

# Ellerston Global Equity Managers Fund (GEMS)

Performance Report | June 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 C	-1.05	1.18	-14.82	2.70	9.69	9.70

Past performance is not a reliable indicator of future performance.

## 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, missing 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 KOSPI Composite Index was up 4.4% and the Chinese SEE Total Market Index was up 5.6%.

### Investment Objective

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

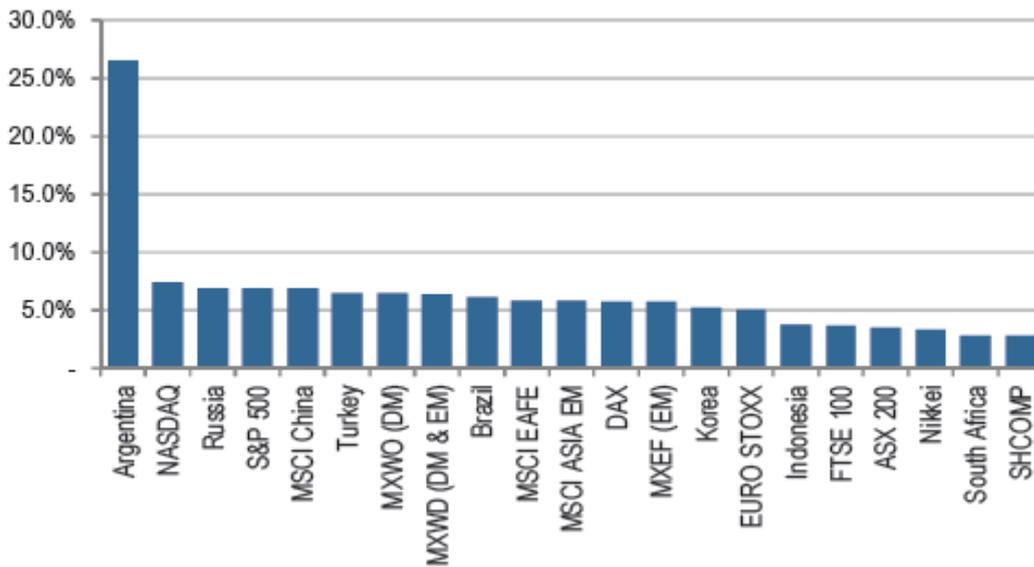
### Investment Strategy

- Global long/short equity
- Overlays fundamental stock selection with macroeconomic outlook
- Bias towards Australia

### Key Information

Strategy Inception Date	1 December 2009
Fund Net Asset Value	A\$148.2M
Liquidity	Monthly
Application Price	A\$ 1.4458
Redemption Price	A\$ 1.4386
No. Stocks	70
Gross Exposure	120%
Net Exposure	78%
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 the month of June 2019

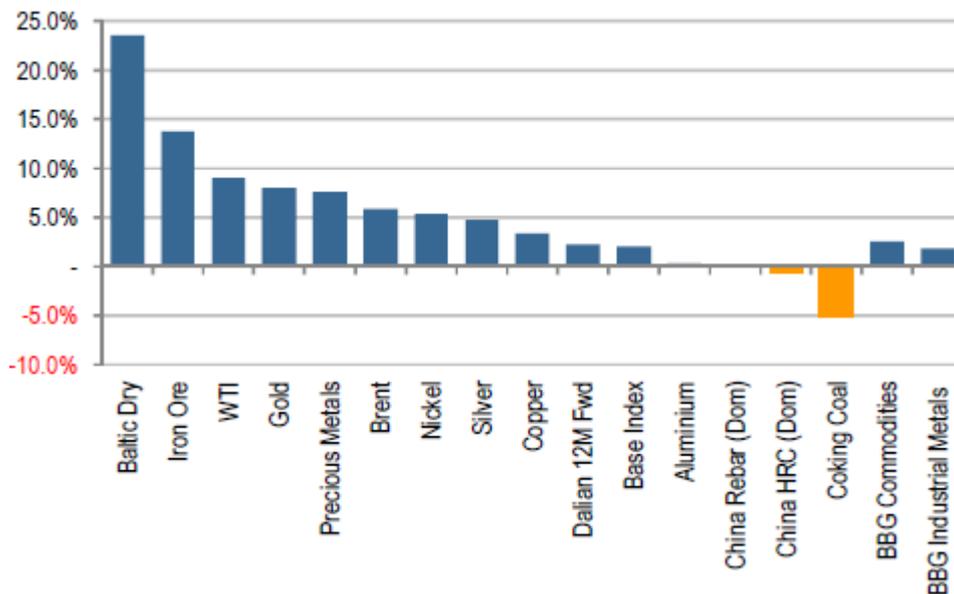


Source: JP Morgan, Bloomberg.

### 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.

Globally in excess of \$13 trillion of Government Bonds now trade with a negative yield. 14 Euro denominated junk bonds now trade with a negative yield. Investors are effectively paying these Governments and non-investment grade companies to look after their cash. Extraordinary!

