Ellerston Capital

Ellerston Global Equity Managers Fund (GEMS)

Performance Report | August 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	-0.24	2.12	-9.09	1.80	9.26	9.88

Past performance is not a reliable indicator of future performance.

MARKET COMMENTARY

Market Overview

Global equity markets were unsettled by renewed tensions over trade between the US and China and fears over slowing global growth. Equities delivered negative returns overall, but most of the pain was felt in Emerging Markets, down 5.1%. A surging US dollar and the collapse of Argentina's equity market (-51%) following the shock defeat of that country's President in their elections, sparked fears of contagion, weighing heavily on Emerging Markets. Developed Markets fell 2.2%, impacted by weakness in technology shares and the sharp fall in the FTSE 100 on "no deal" Brexit fears.

USA

The S&P 500 Index and the Dow Jones Industrial Average Index were in negative territory in August, returning -1.6% and -1.3% respectively. The NASDAQ was also weaker, with a return of -2.5% as tech stocks were caught up in trade war concerns. President Trump escalated all-out trade war fears by announcing a 10% tariff on the remaining $300 billion of Chinese exports to take effect on 1 September. But the US then delayed some tariffs until 15 December, seemingly to allow for Christmas purchases by US consumers. China retaliated with plans to impose tariffs on $75 billion of US goods. The trade war ping-pong has resumed. In the meantime, the Fed kept rates on hold, July ISM Manufacturing came in below expectations at 51.2 and US 2Q GDP came in flat for the June Quarter at 2%.

Europe

European equities were weaker across the board, with the Euro Stoxx returning -1.1%. Brexit, global trade fears and slowing growth pressured markets.

The UK's FTSE 100 was the worst performer falling 4.1%, as a "no deal" Brexit looked increasingly likely after new PM Johnson's strong push towards a hard Brexit. France's CAC 40 returned -0.7% and Germany's DAX returned -2.1%, impacted by weak economic data confirming that the German economy was slowing, with the Banks and Insurance sectors weighing on the market.

Asia

Asian equities finished the month in the red, as the trade war rhetoric heated up, the USD strengthened and ongoing protests in Hong Kong which showed no signs of de-escalation, depressed investors' appetites.

Japan's Nikkei 225 was a poor performer with a return of -3.7%, but Hong Kong's Hang Seng (-7.1%) was the worst performer in the region, as civil unrest continued unabated. Other markets suffered, as the US and China traded blows on tariffs, with Korea's KOPSI Composite Index finishing down almost 3%, and the Chinese SEE Total Market Index recording a 1.1% decline, not helped by the Industrial Production print which surprised to the downside by falling to 4.8% vs 6% expected in July.

