ELLERSTON CAPITAL

Ellerston Australian Market Neutral Fund

Performance Report | June 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	5.98	9.65	3.51	-7.95	-0.25	3.40	6.01
RBA Cash Rate	0.10	0.35	0.72	1.47	1.49	1.76	1.90
Alpha	5.88	9.30	2.79	-9.42	-1.74	1.64	4.11

Source: Ellerston Capital Limited

%	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD
2019	-0.92	-0.72	-4.03	3.28	0.17	5.98							3.51
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	64%	Net Equity Exposure	+24.1%
No. Relative Value positions	91	Gross Portfolio Exposure	205.2%
No. Special Situations	31	Correlation Coefficient (vs ASX 200 Accum)	6.38%
Beta Adjusted	1.6%	Net Sharpe Ratio (RFR = RBA Cash)	0.76

PERFORMANCE

The Fund returned +6.0% in June, outperforming the benchmark return of +0.1% in the period. The majority of the positive return was contributed by Relative Value, where a number of key paired positions experienced significant reversions during the month. Pleasingly, since modifying our pair universe in January, our strike rate for newly established pairs has been 83%, well above the since-inception rate of 75%.

Net exposure ended the month at +24.1% with a beta-adjusted net of +1.6%. We unwound a number of paired positions in June, with gross exposure reducing to 205.2% accordingly.

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	$199.3M
Liquidity	Daily
Application Price	$0.9786
Redemption Price	$0.9738
Management Fee	1.20%
Buy/Sell Spread	0.25%
Performance Fee	20% of outperformance
Firm AUM	Over $5 billion

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APIR Code: ECL0013AU

Despite weakness in the GBP/AUD cross rate, the spreads between the Australian and UK listings of BHP Billiton (+9.0%) and Rio Tinto (+3.4%) narrowed during the month and were strong contributors to performance. Both spreads had remained stubbornly high in recent months.

The Fund participated in the Growthpoint Properties (+0.8%) $150m placement in the month, the proceeds of which will be used to acquire a Sydney office building, and fund future development of office and industrial projects. The equity was issued at a 4.2% discount and offers a 6% distribution yield for the 2020 financial year. Growthpoint decided to raise equity via a placement to facilitate the introduction of new security holders onto its register, and accordingly, Growthpoint South Africa did not participate in the raise. A paired position between Growthpoint and Stockland contributed to the performance of the Fund in the month.

Centuria Capital (+16.8%) continued on from its rally in May with another strong monthly move, adding value to pairs where it was hedged with BWP Trust (+5.1%) and Aventus (+0.9%). The market reacted positively to the announcement that Jason Huljich would step into a joint CEO role alongside John McBain, and that Ross Lees has being promoted to head of funds management. We continue to see value in the Centuria funds management platform, and believe it remains attractively priced, especially when compared with market darling Charter Hall (+6.4%).

A paired position between insurance companies Insurance Australia Group (+8.0%) and Suncorp (+3.4%) detracted from performance in June. Following the resignation of the CEO in late May, Suncorp continues to underperform and now trades at a 23% discount to Insurance Australia Group, despite expectations of capital management.

Eleanor Retail Property Fund (+9.7%) was a strong contributor to performance during the month. The REIT owns a portfolio of retail shopping centres located in New South Wales, Queensland and Tasmania and has underperformed most of its peers over the past twelve months. Despite the rally in June, the REIT trades at a 16% discount to NTA, compared with Shopping Centres Australia (-2.7%) and Charter Hall Retail (+2.1%) which trade at a 11% and 7% premium to NTA respectively. The REIT's manager is progressing a strategic review of capital management options, the result of which is expected to be announced at or before the FY19 results in August.

The Nufarm Hybrids (-2.7%), detracted from the performance of the Fund with investors continuing to be spooked by negative press relating to glyphosate, the key chemical in popular herbicide Roundup. Bayer, the manufacturer of Roundup, has recently lost several lawsuits in the U.S which alleged that the potent herbicide causes cancer. Despite the negative press, and subsequent negative share price performance, Nufarm (+4.1%) screens attractive as a takeover target. Press speculation post month-end points to US private equity interest in Nufarm, and such parties may overlook the Roundup issue given the current depressed valuation. A formal takeover announcement or any improvement in Nufarm's balance sheet is positive for the hybrid security, and we remain comfortable with our shareholding.

