ELLERSTON CAPITAL

Ellerston Australian Market Neutral Fund

Performance Report | July 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	0.94	7.17	5.46	-4.42	-0.18	3.34	6.09
RBA Cash Rate	0.09	0.31	0.68	1.44	1.48	1.74	1.89
Alpha	0.85	6.85	4.78	-5.85	-1.66	1.61	4.20

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	0.94						4.49
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	65%	Net Equity Exposure	+24.7%
No. Relative Value positions	84	Gross Portfolio Exposure	183.2%
No. Special Situations	33	Correlation Coefficient (vs ASX 200 Accum)	6.62%
Beta Adjusted	6.8%	Net Sharpe Ratio (RFR = RBA Cash)	0.78

PERFORMANCE

The Fund produced a net return of +0.9% in July, outperforming the benchmark return of +0.1% in the period. The positive return saw strong contributions from both Special Situations (+0.7% gross) and Relative Value (+0.4%), with the Fund benefiting from continued activity in both primary and secondary issuance.

Net exposure ended the month at +24.7%, with beta-adjusted net at +6.8% and gross exposure at 183.2%.

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	$193.9M
Liquidity	Daily
Application Price	$0.9857
Redemption Price	$0.9807
Management Fee	1.20%
Buy/Sell Spread	0.25%
Performance Fee	20% of outperformance
Firm AUM	Over $5 billion

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The recently established pair between NZ retirement village operators Arvida (+2.0%) and Ryman (+9.8%) detracted from performance in the month, with the market seemingly slow in digesting the recent Arvida capital raise. Ryman continued its recent share price strength on the back of a broker upgrade along with approval from the Overseas Investment Office to buy 5 hectares of land in Christchurch to build a new retirement village.

Abacus Property Group (+1.2%) added to the slew of REIT raisings this year when it placed $275m worth of new shares to institutional and retail investors. Proceeds will be used to pursue more than $710m of new investment opportunities focusing on office and self-storage assets - both in line with the group's redefined investment mandate. The Fund participated in the equity raise which was completed at $3.95 a share, a 7.5% discount to the previous closing price. The new exposure was hedged with positions in BWP Trust (+2.2%), Growthpoint Properties (+6.6%) and Stockland (+9.6%). The market responded positively to the capital raise and revised management guidance (FY20 distribution per share growth of 2%-3%) and each of the pairs were positive contributors in the period.

Following a period of underperformance, QMS Media (+18.8%) rallied strongly in July, after consent was granted by the NZ Overseas Investment Office (OIO) to allow QMS NZ to merge with MediaWorks NZ. The two companies will work towards finalising the merger over the next 4-6 weeks, with the combined entity expected to become the largest multi-media advertising group in New Zealand. Paired positions featuring QMS Media hedged with Nine Entertainment (+7.7%) and Ooh!media (+14.6%) were both positive contributors to the Fund.

Theme park and cinema operator Village Roadshow (-6.0%) underperformed in the period, following a poorly received strategy update and the announcement of further changes to the composition of the board and management. Despite these issues, we continue to see value in Village with the stock trading at a FY19 EV/EBITDA multiple of 5.5x and a continued recovery in Gold Coast Theme Park margins. The recovery should be extended by a long-overdue reinvestment in Sea World, which had been deferred since the Dreamworld tragedy in 2017. A paired position with Event Hospitality (-0.4%) detracted from the Fund in the month.

After a period of muted share price performance, the Fund's patience with Ingenia Communities (+5.6%) was rewarded as the stock played catch-up with some of its listed peers. Early in the period, Ingenia announced the proposed acquisition of a funds management business called Eighth Gate Capital that manages circa $140m in assets across 6 funds and 10 parks. The acquisition will expand Ingenia's footprint and leverage the Group's established business operations, increasing lifestyle-income producing sites by 26%. We used the increased interest to partially unwind one of our paired positions.

The spread between the Australian and UK listing of BHP Billiton (-1.0%) widened during the month, detracting from the performance of the Fund.

