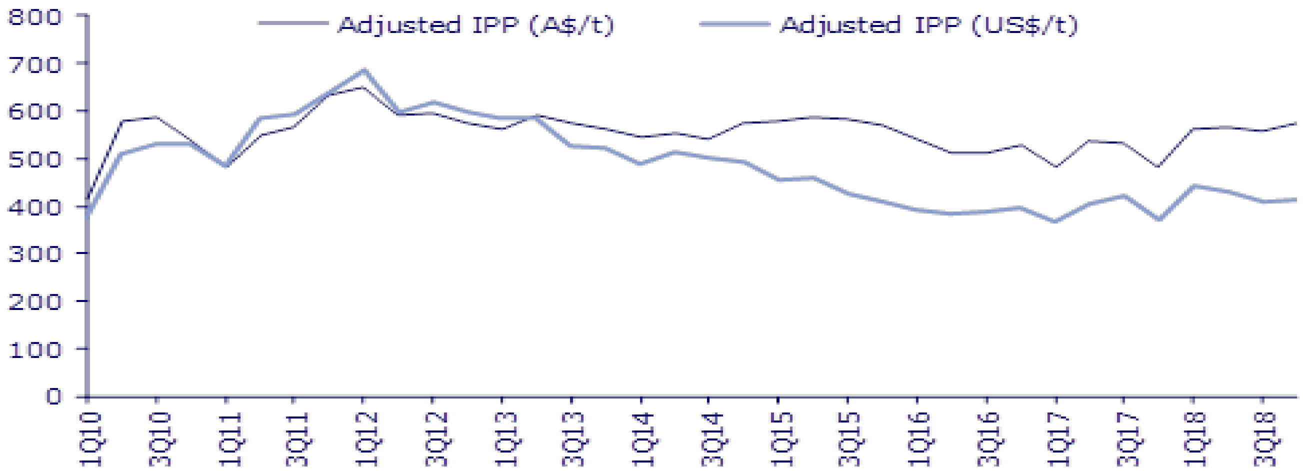
Investment thesis

During the month, we started to accumulate Orica shares. Commodity prices have recovered strongly and there appears to be signs of AN pricing stabilisation and we believe pricing is poised to extend further from here as contracts are rolled. A large percentage of Orica's contracts were renegotiated in 2015 to prevent further price degradation. Our understanding is that these contracts are typically 3-5 years in duration and hence we are at the cusp of ORI capturing upward pricing momentum.

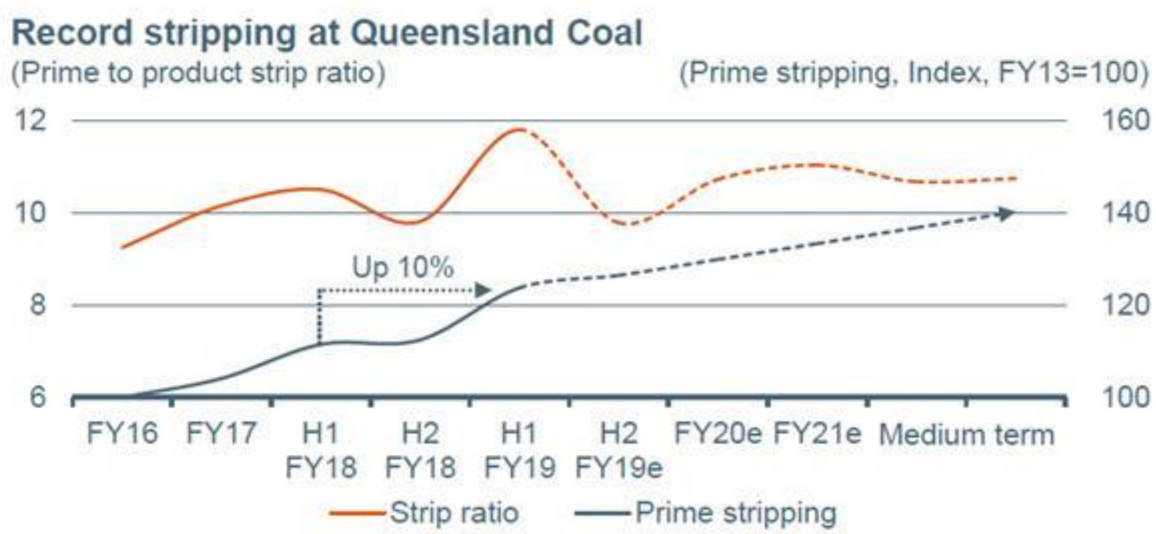
The company has guided to FY19 global AN volume growth of 3% and in our view, this is very achievable given the current resources backdrop. Moreover, our investment thesis is that FY19 will be the first year under Mr Calderon's leadership where the company will be facing "tailwinds", rather than the "headwinds" experienced in the past few years. Therefore, in addition to earnings growth from an improving pricing environment for commodities, we believe the PE could re-rate as well.