## Australia

The S&P/ASX 200 Accumulation Index ended the month up 3.7%, closing within 2% of its all-time high of 6829 pts (set on Nov 1st, 2017). The market returned +11.6% for FY19.

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.

## OUTLOOK AND PORTFOLIO COMMENTARY

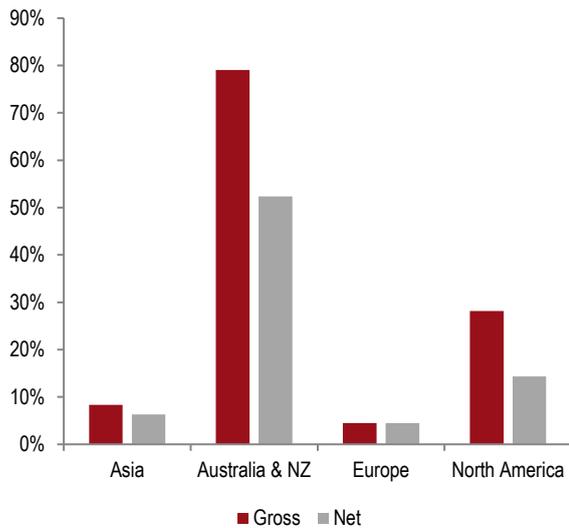
The portfolio declined during the month of June as strong gains in our gold holdings were offset by declines in smaller capitalised companies largely driven by broader market portfolio transitions as opposed to company specific news.

For the month of June the portfolio delivered a net return of -1.05%. The portfolio's long exposure at the end of June was 98.77% while short exposure was -21.28%.

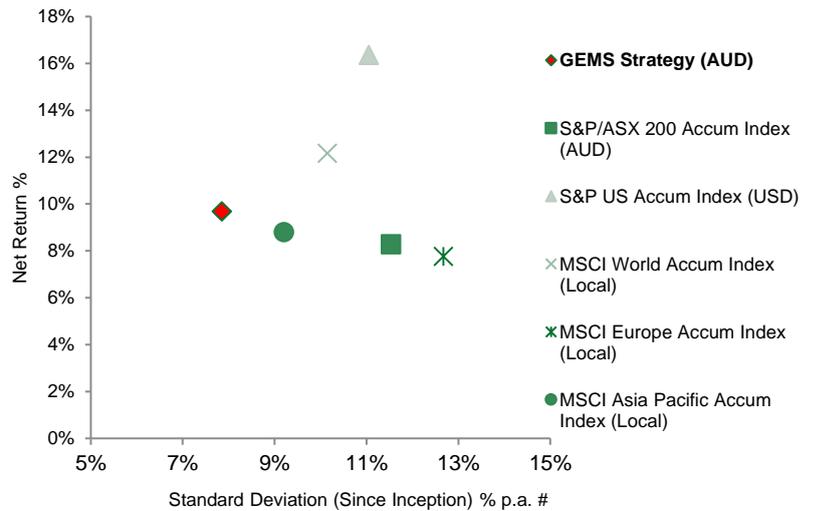
During the period contributors to performance included: **Graincorp** which having pulled back sharply over previous months saw some upward momentum as it continued to release details around the proposed spinoff of its malting business. **Gold exposure** driven by Newcrest, Evolution and the January 2020 call options over the US Gold ETF. During the month we also added a position in St Barbara. The Gold price rose by over US\$100/Ounce and broke through the critical US\$1,400 level for a gain of almost 8%. In a number of currencies, including the AUD gold traded at all-time highs. James Grant captured one of the key drivers of the current gold price in a recent article in Barrons - "**Scan the top 30 holdings of the Vanguard Total International Bond exchange-traded fund (ticker: BNDX). Twenty yield less than nothing**, including the Federal Republic of Germany 0s of April 2024, the Kingdom of Spain 1.95s of April 2026, and the Republic of France 0.50s of May 2026. **In other words, you earn a higher yield—an honest zero percent, with no counterparty risk—in gold bullion.**" James Grant - July 5, 2019 (Barrons)

Detractors from performance included: **Catapult, Clover and Lynas**. We have just started the Fiscal Year and Quarterly earnings seasons globally which should provide great insights into both macro and company specific performance and outlook as well as providing incremental and fresh investment opportunities.

### Market Exposure as a % of NAV



### GEMS Strategy Performance & Volatility <sup>^</sup>



### Top Holdings (Alphabetical, Long only)

- BP PLC
- CATAPULT GROUP
- CLOVER CORP
- EVOLUTION MINING
- GRAINCORP LIMITED
- MEDIBANK PRIVATE LIMITED
- MONEY3 CORP LIMITED
- NEWCREST MINING LIMITED
- NUANCE COMMUNICATIONS
- ORICA LIMITED

### 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 that would impact the Fund in terms of its risk profile, investment strategy or investment staff. 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.

## 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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<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 returns and risk of the Fund and the relevant Indices are net of taxes, fees and expenses and assuming distributions are reinvested. The performance figures presented are for the Ellerston Global Equity Managers Fund GEMS C 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.

<sup>#</sup> 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.