

# Ellerston Low-Vol Income Strategy Fund

Performance Report | August 19

## PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year p.a.	Since Inception (p.a.)
Net <sup>^</sup>	0.60%	6.95%	-	-	-	6.08%
Benchmark*	-2.36%	4.23%	-	-	-	6.02%
Alpha	2.96%	2.72%	-	-	-	0.06%

Source: Ellerston Capital

<sup>^</sup> 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

The Australian market experienced one of its most disappointing results seasons in years, contributing to the ASX 200 Accumulation Index benchmark declining by 236 bps. Despite this, the low volatility structure of the Fund performed extremely well, outperforming its benchmark by 296 bps. A major reason for this outcome was the fact there were only two disappointing results from thirty companies in the portfolio that reported their June 2019 results. Key positive contributors to relative performance were Resmed, James Hardie Industries and Sonic Healthcare, who all reported results that exceeded market expectations thereby moving their share prices higher. Not owning BHP Group also contributed 60 bps of relative performance. On the negative side, Boral and Orora Limited posted disappointing results and outlook statements due to a further deterioration in product demand due to slowing economies. These two names collectively deducted 60 bps of relative performance.

During the month we disappointingly exited our Boral position following another poor result, especially out of the North America businesses and disheartening FY20 NPAT guidance (Some 15% below market expectations). This stock was originally included to capture a pickup in broader infrastructure spend but idiosyncratic factors continue to hurt their business. We also continued to reduce our heavy overweight exposure to A-REITS as valuations became increasingly stretched. This was done by further divestment of Mirvac Group. We still 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 continue to reduce our exposure into share price strength. We added Rio Tinto to the portfolio on valuation grounds following a sharp pull back in their share price on the back of a declining iron ore price, off around 30% from its recent peak. Rio Tinto continues to generate over A\$10.0 billion of free cash flow, which is flowing through to a higher, more sustainable dividend profile.

There were a number of capital raisings the fund participated in during the month. Specifically, these were in Macquarie Group, Steadfast Group and Tassal Group, which were all partly driven by business acquisitions that are positive for their earnings profile.

Global equities were weaker across the board in August, declining 2.6% on average. Emerging markets declined 5.1%, predominantly due to a stronger USD. Argentina's market slumped 50% after a shock election defeat for the President. Developed markets declined 2.2%, with the FTSE Index falling 5% on no Brexit deal fears. Bond yields across the globe continued to decline as investors position themselves for a slow growth environment. In the U.S, the 10 year Treasury yield closed the month at 1.5%.

Further intensification of the US-China trade war shows that the negative sentiment shock tied to geopolitical tensions is still rising. The PMI reports for the G3 counties suggest a weakening global economy. Interestingly, more than 70% of counties now have PMI readings below 50. This signals that the manufacturing activity slowdown is becoming more pronounced globally. China IP and FAI growth also disappointed, as did retail sales. Further policy support is seen as critical in order for growth to stabilise.

Australian 10 year bond yields dropped to another all time low of 0.89% on the back of continued, weak economic data. The NAB business survey for July showed capacity utilisation dropped sharply from 82.1% to 80.9%. NAB reports conditions in the retail sector to be very tough, not surprising given low wages growth and a period of softer housing prices.

The portfolio has continued its rotation 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. Globally, a fiscal stimulus program is likely to occur soon (including China), which will benefit resource stocks. The

### 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

<b>Strategy Inception</b>	1 May 2019
<b>Portfolio Manager</b>	Chris Hall
<b>Application Price</b>	\$1.0627
<b>Net Asset Value</b>	\$1.0600
<b>Redemption Price</b>	\$1.0574
<b>Liquidity</b>	Monthly
<b>No Stocks</b>	34
<b>Management Fee</b>	0.70%
<b>Performance Fee</b>	10%
<b>Buy/Sell Spread</b>	0.25%/0.25%

beta of the fund (a measure of volatility) has moved marginally higher as a result of this but still sits comfortably at 0.87 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 6.0% vs -2.1% for the ASX 200. The expected dividend yield of investee companies held within the portfolio is currently 3.75%.