MedTech SaaS company Volpara Health Technologies (-8.3%) was a positive contributor to performance after the Fund used an equity raise by the company to establish a long position. The capital raise will be used to fund the acquisition of unlisted MRS Systems, and accelerate Volpara's expansion in the US. The transaction is expected to give Volpara access to more than 2,000 US clinics, compared to the 400 that it operates in today. The equity raise was completed at $1.50 per share, a 19% discount to the prevailing share price at the time.

Agribusiness company GrainCorp (+3.2%) added value during June, following the withdrawal of the takeover proposal from Long-Term Asset Partners in May. During the period, Graincorp management updated shareholders on the planned demerger of the MaltCo business with chairman Graham Bradley announcing that he will be joining GrainCorp CEO Mark Palmquist at the demerged business.

Wind farm generator Infigen (+0.1%) made a positive contribution to the Fund in the month, on the back of a series of incrementally positive announcements. The recently acquired Smithfield Open Cycle Gas Turbine (OCGT) was re-rated from 109MW to 123MW by AEMO, strengthening their firming capacity and enabling higher levels of longer-dated supply contracts to be sold. In addition to the commencement of dividends as announced in May, Infigen is well progressed on its transformation from pure-play renewables generator to integrated energy market provider.

Our holding in telecommunication infrastructure operator Superloop Ltd (-12.7%) detracted from the Fund. While there was no new news during the month, the company cut its FY19 guidance after month end, due to contract delays for a significant commercial agreement. While the company faces some near term execution risk, particularly given its debt position, we believe the company's growth profile remains intact. In addition, asset-backed telecommunication businesses are currently highly attractive for acquisitive suitors, and we continue to see the company as a potential target.

Recently debuting on the ASX in May, Powerwrap Ltd (-24.3%) was a negative contributor in the period. Investment platform peers including HUB24 Ltd (-13.0%) and Netwealth Group Ltd (-15.8%) were cited in the press, suggesting further RBA interest rate cuts would result in account holders earning negative returns on their cash.

ACTIVITY

Relative Value – Gross Contribution +5.97%

A new pair involving Cromwell Property Group (+1.6%) was established after the company announced a $375m capital raise to help fund more than $1b worth of acquisition opportunities across Australia and Europe. The company also reaffirmed FY19 guidance of operating earnings of not less than 8c per security and distributions of 7.25cps. The long position was hedged with Stockland (-2.7%), which is facing cyclical issues within their residential business, and structural issues within their retail business.

A raid on the share register of Australian Unity Office Fund (+6.4%), provided an opportunity to sell our entire shareholding at a circa 6% premium to the prevailing market price. Following the raid, Charter Hall (+6.4%) and Abacus Property Group (+9.4%) made a joint, all-cash offer with the assets expected to be divided between the two if the takeover is successful. With the bid formalised, we re-established a (smaller) position within Special Situations, with the expectation that the fund will eventually be taken over.

Backed by private equity group Warburg Pincus, e-Shang Redwood sold their $135m stake in Centuria Industrial REIT (+1.5%) in an after-market trade at $3.02 per security, a 4.1% discount to the last close. The Fund took advance of the liquidity event to create a long position in Centuria Industrial, which was hedged with positions in Aventus (+0.9%) and Rural Funds Group (+4.3%).

To help fund existing and future acquisitions, National Storage REIT (+7.8%) conducted a capital raise of $175m during the period. The transactions took total acquisitions for the company in FY19 to 22, with a total consideration of $233m, and continues management's long-term strategy of consolidation in the highly-fragmented self-storage sector. The Fund participated in the equity raise, which was at a fixed price of $1.71 per share, and a 4.4% discount to the distribution-adjusted last close. Management reaffirmed FY19 EPS of 9.6 cents a share and FY20 EPS growth of over 4%.