Investment Objective

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

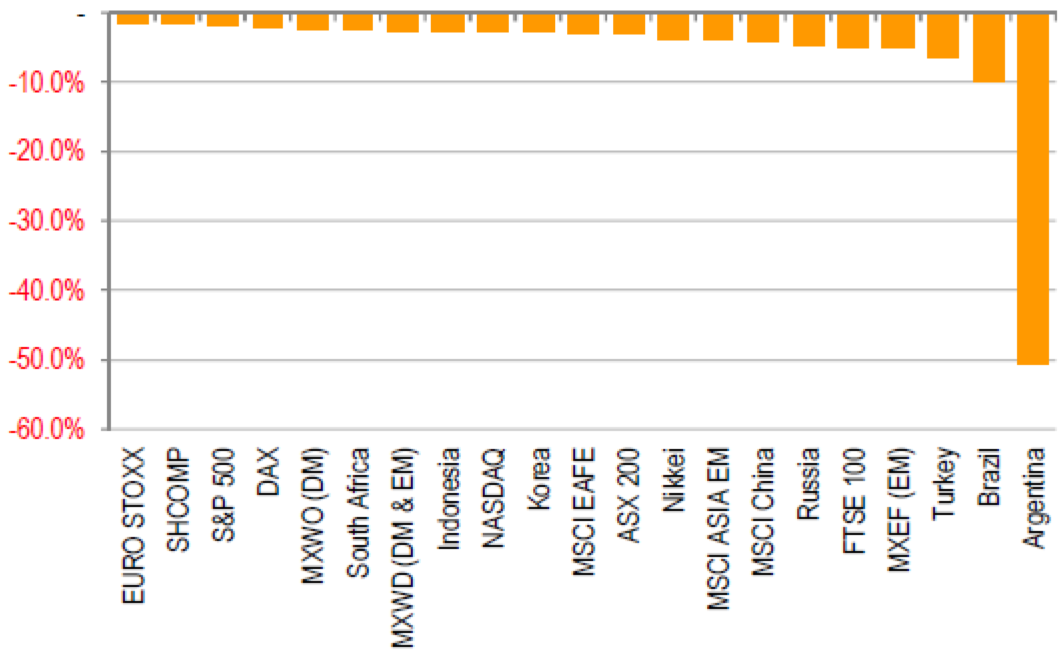
Investment Strategy

- 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$145.9M
Liquidity	Monthly
Application Price	A$ 1.4921
Redemption Price	A$ 1.4847
No. Stocks	87
Gross Exposure	146%
Net Exposure	90%
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 August 2019

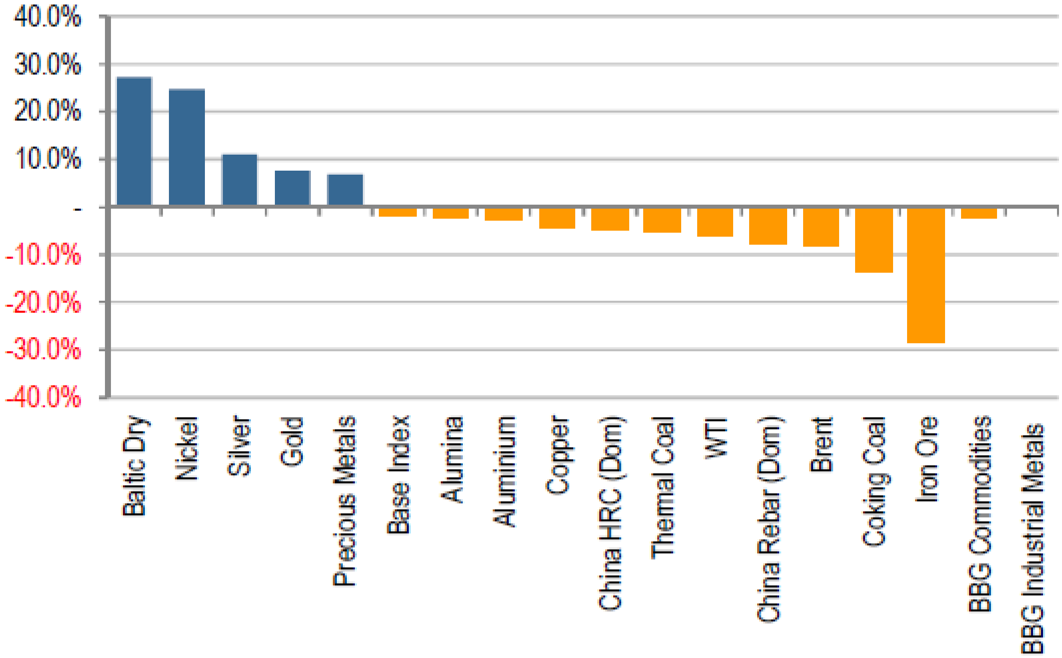


Source: JP Morgan, Bloomberg.

Commodities

The commodities index slipped again in August, impacted by concerns over slower growth and trade war tensions. Iron Ore prices which spiked to US$122/t only recently, tumbled spectacularly in August, falling 28.3% to US$84.80/t. This broke the eight consecutive month positive run! Other bulks were also in negative territory with Coking Coal dropping 13.8% and Thermal Coal down 5.3%. In base metals, Nickel was the standout outperformer (+24.6%) on supply side concerns, but unsurprisingly, Copper (-4.2%), Aluminium (-2.8%) and Alumina (-2.2%) were all weaker, closely tied to slowing global Industrial Production. Brent also was lower too and ended the month down 8.2% to $59.25/bbl. In August's risk-off environment, precious metals were stronger, with **Gold and Silver gaining 7.5% and 10.9% respectively.**

Commodity Performance in August 2019



Source: JP Morgan, Bloomberg.