Commodity prices have bounced off its recent lows – Source: Morgan Stanley

Ammonium nitrate pricing shows signs of stabilisation – Source: CLSA



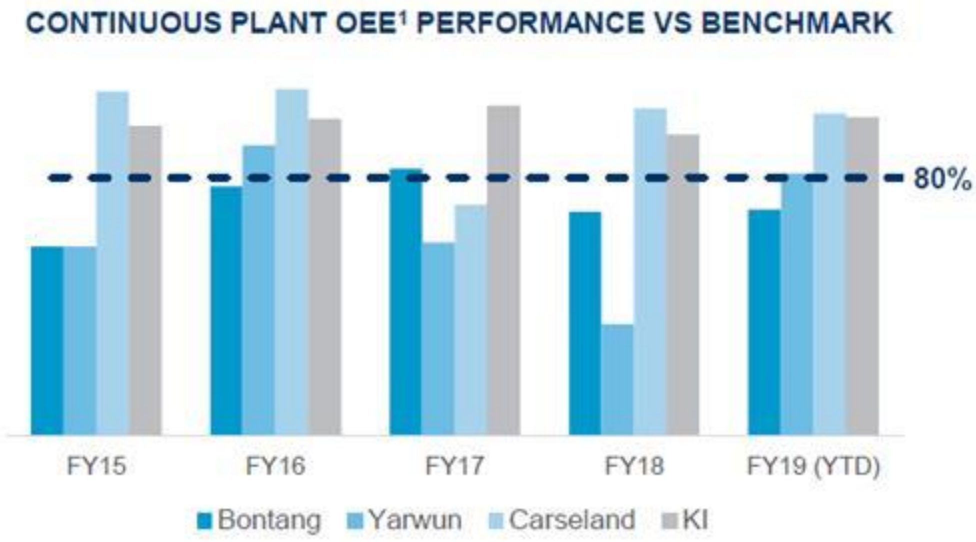
Recent anecdotal evidence from BHP also points to recovering strip ratios. Source - BHP February 2019 presentation



Manufacturing and Burrup

Another key area of concern for investors has been Orica's manufacturing reliability, including the problematic Burrup plant operated by Yara (discussed below), located in Western Australia. We note that in October 2017, CEO Alberto Calderon appointed a new manufacturing and supply leader in Carlos Duarte (30 year veteran at Schlumberger). While still early days, we are encouraged by the recent broader plant performance across the group (except for Burrup), with >80% overall equipment efficiency (OEE) being achieved in FY19 YTD.

The real problem in Orica's manufacturing stable has been the Burrup plant. This is an AN plant located in the Pilbara, WA in JV with Yara of Norway as operator. The plant has been poorly constructed and Yara is in the process of replacing every faulty part and therefore very little AN will be produced in FY19 (estimated ~$12m negative impact). The plant will be in commissioning phase during FY20, at which time cost to source AN externally will be progressively eliminated. While it is difficult for us to determine whether the fixes will be successful, our industry checks suggest that post remediation, the probability is in favour of a positive outcome.