The Fund also participated in the $850m GPT Group (+9.1%) capital raise, the proceeds of which will fund the acquisition of more than 100,000sqm of prime Sydney office space. GPT Group will take a 25% stake in the Darling Point 1 and 2 office complexes and Cockle Bay Wharf. The equity raise was completed at $6.07 a share, a 4.1% discount to the previous day's close. The company maintained its forecast distribution growth forecast of +4% and sees net gearing down to 21.7% following the equity raise and acquisitions.

Charter Hall Long Wale REIT (+3.5%) agreed to acquire two office properties and a 50 per cent stake in an industrial complex, and funded the acquisitions via a fully underwritten $180 million institutional placement at $4.74 a share. The REIT, which floated in late 2016, focuses on investing in assets with long lease expires, and owns 114 properties with a lease expiry profile of 12.5 years.

The Fund also participated in the Arvida Group Ltd (+7.3%) capital raise, hedging the exposure with Ryman Healthcare Ltd (+2.5%), another NZ-listed Retirement Village operator. Arvida, which trades on a consensus FY20 EV/EBITDA multiple of 13.4x, agreed to purchase several New Zealand Retirement Village assets that will immediately contribute to the bottom line and also provide future development potential. Whilst we appreciate that Ryman should trade at a premium to Arvida, we feel that an EV/EBITDA multiple of 22.5x is unjustified given its recent soft operating performance and rising debt.

Special Situations – Gross Contribution +0.13%

Financial technology company, Afterpay Touch Group (+3.8%) tapped markets for a $400m equity raise that included both new capital, as well as a secondary sell down from founders to US-based Tiger Management and Woodson Capital. The placement and sell down were priced via a bookbuild that was cleared at $23 a share, a 4.8% discount to the previous days close. It was a busy and volatile few days for the company, as AUSTRAC issued a notice requiring their subsidiary Afterpay, to appoint an AUSTRAC-authorised external auditor to carry out an audit in respect to its AML/CTF compliance. After an initial fall, the market appeared satisfied with management's response and, the stock rallied strongly into the end of the FY.

Sports gambling company PointsBet Holding (+22.5%) successfully listed on the ASX during the month, with the stock rallying strongly. PointsBet has been around since 2017, but entered the US sports gambling market in January when it opened an online sportsbook in New Jersey. The money raised in the IPO will help fund PointsBet's expansion plans, customer acquisition, platform development, and general marketing activities. We received a modest allocation in the IPO, which was heavily oversubscribed.

SECTOR ALLOCATION

Sector	Long Equity	Short Equity	Net Equity
Banks	0.0%	0.0%	0.0%
Div Financials	0.9%	0.0%	0.9%
Insurance	3.0%	-3.0%	0.0%
Regional Banks	0.0%	0.0%	0.0%
REITs	62.7%	-35.3%	27.4%
Financials	**66.6%**	**-38.3%**	**28.3%**
Builders	0.5%	0.0%	0.5%
Consumer Disc	1.7%	0.0%	1.7%
Consumer Staples	2.8%	0.0%	2.8%
Contractors	0.0%	0.0%	0.0%
Gaming	0.0%	0.0%	0.0%
General Industrials	4.0%	0.0%	4.0%
Health Care	6.9%	-2.0%	4.9%
Information Technology	0.0%	0.0%	0.0%
Infrastructure	0.0%	0.0%	0.0%
Materials	0.0%	0.0%	0.0%
Media	3.2%	-2.1%	1.2%
Telcos	0.0%	0.0%	0.0%
Utilities	2.9%	0.0%	2.9%
Industrials	**22.1%**	**-4.1%**	**18.1%**
Bulk Metals	20.2%	-19.7%	0.5%
Energy	0.0%	0.0%	0.0%
Gold	0.0%	0.0%	0.0%
Resources	**20.2%**	**-19.7%**	**0.5%**
Hedge	5.8%	-28.5%	-22.8%
Index	**5.8%**	**-28.5%**	**-22.8%**
Total	**114.6%**	**-90.6%**	**24.1%**

Source: Ellerston Capital Limited

MARKET COMMENTARY

Market Overview

Global equity markets rallied strongly in June, delivering their second best monthly gain in a decade, as major central banks signalled an easing bias. Developed Markets rose 6.6% and outperformed Emerging Markets by 0.3% (in US$ terms). The main geopolitical event at month's end was the G20 summit in Osaka. The summit concluded with news that US President Trump and Chinese President Xi agreed to a "ceasefire" in the trade war between their two countries. Markets which anticipated a conciliatory outcome, have interpreted this as good news and have continued to rally in early July. In June, bonds rallied sharply too, with US 10-year bond yields falling to 2.00% from 2.12%. Also of note was the continued strength in the iron ore price which was up another US$11/t to close the month at US$116.5/t.