News of a potential takeover from a US-based Private Equity fund caused a share price squeeze in Nufarm (+19%), which has one of the largest short positions (by ADV) on the ASX. The share price had previously been under pressure with the company recently downgrading its full-year EBITDA guidance from a range of $500–530m to $440–470m. We maintain exposure to Nufarm via the hybrid securities, which rallied 6.8% in the month, adding value to the Fund.

Superloop Ltd (-36.4%) was a negative contributor in July after the company announced that it had missed FY19 earnings expectations and withdrew its guidance for FY20. At June 30, Superloop had been in the final stages of a material one-off transaction, however the board was concerned that the proposed terms were not in the long-term interests of the company. Accordingly, they decided to decline accepting the terms, meaning that FY19 earnings would be missed. Despite the setback, the company continues to negotiate on the one-off transaction and we continue to believe in the long term strategic value of Superloop's assets.

We also participated in a liquidity event in Atomos (+33.5%), which conducted a primary capital raise in conjunction with a secondary share sell down during the month. Atomos is a video technology company that designs, develops and commercialises video monitor recorders. Proceeds of the raise are to be used to strengthen the balance sheet and support its strategy to expand further into the entertainment and social market segments. Our newly-acquired shareholding added value to the Fund in the period.

The Fund took up its rights in the non-renounceable entitlement offer for medical technology developer ImpediMed Ltd (+27.5%), which also added to performance in the month. The $13.9m raise was completed at $0.11 per share, with proceeds used to invest in medical trials and to progress commercial discussions with insurance providers. ImpediMed also released more detail on its lymphedema business, as well as issuing FY20 revenue guidance of $8.5m (vs $4.0m in FY19).

Powerwrap (-7.1%) detracted from the performance of the Fund, despite the company announcing that Funds Under Administration (FUA) had increased to a record $8.1b as at 30 June. Current FUA is $550m above the prospectus forecast, and we continue to see a strong pipeline of new business anchored by growth in wealth group Escala Partners, who are a significant supporter of the platform.

ACTIVITY

Relative Value – Gross Contribution +0.40%

We established a long position in Kiwi Property Group (+1.3%), hedging the exposure with a short in Property for Industry (+5.6%). We believe the difference in valuation between the two REITs is unjustified (Kiwi trades at a 12% premium to NTA, whereas Property trades at a 28% premium to NTA), and expect the spread to narrow in coming months.

An increase in intra-month volatility allowed the Fund to establish a long position in Shopping Centres Australasia (+2.1%), hedged with a short in Charter Hall Retail REIT (+3.4%). We continue to believe that Shopping Centres' management will effectively re-mix the properties acquired from Vicinity (+6.5%) earlier in the year, and that this will lead to more stabilised, long term cash-flows from these neighbourhood shopping centres.

A long position was established in Mirvac Group (+2.9%), hedged with a short in Stockland (+9.6%) during the month. Following the Coalition victory in May, subsequent RBA rate cuts and changes to debt serviceability requirements, Stockland had outperformed Mirvac by almost 10%. Whist we agree that all these outcomes are positive for Stockland's residential business in the long term, we are increasingly concerned that land-lot settlements in FY19 and FY20 will be below market expectations. Give the residential market, and together with Stockland's struggling retail portfolio and the delayed sales process of the retirement village portfolio, we think that Mirvac represents better relative value.

Following a period of outperformance in the Investec Australia Property (+5.5%) share price, we unwound paired positions in which the REIT featured alongside Abacus Property Group (+1.2%) and Charter Hall Long Wale REIT (+3.6%).

A block sale in Unibail Rodamco Westfield (+3.0%) enabled the Fund to establish a shareholding at a modest discount, hedging the retail exposure with Charter Hall Retail REIT. While Unibail's shopping centres are not immune to the challenging retail environment, we expect them to be more resilient than others given their higher-than-average level of footfall. With Unibail trading at a significant discount to NTA, and a forecast FY19 dividend yield of 8.8%, we see the valuation as attractive, even in the context of some further 4.1b Euro of assets disposals over the next 4 years.