Source: Orica Company Reports

Balance sheet

Orica has worked hard to improve the balance sheet during the recent downturn with net debt falling from $2.1bn in FY15 to $1.6bn in FY19E. Over this period, net debt/EBITDA has fallen from 2.0x to 1.7x FY19E. Therefore, Orica has the ability to invest in new technology and/or bolt on acquisitions which make sense as they arise. An example of this is the recently acquired leader in critical ground stability monitoring equipment GroundProbe, which is utilised on mine sites for improved productivity and safety. Post the tragic Vale mine disaster, the use of such critical equipment should accelerate.

Valuation

Orica is trading on a PE of 16.5x FY20, which is at a 15% discount to the Industrials ex Financials. While this discount is in line with its recent historical average, we note that during periods of cyclical upswings, the stock has previously traded more in line with the Industrials ex Financials and in some instances, at a slight premium. Our view is that if Orica can capitalise on the current commodities upswing, and begin to get some runs on the board, it should trade above its recent historical average.

Ooh! Media Limited (OML)

OML was a new addition to the portfolio this month. OML is an advertising company operating in all key segments of the out-of-home (OOH) market - Roadside, Retail, Airports, Commute and Locate. While we have not owned OML in the past, we understand the OOH advertising sector very well. We were the single largest shareholder with ~17% of the issued capital in APN Outdoor when it was taken over by JC Decaux for a very attractive and full price (12.5x EV/EBITDA).

Our investment rationale for OML is based on four key factors:

- Structural growth
- Industry consolidation
- Emerging operating leverage
- Very attractive valuation

Structural growth

The OOH market has been growing in the high single digit, low double digit range for the last 5 years. Declining audience in traditional alternative advertising mediums (newspapers, television), brand safety concerns for advertisers in the online arena and the digitisation of formerly static billboards have been the drivers of this rapid growth.

The structural tailwinds will remain in place for the medium term and more than compensate for any possible near term revenue softness associated with the broader advertising cycle and the Federal election campaign.

OOH advertising spend in Australia still only accounts for about 6% of the total advertising market compared to the international average of approximately 10%. Audiences in the OOH market should grow broadly in line with population growth, while traditional media platforms, especially television, will likely see ongoing structural audience declines. Advertising dollars traditionally follow the eyeballs.

Digitisation remains a large revenue growth opportunity. Ultimately, 1000-1200 of the Adshel boards will be digitised compared to around 350 today and revenue increases by 3-5 times when a board is digitised (but this comes with higher capex).

The existing digital fleet is yet to be optimised. Only 50% of digital inventory that is suitable for video advertisements is actually being used in that manner. Systems and infrastructure are being rolled out to enable digital OOH to be a more efficient and easier buy for advertisers, especially for campaigns put together on short notice.

Industry consolidation

OML's acquisition of Adshel coincided with JC Decaux's purchase of APN Outdoor. Two players now control the vast majority of the OOH market and the benefits should be two fold. Firstly, less competition for contracts with land-lords and secondly, more rational pricing for advertisers of a product that is increasingly essential in an advertising campaign.