USA

The S&P 500 Index and the Dow Jones Industrial Average Index were sharply higher in June, returning +7.1% (reaching a record high) and +7.3% respectively. The NASDAQ performed even better, +7.5%, with Uber Technologies raising US$8.1 billion in its IPO.

Key US economic activity indicators for May were mixed: manufacturing ISM missed, falling to 52.1 (consensus: 53.0, previous: 52.8), non-farm payrolls also missed, but composite non-manufacturing ISM beat expectations, rising to 56.9 (consensus: 55.4). An easing bias indicated by the Fed was enough to lift markets.

Europe

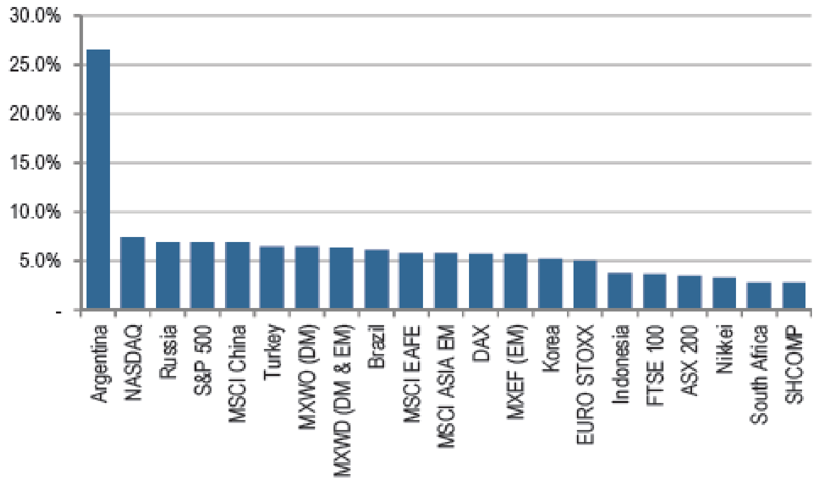
European equities also delivered positive returns, with the Euro Stoxx 50 rising 6.0% in June, led by the Basic Resources and Chemicals sectors. Leadership confusion continued in the UK post Theresa May's resignation, with Boris Johnson in a strong position to take over as the UK's next prime minister. The Europeans began to publically voice disagreements on who would steer the European Commission, the European Council and the ECB. Uncertain political leadership dovetailed with moderating activity indicators: the flash Eurozone manufacturing PMI for June came in at 47.8,misseing consensus expectations of 48.0.

But the ECB indicated that it was preparing fresh stimulus measures, buoying equity markets, with the FTSE 100 returning +4.0%, France's CAC 40 returning +6.8%, and Germany's DAX doing +5.7%

Asia

Asian equities also delivered very strong returns in the period. Chinese PMI held at 49.4, Chinese CPI came in at 2.7% (in line) and the May surplus of $41.7 billion beat consensus expectations of $22.3 billion. But it was the prospect of additional stimulus – the PBoC announcing further measures to boost the economy and the BoJ altering its bond buying – together with hopes of a resolution to the US-China trade that encouraged equity markets. Political tensions and riots in Hong Kong had no impact on the Hang Seng, with the Index rallying by 6.7%, while Japan's Nikkei 225 was up 3.5%, Korea's KOPSI Composite Index was up 4.4% and the Chinese SEE Total Market Index was up 5.6%.