Special Situations – Gross Contribution +0.66%

The Fund participated in an equity raise for Carnarvon Petroleum (-31.7%) with new shares issued at a modest discount to the prevailing share price. Proceeds from the placement will be used to fund the ongoing appraisal of the Dorado oil and gas field on Australia's North West Shelf. Recent results from the Dorado-2 appraisal well confirmed the presence of a major oil, gas and condensate resource, which has been independently evaluated as one of the largest discoveries in recent times.

Elders (+20.2%) announced it had entered into a scheme to acquire AIRR (Australian Independent Rural Retailers), a wholesale rural supply businesses. The acquisition will give Elders a major footprint in the wholesale supply of farm products, and will better position the company to compete against Nutrien post its recently announced takeover of Ruralco Holdings (+2.2%). To fund the $187m acquisition, Elders raised $137m via a 1 for 6.7 pro-rata accelerated non-renounceable entitlement and an institutional placement. The Fund participated in the equity raise which was completed at a 9.5% discount to the previous close. Elders management also reiterated FY19 EBIT guidance of between $72-$75m and NPAT between $61-64m.

Kalium Lakes (+4.4%) launched a well-anticipated $72m equity raise that completes the funding for the Beyondie potash project in Western Australia. The raise coincides with a $102 million credit approval from the KfW Ipex-Bank and $74m from the Northern Australia Infrastructure Facility (NAIF). Funds will primarily be used for construction of the sulphate of potash (SOP) project, as well as for general working capital. The company is expected to make its final investment decision during the quarter, with the development of the project commencing shortly after. We participated in the placement, with the new shares priced at $0.50, a 26.5% discount to the previous close.

SECTOR ALLOCATION

Sector	Long Equity	Short Equity	Net Equity
Banks	0.0%	0.0%	0.0%
Div Financials	0.8%	0.0%	0.8%
Insurance	3.7%	-3.7%	0.0%
Regional Banks	0.0%	0.0%	0.0%
REITs	43.5%	-40.8%	2.7%
Financials	**48.0%**	**-44.6%**	**3.4%**
Builders	0.0%	0.0%	0.0%
Consumer Disc	5.9%	-0.1%	5.8%
Consumer Staples	2.5%	0.0%	2.5%
Contractors	0.0%	0.0%	0.0%
Gaming	0.0%	0.0%	0.0%
General Industrials	5.2%	-0.6%	4.6%
Health Care	6.6%	-2.0%	4.6%
Information Technology	0.0%	0.0%	0.0%
Infrastructure	0.0%	0.0%	0.0%
Materials	3.5%	0.0%	3.5%
Media	4.7%	-4.0%	0.7%
Telcos	0.0%	0.0%	0.0%
Utilities	3.6%	-2.1%	1.5%
Industrials	**28.5%**	**-8.8%**	**19.8%**
Bulk Metals	19.3%	-19.7%	-0.3%
Energy	1.5%	0.0%	1.5%
Gold	0.0%	0.0%	0.0%
Resources	**24.3%**	**-19.7%**	**4.7%**
Hedge	3.1%	-6.3%	-3.2%
Index	**3.1%**	**-6.3%**	**-3.2%**
Total	**103.9%**	**-79.2%**	**24.7%**

Source: Ellerston Capital Limited

MARKET COMMENTARY

Market Overview

Global equity markets were mixed in July, but Developed Markets outperformed Emerging Markets by 2.1%. A surging US dollar was one of the key factors weighing on Emerging Markets' performance. Global growth concerns, easing monetary policy, renewed trade tensions between the US and China and heightened geopolitical issues in the Middle-East were front and centre and focused investors' attention.