Emerging operating leverage

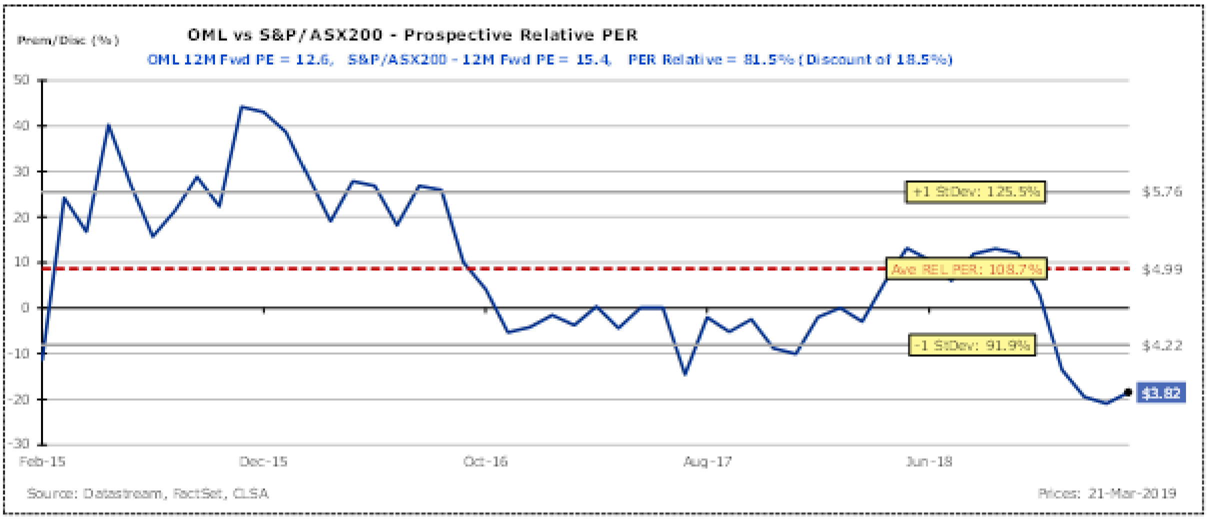
Underlying cost growth is moderating back towards CPI-like levels after years of investment in people and systems. The acquisition of street furniture business Adshel, in late 2018, will enable OML to extract at least $16m in cost synergies by FY20. Risk around lease renewal costs is improving as OML enters a 3-year window absent any marquee or material contract expires.

Very attractive valuation

The OML share price has come back ~30% over the last 6 months. Investors have been concerned about a slowing broader advertising market and needed to rebase earnings expectations for one large contract renewal in the acquired Adshel business (Brisbane City Council). Earnings guidance from the company for FY19 (EBITDA $152-162m) incorporates overall market softness around the Federal election and, in our view, looks readily achievable. We expect that OML can grow its EBITDA over the next 3 years at a CAGR of around 17% pa.

Given the attractive earnings growth profile outlined above, OML now looks extraordinarily cheap across a wide variety of metrics:

- Absolute earnings multiples - the 12.7x PE and 7.0x EV/EBITDA are circa 20% below historical levels
- Relative earnings multiples - a 20% discount to the market, whereas it has traditionally traded in line or slightly above the market
- Recent takeover multiples in the OOH sector in Australia - APN Outdoor was purchased by JC Decaux for 12.5x EV/EBITDA and Adshel was acquired by OML for 11x EV/EBITDA
- A comparison to global peers - offshore OOH media companies typically trade on an average PE of 20x and EV/EBITDA around 12x, ~50% higher than where OML trades today



You should expect us to continue to accumulate OML shares as this attractive growth story is currently totally mispriced by the market.

Flight Centre (FLT)

After peaking at $67.00, FLT sold-off meaningfully following the release of its FY18 results in August, losing 38% of its market capitalisation. The reaction has been primarily driven by market concern over the Australian leisure business (~40% of EBIT) and its exposure to the weakening consumer. Whilst some of the poor performance can be attributable to cyclical concerns, the market appears to be ignoring the material organisational changes management have undertaken in the last 18 months to position itself for sustainable future growth and the operational disruption this has had.