Global Equity Markets' Performance in the month of June 2019

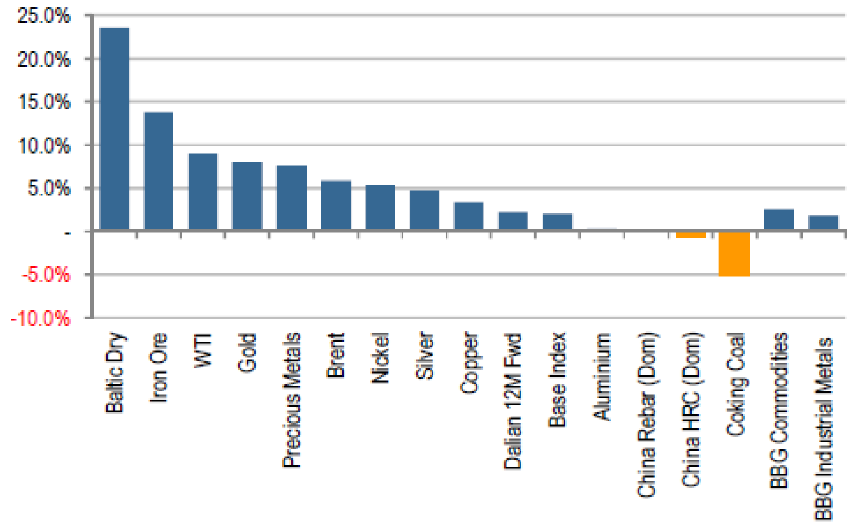


Source: JP Morgan, Bloomberg.

Commodities

Bulk commodities were mixed, but the outperformer was again iron ore, up US$11/t to US$116.5/t. While supply has been constrained due to the Vale disaster, in June, Brazil's Superior Court removed the suspension imposed by the Minas Gerais State Court on the Laranjeiras dam, Brucutu's main iron ore tailing facility. So Vale was allowed to restart wet processing capacity at Brucutu, a step-change to its full 30Mtpa (dry and wet processing). However, at the same time, Rio announced a cut to its calendar year 2019 shipment guidance by 4% from 333-343Mt to 320-333Mt on mine supply issues, squeezing iron ore prices higher. Thermal coal and hard coking coal both retraced in June, with coking coal the worst performing commodity, falling 5.1%. Brent oil prices rose US$2.06/bbl to US$66.55/bbl on a weaker US dollar and increased tensions between Iran and the US. And gold prices rallied 8% to US$1,409/oz during the month as concerns over global growth increased and record low interest rates reduced holding costs.

Commodity Performance in June 2019



Source: JP Morgan, Bloomberg.

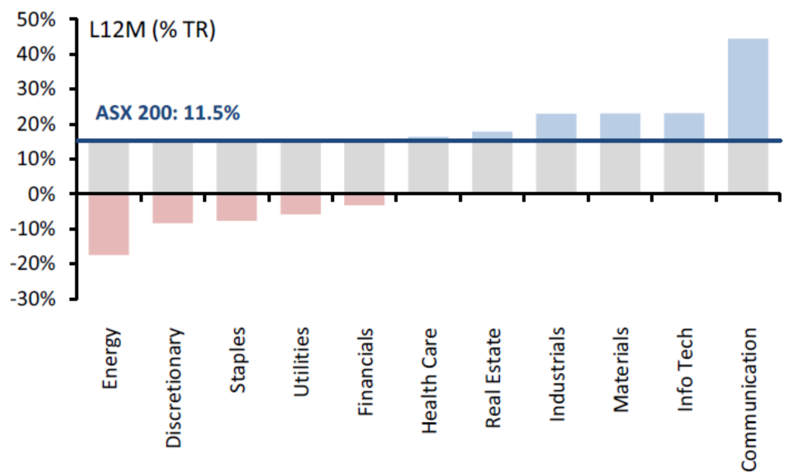
Bonds

Global growth concerns saw bonds rally in June with US 10-year bond yields falling to 2.00% and Australian 10-year bond yields down to 1.32%. Australian 10-year bond yields have now widened their gap to US 10-year bond yields. Expectations of further rate cuts to stimulate a flagging economy are pushing the yield curve lower.

