Ellerston Capital

Ellerston Low-Vol Income Strategy Fund

Performance Report | September 19

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year p.a.	Since Inception (p.a.)
Net^	0.72%	4.59%	-	-	-	6.85%
Benchmark*	1.84%	2.37%	-	-	-	7.97%
Alpha	-1.12%	2.22%	-	-	-	-1.12%

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

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	$1.0703
Net Asset Value	$1.0676
Redemption Price	$1.0649
Liquidity	Monthly
No Stocks	34
Management Fee	0.70%
Performance Fee	10%
Buy/Sell Spread	0.25%/0.25%

COMMENTARY

The month of September marked the second largest monthly outperformance of global value vs global growth in the past decade. The move in Australia was even more pronounced, with value stocks outperforming growth stocks by 384 bps. The reasons for this rotation were hints of improvement in the macro backdrop, combined with a sustained period of value underperformance and extreme fund positioning in growth names. Overall, the Fund benchmark rallied 1.84% for the month, with the fund returning a net return of 0.72%, underperforming the benchmark by 1.12%. Key positive contributors to relative performance were James Hardie, Macquarie Group and Rio Tinto, who all benefited from a broader market repositioning into cyclical stocks. Not owning Telstra also contributed 20 bps of relative performance. On the negative side, Resmed and Sonic Healthcare detracted 20 bps each of relative performance due to short term profit taking after big moves up in the stocks. Healthcare was also a victim of the market rotation out of quality into value last month. We still like the fundamentals of both businesses.

During the month we exited our ASX Limited position on valuation grounds, with the stock trading at a 15% premium to its long term valuation average. We also exited our position in Mirvac Group and increased our weighting in Goodman Group (GMG) following their announced removal from the FTSE EPRA NAREIT Global Real Estate Index in September. Its deletion resulted in around 55.0m shares being sold from index funds, placing meaningful pressure on the share price. Given GMG's favourable exposure to industrial property and logistics, this short term price weakness presented a good buying opportunity, funded from the Mirvac Group divestment. The Fund also participated in the Centuria Capital (CNI) $100m equity placement to help fund the acquisition of two A-grade office properties in Sydney and Perth for $380.5m. CNI is a smaller company version of Charter Hall Group but at a far more attractive valuation. Finally, we added Caltex Australia to the portfolio as earnings look likely to have troughed, with refiner margins continuing to remain relatively favourable. The stock is trading on a FY20 PER of 13.0x and dividend yield of 4.6%.

Global equities were better across the board in September, rallying 1.9% on average, with Europe leading the charge. Emerging markets rallied 1.8%, predominantly due to expectations of a better trade talk outcome between the U.S and China. The great compression in bond yields came to a shuddering halt, with the US 10 year yield rising 20 bps. This move was accompanied by a steepening of the yield curve on the back of an expected improving macro-economic backdrop, specifically in the US. This did not sustain its momentum following poor global PMI data later in the month, which partly drove the U.S Federal Reserve to cut interest rates by 25 bps.

On the commodities front, after a slump last month, iron ore prices rebounded in September, partly driven by BHP and RIO Tinto flagging the temporary shutting down of two production plants for general maintenance in November. Oil spiked mid-month following an attack on a major Saudi processing plant, with the price rising 14.2% on 16th September. However, over the course of the month, Brent gained just 1.4% as processing capacity at the damaged facility was restored more quickly than expected.

Anticipation is growing surrounding some positive developments in the US - China trade relations post scheduled meetings between negotiators on the 10th and 11th October. This will further help the stabilisation of the Chinese economy, which is showing some signs of resilience post more constructive IP and FAI data and steady credit growth.

Australian 10 year bond yields continue to remain at an all-time low of 0.89% on the back of continued, weak economic data. The NAB business survey for August showed domestic demand growth remaining significantly below its potential. Business confidence slipped from +4 to +1, a move which further unwinds the post-election bounce. The August employment data was also weaker than expected, setting up a plausible argument for the Reserve Bank of Australia to cut interest rates again.

