

Ellerston Low-Vol Income Strategy

Investment Update | June 19

PERFORMANCE

	1 Month	Since Inception (p.a)
NET	2.99	2.16
BENCHMARK*	3.70	5.47
EXCESS	-0.71	-3.31

FUND PERFORMANCE AND COMMENTARY

Despite the fund rising 2.99% over the month, it underperformed its benchmark by 71 bps, predominantly due to our underweight position in resources (BHP, Newcrest) and heavier cash position in a rising market. Collectively, BHP and Newcrest Mining detracted 55 bps of relative performance while cash detracted another 30 bps. On the positive side, our meaningful overweight in A-REITS added in excess of 70 bps to relative performance as the hunt for yield continued unabated following the recent interest rate cut in Australia. From a stock perspective, Goodman Group and Charter Hall were key relative performance drivers whilst our holdings in Boral Limited and Star Entertainment were key relative performance detractors.

PORTFOLIO ACTIVITY – MAJOR TRANSACTIONS

During the month we added to our Boral position on valuation grounds and an expectation that the State Governments will announce further stimulus programs focused on infrastructure in order to try and kick start the economy. Boral is well positioned to capitalise on this. We also reduced our heavy overweight exposure to A-REITS as valuations became increasingly stretched and the sector experienced a number of meaningful capital raisings. We exited our position in Dexu Group and Charter Hall and reduced our position in Mirvac Group. We believe that bond yields are likely to see a reversal from its downward trend in the short term as rate cut stimulation drives the long end of the yield curve (10 year bonds) higher. The valuation sensitivity to bond proxy companies, such as A-REITS, could be meaningful so it seems prudent to reduce our exposure. We also exited Viva Energy post the significant downgrade in earnings for Caltex (competitor) broadly due to continued refiner margin pressure. This has read through for Viva Energy given its own exposure to refining. Finally, we added Westpac Banking Group to the portfolio as the election of a Coalition Government, lower interest rates and easing of lending conditions by the regulator (APRA) for the banks should see an improvement in mortgage lending activity. Westpac is the second largest lender to households (mortgages) in Australia.

MARKETS AND MACRO NEWS

Global equity markets posted their second best monthly gain in the past decade, with the MSCI ACWI gaining 6.4%. This capped off a very strong half for global equity markets, with the MSCI ACWI rising 14.9%, the strongest since the first half of 1997. In Australia, the All Ordinaries Index enjoyed an impressive 1H, with its 17.2% gain the best since 1991. While the ASX 200 (+3.5%) lagged global indices in June, the index is still one of the strongest year to date, both in local currency terms (+17.2%) and USD (+16.7%). From a sector perspective, Materials (+6.3%) led the rally on firmer commodity prices whilst Communications (+2.5%) was the laggard post the large fall in the Vocus Group share price (-28.8%) following AGL Energy's decision to withdraw its bid for the company.

On the commodities front, iron ore prices continued their ascent, gaining 13.8% to end the month at US\$115.50/t. Ongoing supply issues in Brazil, coupled with strong Chinese steel demand continued to support prices. Also, Gold prices touched a 5 year high as the Federal Reserve shifted to a more dovish stance on

Investment Objective

The investment objective of the Ellerston Low Volatility Income Strategy Fund ("ELVIS" or "the Fund") is to provide investors with returns and income growth greater than the S&P/ASX 200 Accumulation Index over rolling 3-5 year periods.

Investment Strategy

The Fund is a fundamental, bottom up Australian equity strategy with a clear focus on delivering low volatility, sustainable income for investors through actively blending multiple, distinct dividend yield strategies throughout the market cycle.

Key Information

Strategy Inception Date	1 May 2019
Liquidity	Monthly
Portfolio Manager	Chris Hall
Investment Style	Low Volatility Income
Number of Stocks	34
Management Fee	0.70%
Buy/Sell Spread	0.25%/0.25%
Performance Fee	10.0%
Application Price	1.0242
Redemption Price	1.0190
Firm AUM	Over \$5B

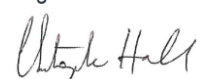
interest rates and geopolitical tensions (US/Iran) escalated through the month. Finally, oil recovered sharply (+5.9%) after a meaningful pullback in May, following a larger than expected inventory drawdown.

Australia saw the first RBA shift in monetary policy in 34 months, with our Central Bank cutting rates by 25 bps to 1.25%. This has been backed up again in the first week of July with the RBA cutting rates again by 25 bps, taking the cash rate to 1.00%. We expect further rate cuts to follow given the continued softness in the Australian economy. It is not unreasonable to see cash rates at 50 bps by June 2020.