Australia

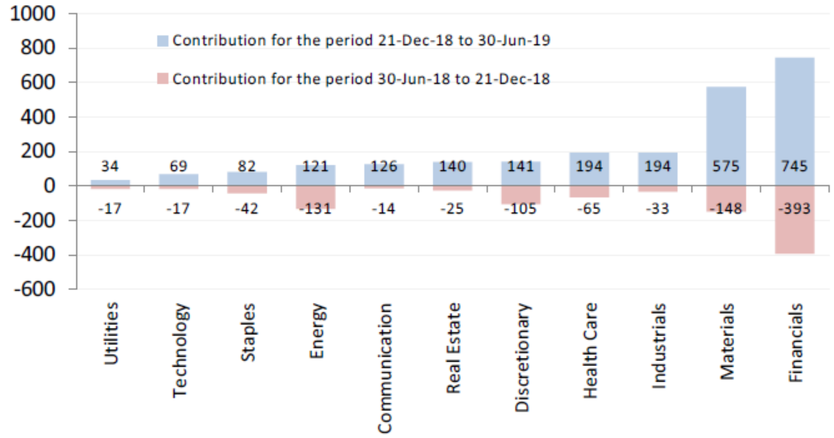
The S&P/ASX 200 Accumulation Index ended the month up 3.7%, capping off an impressive 1H return of +19.7%, the best since 1991 and closing within 2% of its all-time high of 6829 pts (set on Nov 1st, 2017). The market returned +11.6% for FY19 and has yielded 24% from the December 21, 2018 lows.

ASX 200 Sector Performance



Source: RIMES, S&P, Morgan Stanley Research

FY19 performance pre and post 21-Dec-2018 low – the ASX has rallied +24% from 21-Dec-2018 low



Source: Bloomberg, Morgan Stanley

For June, the best three performing sectors were Materials (+6.7%), Financials (+3.5%) and Industrials (+5.4%). The bottom three sectors were Consumer Discretionary (-1.5%), Information Technology (+1.0%) and Utilities (+3.2%).

In June, the Small Ordinaries Accumulation Index was the worst performer for the second month running despite a positive return of +0.9%, while the ASX 200 Resources Accumulation Index was the best performer, up 6.4%. The ASX 200 Industrials Accumulation Index returned a solid +3.0%.

The top five stocks that detracted from the performance of the S&P/ASX 200 Accumulation Index were Wesfarmers (-5 points), Vocus Group (-5 points), Challenger (-5 points), Lendlease (-5 points) and South32 (-4 points).

The top five stocks that added to the positive index return were BHP Group (+58 points), Commonwealth Bank of Australia (+45 points), CSL (+25 points), Newcrest Mining (+21 points) and Westpac Banking Corporation (+19 points).

While business confidence bounced in May after the surprise re-election of the Coalition government, 1Q GDP data showed that the economy grew at a listless 0.4% on the back of weak domestic demand. The annual growth rate of GDP dropped to 1.8% from 2.4%, the lowest since the negative effects of the GFC in 2009.

After holding rates steady for three years, the RBA cut the cash rate to a historic low of 1.25% in June. The RBA claimed that it took the decision to support employment growth and provide confidence that inflation will be consistent with its medium-term target. The consensus expectation is for further rate cuts in the coming months. Following its meeting on 2nd of July (at the time of writing), the RBA cut cash rates by another 25 basis points to 1.00%. The RBA's July statement said: the easing of monetary policy will support employment growth and provide greater confidence that inflation will be consistent with the medium-term target. The statement also noted that global financial conditions remain accommodative, but "consumption growth remains subdued", and "demand for credit by investors continues to be subdued".

The AUD was up against the USD but was among the weakest "risk on" currencies, underperforming the Canadian dollar, Norwegian Krone and New Zealand dollar. It ended the month at 0.7020 against the USD.