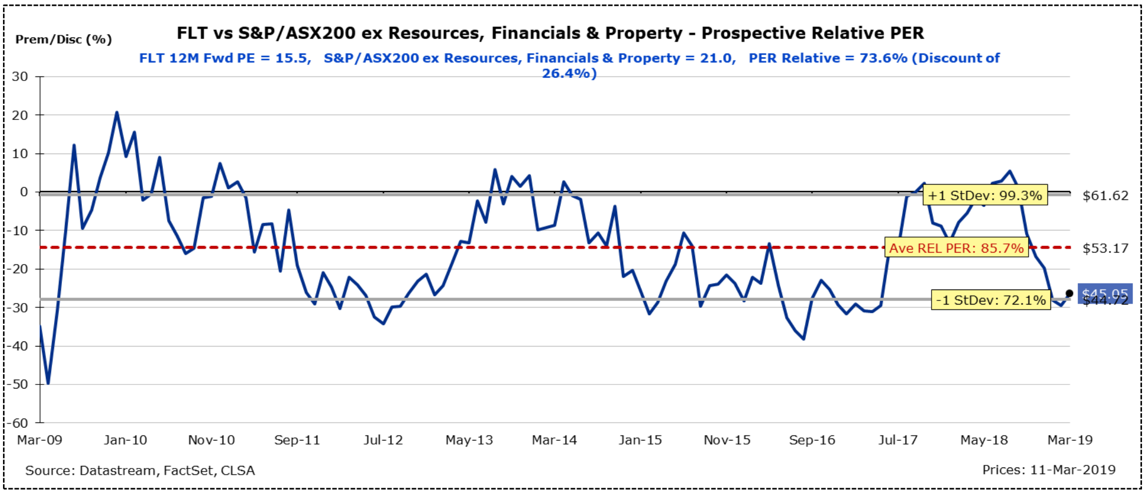
Over the last 18 months, FLT has re-hauled the ANZ leisure business from six brands to three and "right-sized" its physical footprint, resulting in fewer and better positioned stores, transitioned to a superior GDS system and renegotiated its Enterprise agreements. These transitory disruptions caused below optimal staffing levels as the firm paused hiring during training and a reduction in productivity as staff familiarised themselves with new systems. Pleasingly, management has announced initiatives to improve and stabilise margins in this business with a change to discounting policy, optimising product mix and a renewed commitment to cost control. This should see stabilisation in the ANZ leisure business into FY20.

More importantly in our view, the markets' focus on the ANZ leisure segment resulted in an underappreciation of the improving quality of Flight Centre's overall business as highlighted in the 1H19 financial results. FLT's earnings composition continues to improve through the successful growth of its corporate travel management operations, which now represents 50% of PBT. Corporate travel is a higher quality business than leisure, with long term contracts, greater clarity on volumes and a lower cost to serve. FLT's has also reduced its reliance on any one geographic region, with overseas operations now contributing > 50% of PBT 1H19.

Since entering the North American corporate business in 2009, FLT has grown Total Transaction Value and EBIT at 31% and 33% CAGR respectively. As of 1H19, the North American corporate business contributed 21% of EBIT to the group and grew at 244% in the latest half, with expectations it will grow 48% for the FY.

Despite solid client wins, FLT only represents <2% of the corporate travel market in North America, estimated at ~US$200bn in 2018. This growth has been through targeting and acquiring SME customers, however FLT is now one of four CTMs internationally that have a global presence, enabling them to compete for the business of much larger multi-nationals. At present, their biggest account is US$150m, but more recently, FLT have been invited to pitch for ticket sizes > US$500m. FLT has a very strong balance sheet, which is expected to be ~$285m net cash at FY19, with leverage standing at -0.6x Net Debt/EBITDA after announcing a special dividend of $150m, providing the company the ability to further capitalise on these overseas opportunities.

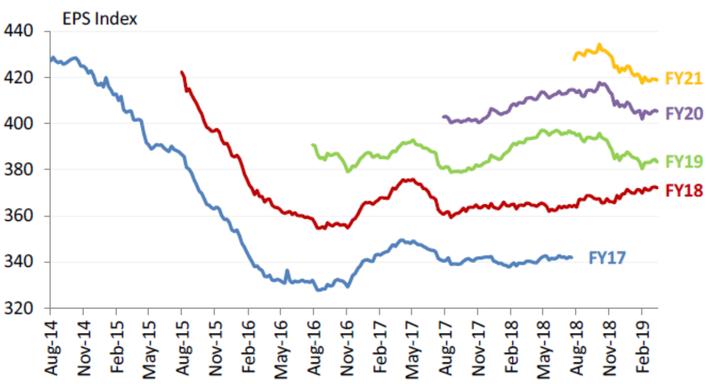
The momentum in the higher quality corporate business and focus on maintaining costs should enable FLT to deliver mid to high single digit EPS growth over the medium term. Yet FLT now trades on a relative PER multiple 1 STD below its 10-year average. Although there are few listed corporate travel companies, FLT's closest peer trades on a PER of 25x compared to 15x for FLT. We believe FLT offers both absolute and relative value at current levels, as it continues to grow share in the fragmented North American corporate travel market.