The portfolio broadly maintained its recent increased positioning into cyclical yield as the continued RBA rate cuts and optimism over trade US – China trade talks should provide good support for the materials and consumer discretionary sector. The magnitude of the benefits needs to be monitored closely given the fragile nature of the economy. The beta of the fund (a measure of volatility) has moved marginally higher as a result of this but still sits comfortably at 0.86 vs a market beta of 1.00. The expected dividend growth rate of

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investee companies held within the portfolio is comfortably above that of the market, at 8.0% vs -2.2% for the ASX 200 .The expected dividend yield of investee companies held within the portfolio is currently 3.65%.

Regards,

Chris Hall - Portfolio Manager, CIO

PORTFOLIO CHARACTERISTICS

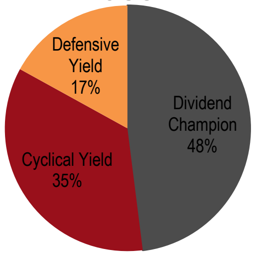
HOLDINGS

Top 10 holdings	Sector	%
CSL Limited	Health Care	7.3%
Westpac Banking Corporation	Financials	6.8%
Macquarie Group Limited	Financials	6.6%
Rio Tinto Limited	Materials	5.3%
James Hardie Industries	Materials	4.9%
Aristocrat Leisure Limited	Consumer Discretionary	4.6%
Resmed Inc	Health Care	4.6%
Sonic Healthcare Limited	Health Care	4.4%
Goodman Group	Real Estate	4.2%
Woodside Petroleum Ltd	Energy	4.1%

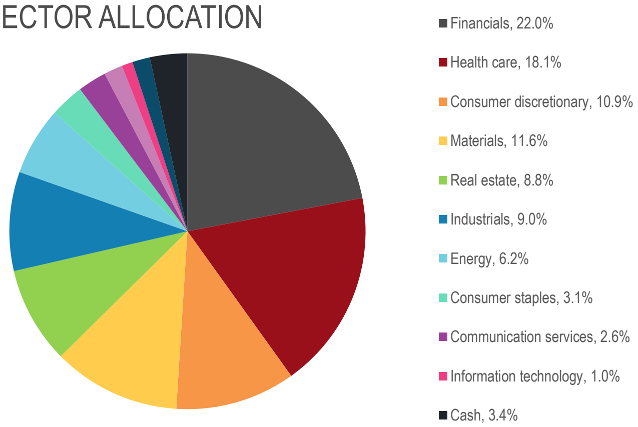
KEY PORTFOLIO METRICS

Fy20(E)	Fund	Benchmark
Price/Earnings (x)	18.2	17
Dividend Yield (%)	3.7	4.3
Dividend Growth rate (%)	8.0	-3.5
Beta*	0.86	1.00

PORTFOLIO YIELD EXPOSURE

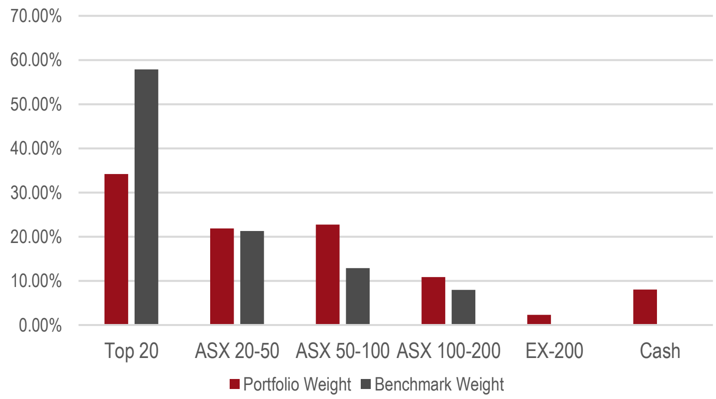


SECTOR ALLOCATION



Source: Ellerston Capital

MARKET CAPITALISATION



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,

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