USA

The S&P 500 Index and the Dow Jones Industrial Average Index continued to grind higher in July, returning +1.4% and +1.1% respectively. The NASDAQ rose further, with a return of +2.2% as tech stocks continued their march upwards. In July, approximately half of the S&P500 companies reported quarterly results, with just under 60% beating sales expectations and 78% beating earnings expectations – tech and utilities were the best performing sectors. Earnings were assisted by ongoing buy-back activity.

Economic data was broadly positive - manufacturing PMI came in at 50.6 versus 50.1 expected and payrolls data was stronger too. Despite the escalation of the trade frictions between the US and China towards month end and concerns over slowing growth, the US dollar rallied.

Europe

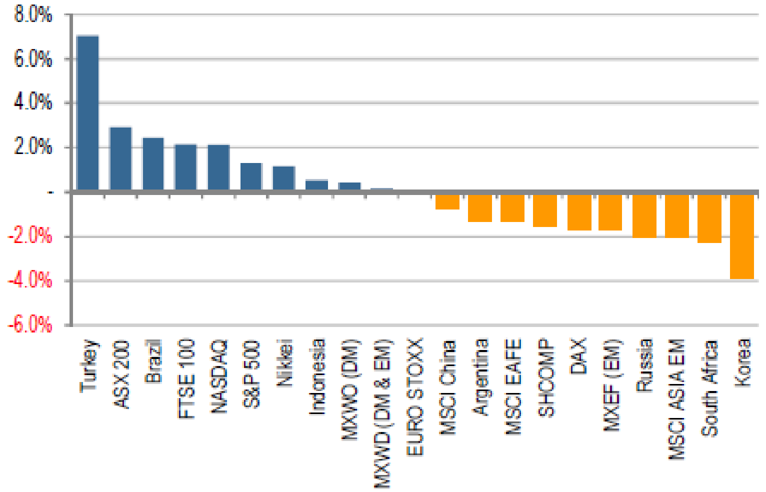
European equities were rather subdued, with the Euro Stoxx broadly flat in July (returning -0.1%), pulled down by poor performances from the Basic Materials and Oil and Gas sectors. Eurozone economic data was mixed, with unemployment slightly better than expectations, but retail sales were weaker.

The UK's FTSE 100 outperformed in July with a return of +2.2%, buoyed by early optimism from the election of Boris Johnson as the new Prime Minister, coupled with the fall in the GBP. France's CAC 40 returned -0.3% and Germany's DAX returned -1.7%, impacted by fears of slowing growth.

Asia

Asian equities mostly finished the month in the red, with concerns over the renewed trade tensions and a strengthening USD dampening investor enthusiasm. Of the major markets, only Japan's Nikkei 225 was in the black, posting a 1.2% gain. But Korea's KOPSI Composite Index was down almost 5%, the Hang Seng Index was down 2.3% (driven by ongoing civil unrest) and the Chinese SEE Total Market Index was down 0.3%.

Global Equity Markets' Performance in the month of July 2019

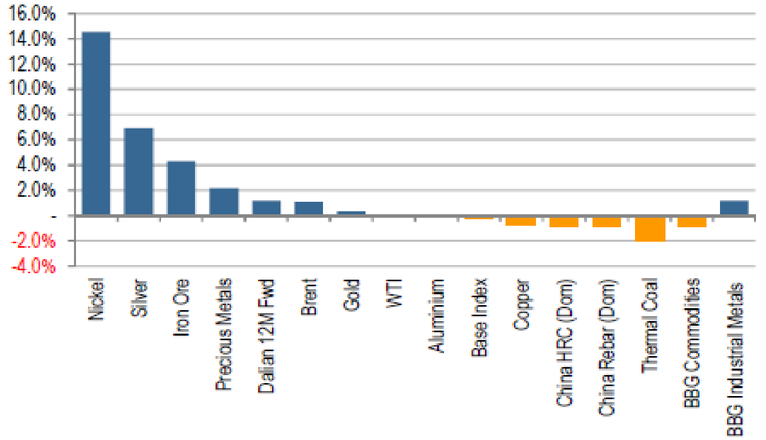


Source: JP Morgan, Bloomberg.