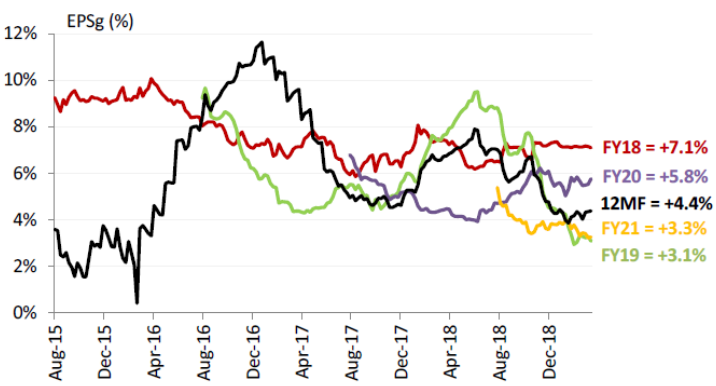
FUND STRATEGY AND OUTLOOK

We've articulated our concerns on the sustainability of earnings previously, in particular, slowing top line growth and higher input costs squeezing margins. This has in fact played out following the last Australian reporting season. The trend in annual consensus EPS revisions has again been negative, with aggregate consensus earnings per share growth for FY19 moving down even further in March, now sitting at +3.1%.

FY18-21 annual consensus EPS revisions trends – negative



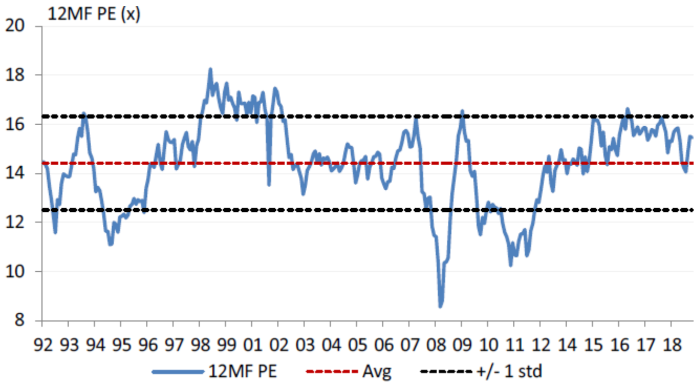
EPS expectations now revised down – FY19 at only +3.1%



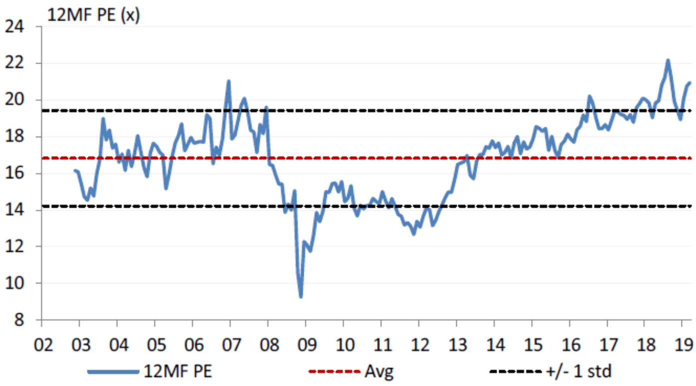
Source: RIMES, IBES, Morgan Stanley Research.

Despite a subdued earnings growth profile, the Australian equity market delivered very strong returns in 1Q19. Forward consensus multiples look somewhat stretched at **15.4x for the broader ASX 200 Index** and **20.9x for the Industrials ex-Financials, but supported by record low bond yields**.