CONTRIBUTION

Relative Value Gross Contribution +5.97%			
Positive		**Negative**	
BWP TRUST - CENTURIA CAPITAL	0.73%	GROWTHPOINT PROPERTIES - INGENIA COMMUNITIES GROUP	-0.51%
AVENTUS RETAIL PROPERTY FUND - CENTURIA CAPITAL	0.67%	INGENIA COMMUNITIES GROUP - NATIONAL STORAGE REIT	-0.19%
RIO TINTO - RIO TINTO	0.67%	CROMWELL PROPERTY GROUP - INVESTEC AUSTRALIA PROPERTY	-0.17%
GROWTHPOINT PROPERTIES - STOCKLAND	0.64%	CENTURIA INDUSTRIAL REIT - PEET	-0.09%
BHP BILLITON - BHP BILLITON	0.62%	INSURANCE AUSTRALIA GROUP - SUNCORP GROUP	-0.08%

Special Situations Gross Contribution +0.13%			
Positive		**Negative**	
ELANOR RETAIL PROPERTY FUND	0.56%	SUPERLOOP LTD	-0.46%
VOLPARA HEALTH TECHNOLOGIESS	0.27%	IMPEDIMED LTD	-0.37%
GRAINCORP LTD	0.17%	NUFARM HYBRID	-0.21%
INFIGEN ENERGY	0.13%	POWERWRAP LTD	-0.12%
AFTERPAY TOUCH	0.08%	PARADIGM BIOPHARMACEUTICALS	-0.06%

Source: Ellerston Capital Limited

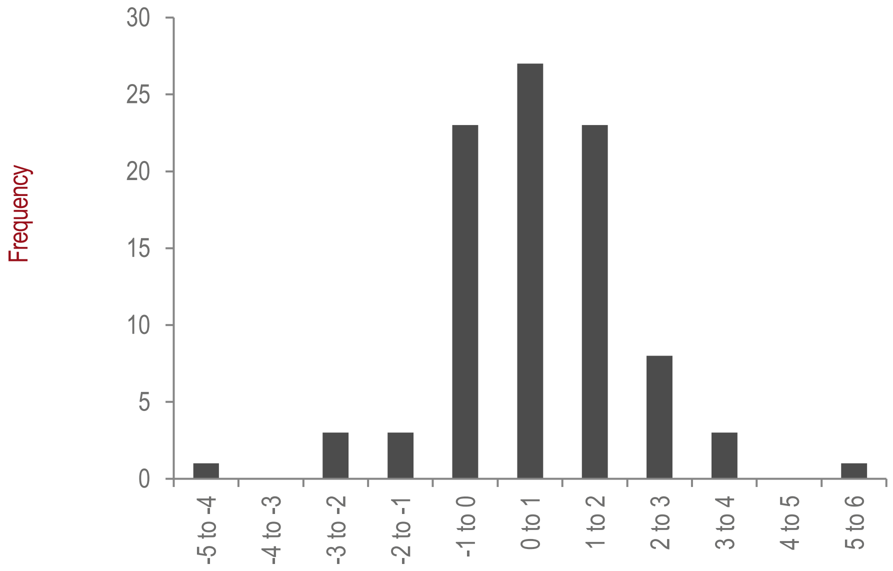
TOP 10 RELATIVE VALUE POSITIONS

- RIO TINTO - RIO TINTO
- BHP BILLITON - BHP BILLITON
- BWP TRUST - CARINDALE PROPERTY TRUST
- CENTURIA METROPOLITAN REIT - INGENIA COMMUNITIES GROUP
- BWP TRUST - CENTURIA CAPITAL
- APN INDUSTRIA REIT - INGENIA COMMUNITIES GROUP
- AVENTUS RETAIL PROPERTY FUND - CENTURIA CAPITAL
- AVENTUS RETAIL PROPERTY FUND - CENTURIA INDUSTRIAL REIT
- INSURANCE AUSTRALIA GROUP - SUNCORP GROUP
- CROMWELL PROPERTY GROUP - GPT GROUP

TOP 10 SPECIAL SITUATION POSITIONS

- JULY 19 PUT SPREADS ON AS51
- NUFARM FINANCE NZ LTD-NSS
- ELANOR RETAIL PROPERTY FUND
- SUPERLOOP LTD
- INFIGEN ENERGY
- PARADIGM BIOPHARMACEUTICALS
- SUNCORP GROUP NOTE
- AUSTRALIAN UNITY OFFICE FUND
- VILLAGE ROADSHOW LTD
- VOLPARA HEALTH TECHNOLOGIES

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

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.

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 or visit us at https://ellerstoncapital.com/

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

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