

Ellerston Low-Vol Income Strategy Fund

Performance Report | July 19

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year p.a.	Since Inception (p.a.)
Net [^]	3.22%	5.45%	-	-	-	5.45%
Benchmark*	2.94%	8.58%	-	-	-	8.58%
Alpha	0.28%	-3.13%	-	-	-	-3.13%

Source: Ellerston Capital

[^] The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

*S&P/ASX 200 Accumulation Index

COMMENTARY

Pleasingly, the Fund delivered a gross monthly return of 3.28%, outperforming its benchmark by 34 bps. The biggest contributors came from stocks not held in the portfolio, namely Commonwealth Bank, BHP, and ANZ Bank, which collectively added 80 bps of outperformance. The biggest contributors from stocks held in the portfolio were Treasury Wines and Resmed, which added 40 bps. On the negative side, the biggest detractors were Woodside Petroleum and National Bank, which erased 42 bps of active performance. From a sector perspective, consumer staples and materials were meaningful portfolio performance drivers whilst energy and A-REITS weighed on performance following a constructive period.

During the month we participated in the Abacus Property Group A\$250m capital raising to help fund their Australian Unity Office Fund stake purchase, their Sydney CBD office investment and further growth in the self-storage market. The capital raising was done at \$3.95 per share, a 16.5% premium to pro-forma NTA. The deal was close to 2% NTA accretive, with the company setting FY20 distribution per share growth of 2-3% and raising the payout ratio from 85% to 95%. We also added Resmed Incorporated to the portfolio pre Q4 result on expectations of a better than expected earnings outlook from its core sleeping franchise. This expectation came through, with Resmed's result beating market expectations by 6% on better sales and lower SG&A costs. We also increased our position in Orora (packaging company) on expectations of a solid result and low earnings and dividend risk profile in this challenging economic environment. Finally, we exited our position in Star Entertainment due to a continued deterioration of operating conditions from the subdued economic environment. This proved to be the right decision given the subsequent share price weakness post our sale.

The ASX 200 finally recovered to its pre GFC high, with the index crossing the mark on 30th July, 2019. The index rose 2.94% over the month resulting in its 7th straight month of gains. CY19 market gains on a total return basis are 23.2% as at end of July, with the rally being broad-based but Financials and Materials being the largest contributors. The Industrials ex financial sector is trading at a PE ratio of 23.5x. This is over 2x standard deviations above the market's long term average. As we move into August, the reporting season will be a critical test for the earnings pulse in Australia. While market valuations are stretched, it is likely to remain supported in the near term by the RBA's interest rate outlook narrative of "lower for longer".

The Reserve Bank of Australia reduced interest rates again by 25 bps, taking the cash rate to 1.00% as Australian economic data continues to soften. In Australia, post the RBA rate cut, Australian 10-year bond yields fell to an all-time low of 1.19%. Towards the end of the month, the RBA Governor (Phillip Lowe) delivered a dovish speech, indicating the RBA was ready to ease interest rates further if necessary. We expect further rate cuts to follow given the continued softness in the Australian economy. In the US, economic data releases were more positive. Manufacturing PMI came in at 50.6 versus 50.1 expected and payrolls data was better than expected as well. Despite the escalation of trade frictions between the US and China towards month end, and concerns over slowing growth, the USD rallied. 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.

Finally, the commodities Index slipped in July but iron ore moved against the trend, rising 4.3% to US\$120/t. This was the eighth consecutive month of gains but we expect this price to pull back in the near term as more supply comes on stream from China and Vale.

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	1 May 2019
Portfolio Manager	Chris Hall
Application Price	\$1.0563
Net Asset Value	\$1.0537
Redemption Price	\$1.0511
Liquidity	Monthly
No Stocks	34
Management Fee	0.70%
Performance Fee	10%
Buy/Sell Spread	0.25%/0.25%
Fund FUM	\$3.7 Million
Firm FUM	Over \$5 Billion

The portfolio rotated more into cyclical yield in June and has maintained this position throughout July. Continued RBA rate cuts, coupled with tax cuts, should continue to see an improvement in Consumer Discretionary and Materials (ex resources) company profitability. The beta of the fund (a measure of volatility) maintained its level of 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 5.6% vs -2.1%. The expected dividend yield of investee companies held within the portfolio currently 3.8%.

Regards,
Chris Hall - Portfolio Manager, CIO

PORTFOLIO CHARACTERISTICS

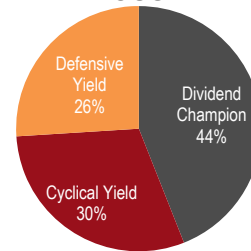
HOLDINGS

Top 10 holdings	Sector	%
CSL Limited	Health Care	7.9%
Westpac Banking Corporation	Financials	7.7%
Macquarie Group Limited	Financials	5.9%
Sonic Healthcare Limited	Health Care	5.0%
Aristocrat Leisure Limited	Consumer Discretionary	4.7%
Resmed Inc	Health Care	4.6%
Mirvac Group	Real Estate	4.3%
Woodside Petroleum Ltd	Energy	4.2%
ASX Limited	Financials	3.1%
Suncorp Group Limited	Financials	3.1%

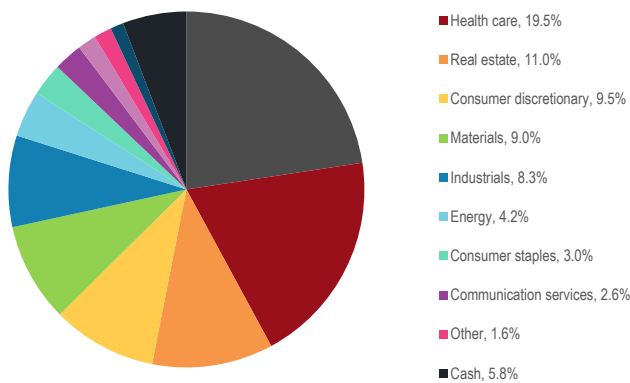
KEY PORTFOLIO METRICS

Fy20(E)	Fund	Benchmark
Price/Earnings (x)	18.40	16.00
Dividend Yield (%)	3.70	4.30
Dividend Growth rate (%)	6.80	-1.80
Beta*	0.86	1.00

PORTFOLIO YIELD EXPOSURE



SECTOR ALLOCATION



Source: Ellerston Capital

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

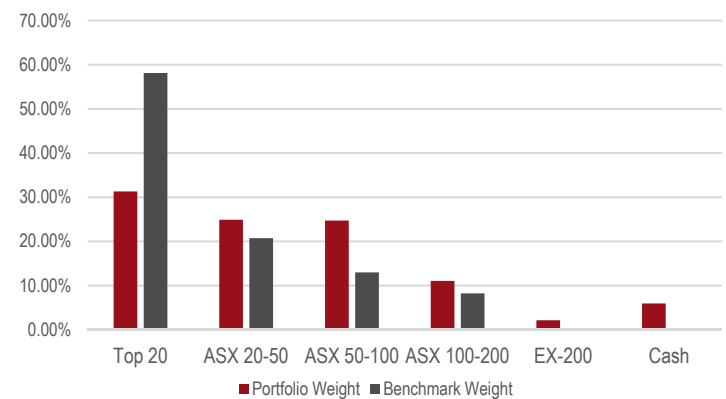
Should investors have any questions or queries regarding the fund, please contact our **Investor Relations team** on 02 9021 7797 or info@ellerstoncapital.com or visit us at <https://ellerstoncapital.com/>

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