ASX 200 PE: 15.4x



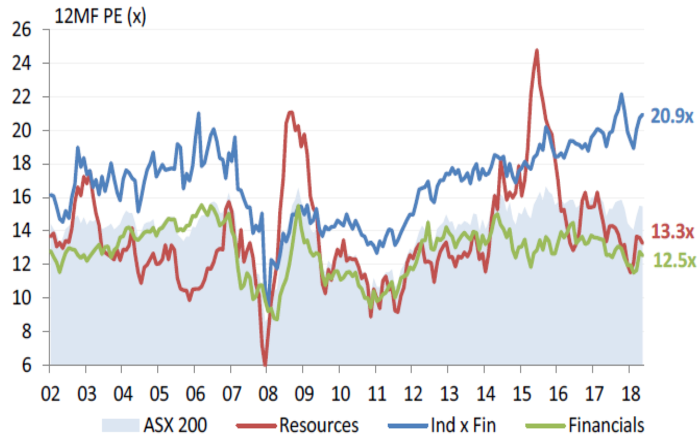
ASX 200 Industrials ex-Financials: 20.9x



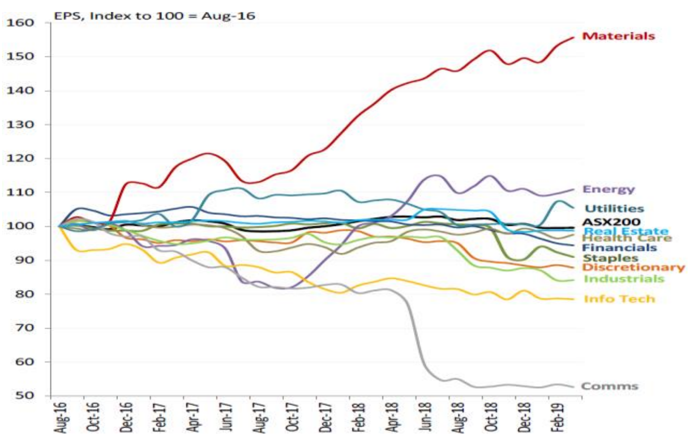
Source: RIMES, IBES, Morgan Stanley Research.

Following the rally in the Australian market in March and 1Q19, the Industrials ex-financials valuations are now almost back to previous highs. This re-rating is hard to justify without the commensurate earnings growth to match. It's also important to contextualise the PE re-rating for the Industrials, given most of the EPS revisions have been from the Materials sector, with other sectors lagging!

12-month forward PE



FY19 consensus EPS revision trends by sector



Source: RIMES, Morgan Stanley Research.

We'd like to recapitulate again the risks to investment markets. These include the negative effects of a trade war, slowing global growth (especially in China, where there are increasing concerns that the slowdown in their economy might be worse than initially feared) and growing fears of a European slow down. Domestically, the risks include the second-order effects of the macro drivers above, along with sharply slowing credit growth, an indebted consumer, fear of a harder economic landing and the uncertainty created by a pending Federal election this year.

It makes for a volatile investment environment in 2019 to continue. On the positive side, we would expect more capital management initiatives as surplus franking credits are cleared and the prospect of more M&A activity, especially from overseas players if the AUD weakens further.