Commodities

Overall, the commodities index slipped in July. Iron Ore was the star performer in July, rising 4.3% to US$120/t. This was the eight consecutive month of gains! Other bulks were mixed with Coking Coal falling 8.2%. In base metals, Copper (-0.8%) had a negative month and has now declined by over 8% in the past 3 months. Also in the base metals complex, Alumina had a terrible month, falling 10.6%, but Nickel was up 14.5%. Escalating tensions in the Middle-East pushed Brent higher in July, up 1.1% to $65.05/bbl.

Commodity Performance in July 2019



Source: JP Morgan, Bloomberg.

Bonds

Continued worries over global growth saw bond yields fall further in July. US 10-year bond yields ended the month at 2.0%, falling by around 50 basis points since April. Economists expect the Fed to continue to cut official rates. In fact, in early August, the Fed cut interest rates by another 25 basis points, taking the US 10-year bond yield sharply below 2.0% at time of writing. In Australia, the RBA also cut official interest rates to 1.0%, sending the Australian 10-year bond yields to an all-time low of 1.19%.

Australia

The S&P/ASX 200 Accumulation Index ended the month up 2.9%, its 7th consecutive month of gains. This index has now returned +23.3% in the calendar year to date, and broke through its previous all-time high of 6829 pts set on November 1st 2007.

In July, the best three performing sectors in terms of their contribution to the index's performance were Financials (+1.7%), Consumer Staples (+9.8%) and Health Care (+5.9%). The bottom three sectors were Utilities (+1.9%), Energy (+1.7%) and Communication Services (+2.9%).

The Small Ordinaries Accumulation Index was the best performer in July (after taking the wooden spoon for the last two months) with a return of +4.5%, while the ASX 200 Resources Accumulation Index lagged, up 1.1%. The ASX 200 Industrials Accumulation Index returned a very credible +3.4%.

The top five stocks that detracted from the performance of the S&P/ASX 200 Accumulation Index were Rio Tinto (-10 points), Woodside Petroleum (-9 points), Fortescue Metals Group (-7 points), BHP Group (-6 points) and AMP (-6 points).

The top five stocks that added to the positive index return were CSL (+37 points), National Australia Bank (+28 points), Wesfarmers (+20 points), Woolworths Group (+18 points) and Newcrest Mining (+16 points). The best performing stocks for the month were in the gold sector, namely Resolute Mining (+32.9%), followed closely by St Barbara (+25.9%), as the A$ bullion price hit a record level.

After holding rates steady for three years, the RBA which cut the cash rate to 1.25% in June, followed that with a further 25 basis cut in July, taking the cash rate to a historic low of 1.00%. Business confidence gave up most of its post-election bounce in June, falling from +7 to +2. Towards the end of the month, RBA Governor Lowe delivered a fairly dovish speech, indicating that the RBA was ready to ease rates further if necessary. The Australian dollar ended the month 2.5% lower against the US dollar at 0.68 cents.

CONTRIBUTION

Relative Value Gross Contribution +0.40%			
Positive		**Negative**	
ABACUS PROPERTY GROUP - BWP TRUST	0.46%	EVENT HOSPITALITY AND ENTERTAINMENT LTD - VILLAGE ROADSHOW	-0.29%
NINE ENTERTAINMENT CO HOLDIN - QMS MEDIA	0.25%	BHP BILLITON - BHP BILLITON	-0.22%
OOH!MEDIA - QMS MEDIA	0.23%	ARVIDA GROUP LTD - RYMAN HEALTHCARE LTD	-0.15%
APN INDUSTRIA REIT - INGENIA COMMUNITIES GROUP	0.21%	INSURANCE AUSTRALIA GROUP - SUNCORP GROUP	-0.15%
AVENTUS RETAIL PROPERTY FUND - CENTURIA CAPITAL	0.18%	RURAL FUNDS GROUP - VITALHARVEST FREEHOLD TRUST	-0.14%
Special Situations Gross Contribution +0.66%			
Positive		**Negative**	
NUFARM HYBRID	0.59%	SUPERLOOP LTD	-1.40%
IMPEDIMED LTD	0.48%	INFIGEN ENERGY	-0.06%
KALIUM LAKES LTD - PLACEMENT	0.38%	POWERWRAP LTD	-0.06%
ATOMOS GLOBAL LTD	0.34%	VOLPARA HEALTH TECHNOLOGIESS	-0.03%
PARADIGM BIOPHARMACEUTICALS	0.23%	ELANOR RETAIL PROPERTY FUND	-0.02%