CONCLUSION

The portfolio has rotated more into cyclical yield as the continued RBA rate cuts, coupled with tax cuts, should see an improvement in Consumer Discretionary and Material company profitability. The beta of the fund (a measure of volatility) has moved marginally higher as a result of this but still sits comfortably at 0.85 vs a market beta of 1.00. The expected dividend growth rate of investee companies held within the portfolio is comfortably above that of the market, at 3.8% vs -2.0%. The expected dividend yield of investee companies held within the portfolio is currently 3.8%.

Regards



Chris Hall

Portfolio Manager, CIO

TOP 10 HOLDINGS

Top 10 holdings as at 30 June 2019	Sector	%
Westpac Banking Corporation	Financials	7.81
CSL Limited	Health Care	7.63
Macquarie Group Limited	Financials	5.87
Goodman Group	Real Estate	5.21
Sonic Healthcare Limited	Health Care	4.96
Aristocrat Leisure Limited	Consumer Discretionary	4.83
Woodside Petroleum Ltd	Energy	4.53
Boral Limited	Materials	4.44
Mirvac Group	Real Estate	4.30
Suncorp Group Limited	Financials	3.16

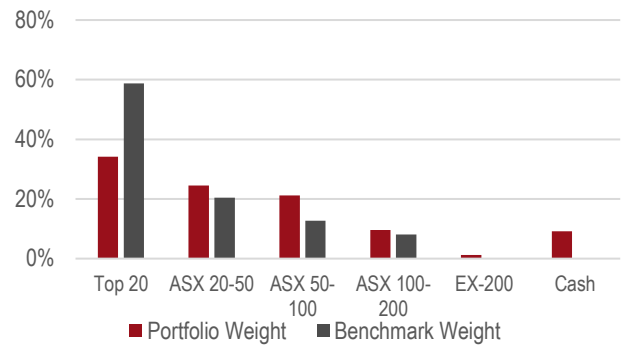
KEY PORTFOLIO METRICS

FY20(E)	FUND	BENCHMARK
PRICE/EARNINGS (X)	17.9	16.4
DIVIDEND YIELD (%)	3.8	4.3
DIVIDEND GROWTH RATE (%)	3.8	-2.0
BETA*	0.85	1.00

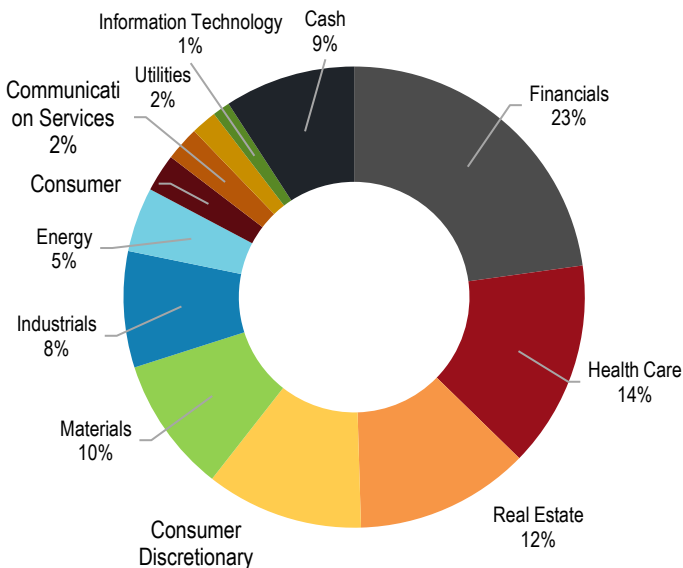
Source: Ellerston Capital

*Source: Bloomberg

MARKET CAPITALISATION

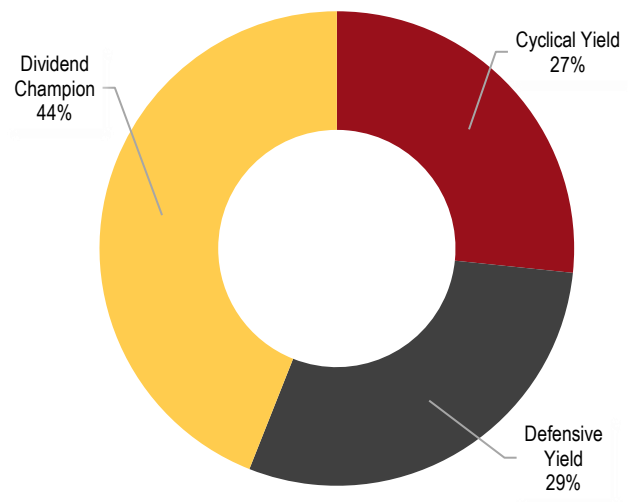


SECTOR EXPOSURE



Source: Ellerston Capital

PORTFOLIO YIELD EXPOSURE



Source: Ellerston Capital

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/**

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