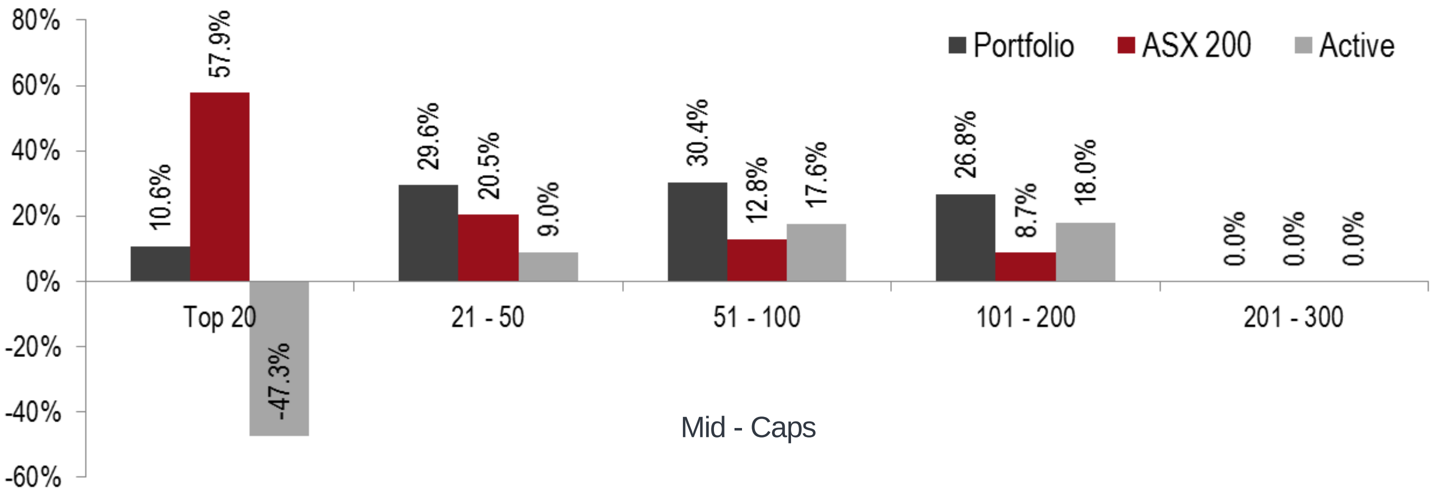
Warm Regards,

Chris Kourtis

Portfolio Manager

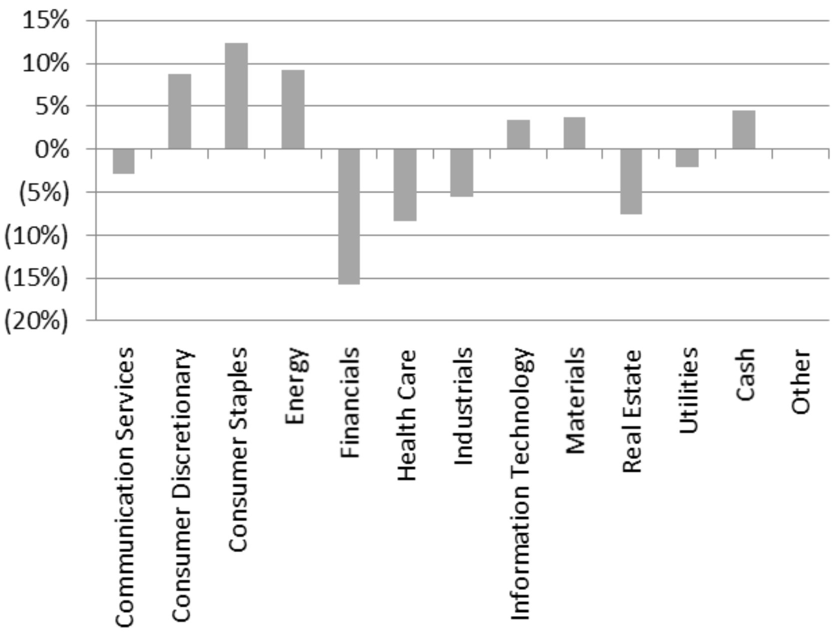
PORTFOLIO FEATURES

Size comparison Chart vs ASX 200^



^Size Comparison Data as at 2 April 2019
Source: Bloomberg, Ellerston Capital Limited

Active Sector Exposures*



Source: Ellerston Capital Limited

TOP 10 HOLDINGS**
ARISTOCRAT LEISURE
BLUESCOPE
COMPUTERSHARE
FLETCHER BUILDING
GRAINCORP
JB HI-FI
NUFARM
ORIGIN ENERGY
TREASURY WINE ESTATES
WOODSIDE PETROLEUM

* Active sector exposures are determined by subtracting fund sector weights from benchmark weights. Positive percentages represent over-weight sector exposures relative to benchmark and negative percentages represent under-weight sector exposures relative to the benchmark.

** Top 10 Holdings are listed in alphabetical order.

ABOUT THE ELLERSTON AUSTRALIAN SHARE 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.

FUND FACTS

STRATEGY FUNDS UNDER MANAGEMENT	$3.3 BILLION
FUNDS UNDER MANAGEMENT – ASF UNIT TRUST	$53 MILLION
APPLICATION PRICE	$0.9632
REDEMPTION PRICE	$0.9584
NUMBER OF STOCKS	21
INCEPTION DATE	1 APRIL 2009

Source: Ellerston Capital Limited

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