Source: Ellerston Capital Limited

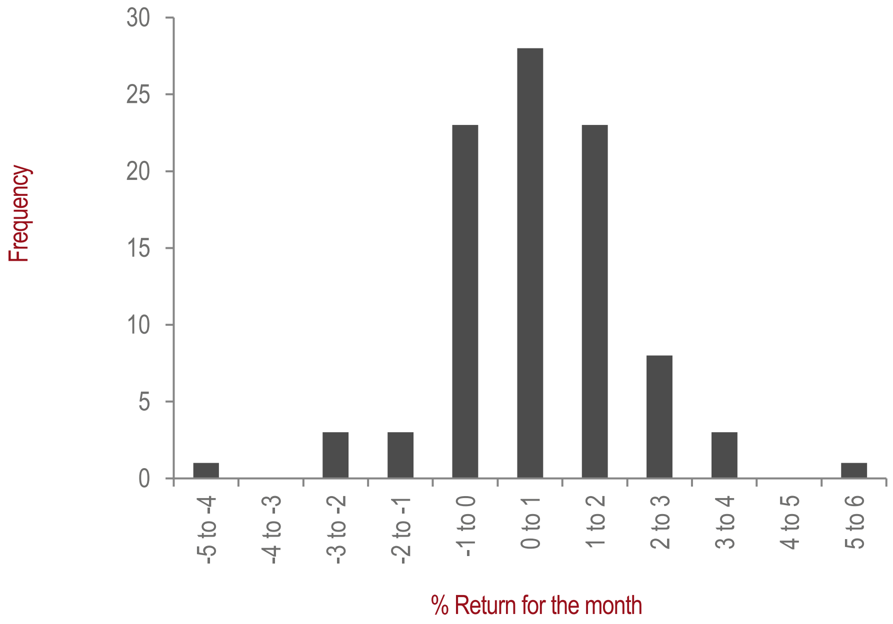
TOP 10 RELATIVE VALUE POSITIONS

- BHP BILLITON - BHP BILLITON
- RIO TINTO - RIO TINTO
- BWP TRUST - CARINDALE PROPERTY TRUST
- CENTURIA METROPOLITAN REIT - ELANOR RETAIL PROPERTY FUND
- INSURANCE AUSTRALIA GROUP - SUNCORP GROUP
- CROMWELL PROPERTY GROUP - STOCKLAND
- AVENTUS RETAIL PROPERTY FUND - CENTURIA CAPITAL
- AVENTUS RETAIL PROPERTY FUND - CENTURIA INDUSTRIAL REIT
- CENTURIA INDUSTRIAL REIT - CHARTER HALL LONG WALE REIT
- APN INDUSTRIA REIT - GDI PROPERTY GROUP

TOP 10 SPECIAL SITUATION POSITIONS

- PUT SPREADS ON AS51
- NUFARM HYBRID
- KALIUM LAKES LTD - PLACEMENT
- SUPERLOOP LTD
- SUNCORP GROUP NOTE
- IMPEDIMED LTD
- CARNARVON PETROLEUM LTD
- RURALCO HOLDINGS LTD
- VOLPARA HEALTH TECHNOLOGIESS
- PARADIGM BIOPHARMACEUTICALS

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

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

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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