Bonds

Continued worries over global growth saw bond yields drop even further in August. US 10-year bond yields closed the month at 1.5%, falling by over 50 basis points. The sharp fall in the long end of the US yield curve saw the curve invert once again, sparking fears of a pending recession down the track. The Australian 10-year bond yield fell to a new all-time low of 0.89% in August.

Australia

The S&P/ASX 200 Accumulation Index ended the month down 2.4%, breaking its run of 7 consecutive months of gains, with the results season delivering weak aggregate EPS growth and subdued outlooks. The ASX 200 Industrials Accumulation Index was the best performer with a return of -1.0%. The Small Ordinaries Accumulation Index returned -3.9%, while the ASX 200 Resources Accumulation Index fell 7.5%.

After two rate cuts in as many months and the expected lag in economic activity, the RBA left the cash rate on hold, with minutes suggesting that it was likely to keep rates steady for a period. The RBA was looking for domestic activity to deteriorate materially before more rate cuts would be forthcoming. The NAB business survey in July was disappointing – confidence improved from +2 to +4 but conditions eased to +2 from +4, and employment intentions were well down. Conditions in the retail sector were tough, with weaker house prices and no real wage growth depressing the demand for goods.

The Australian dollar ended the month 1.6% lower against the US dollar at 0.67 cents.

OUTLOOK AND PORTFOLIO COMMENTARY

The portfolio delivered a net return of -0.24% during the month of August with our gold positions proving to be a great hedge during a month where markets were down globally. The portfolio's long exposure at the end of August was 118.2% while short exposure was 27.7%. It is important to note that the long exposure includes the portfolio's gold exposure which while a long investment in its own right also acts as a hedge for the long exposure.

Markets continue to show volatility as every region of the world seems to be grappling with its own geopolitical and economic issues, and with interest rates at historic lows the chase for growth and yield continues, and the need for investors to take more risk in order to achieve returns is exacerbated.

We remain opportunistic and very disciplined with the portfolio focussed on companies that have growth with underlying earnings, value with a catalyst, or own strategically valuable assets. The portfolio also comprises a basket of gold producing and developing companies combined with long dated gold call options. This serves to act as a good hedge and is managed actively alongside a basket of stock specific shorts.

During the period contributors to performance included:

Gold Exposure, with the single biggest contributor to performance being the long dated call options over the US listed Gold ETF. These options were acquired while deeply out of the money and closed the month of August deeply in the money. This position had a tremendous asymmetrical return profile when we established it and has performed even better than expected. During the month of August we sold some options and more than recouped our initial outlay while maintaining a right sized and relevant position. Other gold positions that contributed to performance were Ramelius Resources and Echo Resources which was bid for during the month.

Pinduoduo Inc, was founded in 2015, Pinduoduo Inc. is the second largest e-commerce platform in China by number of active buyers, order numbers, and monthly active users (MAU). As of June 2019, Pinduoduo has provided a broad variety of quality and value-for money goods to over 483.2 million annual active buyers. By providing consumers with access to millions of merchants and tailored products across all categories, Pinduoduo's last twelve month Gross Merchandise Value (GMV) rose to US$103.3 billion. Founded by an ex Google engineer, the company has captured a circa 10% share of China's e-commerce market. We acquired a small position in the company earlier this year and during August the stock rallied by almost 50% buoyed by a very robust earnings result.