Regards,  
Chris Hall - Portfolio Manager, CIO

## PORTFOLIO CHARACTERISTICS

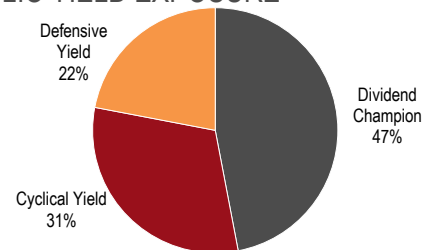
### HOLDINGS

Top 10 holdings	Sector	%
CSL Limited	Health Care	7.5%
Westpac Banking Corporation	Financials	7.5%
Macquarie Group Limited	Financials	5.6%
Resmed Inc	Health Care	5.0%
Sonic Healthcare Limited	Health Care	4.7%
Aristocrat Leisure Limited	Consumer Discretionary	4.5%
Woodside Petroleum Ltd	Energy	4.1%
Rio Tinto Limited	Materials	4.1%
James Hardie Industries	Materials	3.5%
Flight Centre Travel Group Ltd	Consumer Discretionary	3.5%

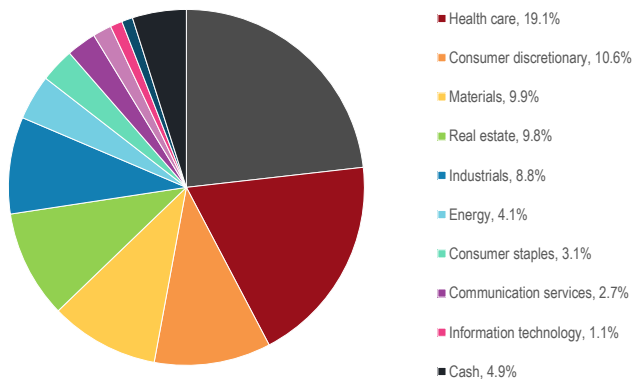
### KEY PORTFOLIO METRICS

Fy20(E)	Fund	Benchmark
Price/Earnings (x)	18.7	16.7
Dividend Yield (%)	3.8	4.3
Dividend Growth rate (%)	6.2	-3.5
Beta*	0.87	1

### PORTFOLIO YIELD EXPOSURE

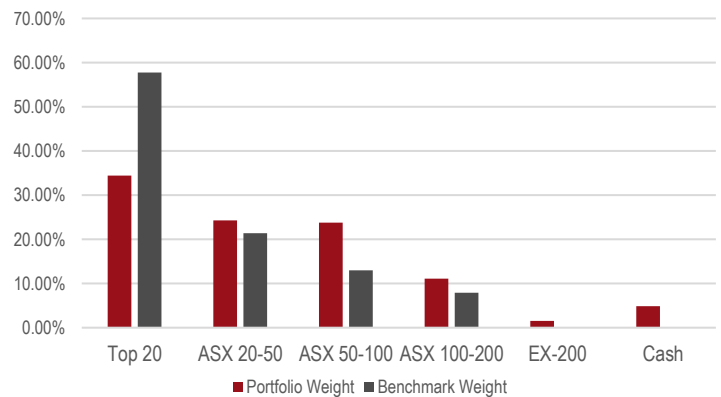


### SECTOR ALLOCATION



Source: Ellerston Capital

### MARKET CAPITALISATION



All holding enquiries should be directed to our registrar, [Link Market Services](http://linkmarketservices.com.au) on 1800 992 149 or [ellerston@linkmarketservices.com.au](mailto:ellerston@linkmarketservices.com.au)

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

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**SYDNEY OFFICE**  
Level 11, 179 Elizabeth Street,  
Sydney NSW 2000

**MELBOURNE OFFICE**  
Level 4, 75-77 Flinders Lane,  
Melbourne VIC, 3000