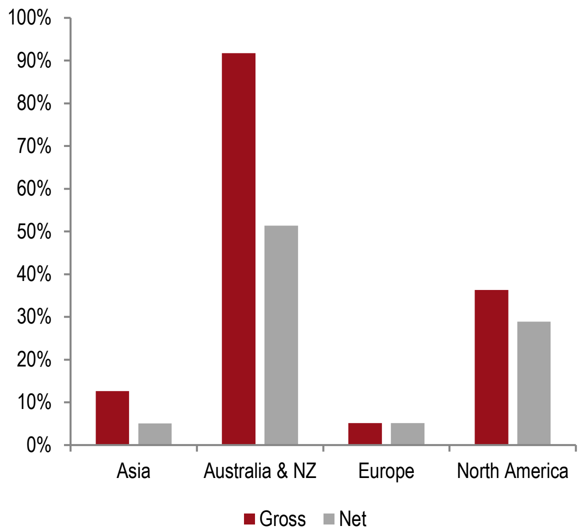
Johns Lyng Group, is a market leading integrated building services group delivering building and restoration services. JLG's most significant business is built on its ability to rebuild and restore a variety of properties and contents after damage from insured events including: impact, weather and fire. During August the company reported a very robust earnings result exhibiting strong growth and free cash flow generation combined with a net cash position on its balance sheet. The company has a solid organic and bolt on acquisition growth runway.

During the period detractors from performance included:

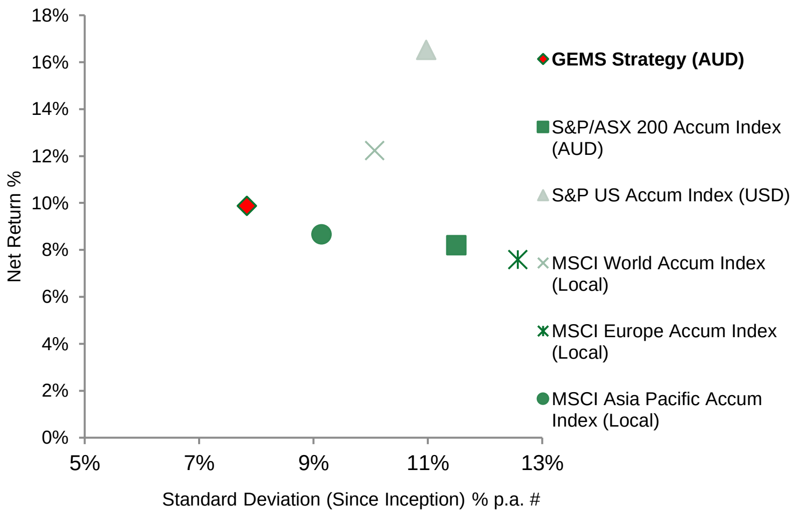
Graincorp, which as mentioned last month announced in April 2019 that it planned to demerge its malting business to create two new entities. MaltCo, a leading global malting and craft brewing distribution platform and New GrainCorp, an international grain storage, handling and trading business and leading producer of edible oils. GrainCorp has also announced an agreement to sell its terminal business and the implementation of a derivative instrument which will mitigate the impact of extreme weather cycles and greatly smooth the earnings of New GrainCorp. We believe that risk reward asymmetry at the current valuation is compelling with the upside potential being multiples of the downside risk. True value with clearly defined catalysts.

Other minor detractors included, Clover, Orora, Lynas and BP PLC.

Market Exposure as a % of NAV



GEMS Strategy Performance & Volatility ^



Top Holdings (Alphabetical, Long only)

- ATOMOS GLOBAL LIMITED
- BP PLC
- CATAPULT GROUP
- CLOVER CORP
- GRAINCORP LIMITED
- MICROSOFT CORP
- MONEY3 CORP LIMITED
- NEWCREST MINING LIMITED
- NUANCE COMMUNICATIONS
- ORICA LIMITED

Source: Ellerston Capital

Key Service Providers

REGISTRY:	LINK MARKET SERVICES LIMITED
AUDITOR:	ERNST & YOUNG
PRIME BROKER:	MORGAN STANLEY INTL & CO PLC & GOLDMAN SACHS INTERNATIONAL
ADMINISTRATOR:	CITCO FUND SERVICES (AUSTRALIA) PTY LTD
CUSTODIAN:	STATE STREET AUSTRALIA LIMITED

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,
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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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DISCLAIMER

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.