

# Ellerston Global Equity Managers Fund (GEMS)

Performance Report | September 19

## PERFORMANCE SUMMARY

Performance*	1 Month	3 Months	1 Year (p.a.)	3 Year (p.a.)	5 Yr (p.a.)	Since Inception** (p.a.)
GEMS C	1.46%	4.71%	-5.81%	1.81%	9.63%	9.95%

Source: Ellerston Capital

\*Net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

## MARKET COMMENTARY

### Market Overview

Equity markets were up strongly in September, with Developed Markets up 2.2% in US dollar terms and Emerging Markets up 1.9%. Globally, September marked the 2nd largest monthly outperformance of global value vs. growth in the past decade. Investors positioned themselves in extreme "risk off" positions, which combined with a sustained period of value underperforming, saw a sharp rotation back towards value as global bond yields rose. Not surprisingly, the US Federal Reserve cut rates for the second time this year, and the European Central Bank announced a comprehensive stimulus package. Financials and Energy stocks were among the strongest performers. Markets rallied despite central banks' concerns over a global growth slowdown, as evidenced by announcements of further monetary and fiscal stimulus.

### USA

The S&P 500 Index and the Dow Jones Industrial Average Index were in the black in September, returning +1.9% and +2.1% respectively. The NASDAQ was also in positive territory, but with a more modest return of +0.5%.

US economic data was mixed: manufacturing ISM missed, falling to 49.1 (consensus: 51.3, previous: 51.2) but composite non-manufacturing bounced to 56.4 (consensus: 54, previous: 53.7). Also, non-farm payrolls missed, rising to 130,000, which was below consensus of 160,000. The Federal Reserve cut rates by 25 basis points, taking the benchmark rate to 1.75% - 2.00%, however, President Trump tweeted that he wanted a more aggressive move down. Trade tensions simmered in the background but were off the front pages for now.

### Europe

European equities were much stronger across the board, with the Euro Stoxx returning +4.3%. In a dovish surprise, the index was pushed higher after the ECB announced a fresh 5 point comprehensive stimulus package. The deposit rate was cut further into negative territory after the ECB re-launched a QE program of Euro 20bn of asset purchases per month.

Among the major markets, Germany's DAX was one of the strongest performers with a return of +4.1%, followed by France's CAC 40 which returned +3.7%. In the UK, MPs voted to control the parliamentary agenda backing a bill to stop a "no deal" Brexit by 31 October, whilst towards month end, Britain's Supreme Court ruled Johnson's suspension of Parliament unlawful. The FTSE 100 bounced sharply, up almost 3%, but economic data in Europe continued to moderate: flash Eurozone manufacturing PMI for September missed, falling to 45.6 (consensus: 47.3, previous: 47.0) and the composite PMI moderated to 50.4 (consensus: 52.0, previous: 51.9), justifying further stimulus from the ECB.

### Asia

Asian equities were also stronger in the month as talk of global stimulus tempered the extreme bearishness of investors. Despite the protests in Hong Kong intensifying, the Hang Seng Index was up 1.9%. Japan's Nikkei 225 was the best performer of the major markets, up +5.7%, followed by Korea's KOSPI Composite Index which was up 4.8%.

Chinese economic data was broadly weaker. The trade surplus of \$34.8 billion was below expectations (consensus: \$44.3 billion), and September manufacturing PMI fell to 49.8, again below consensus expectations of 49.6. The Chinese SSE Total Market Index delivered a very modest return of +0.4%.

### Investment Objective

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

### Investment Strategy

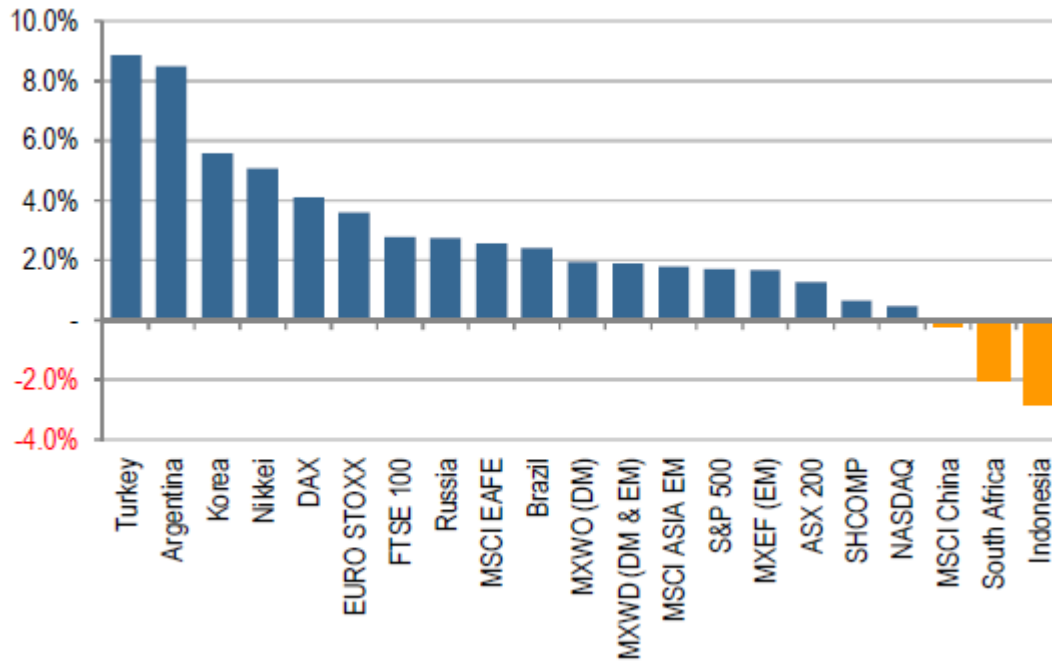
The Fund provides investors with exposure to global markets through a long short equity strategy. The strategy overlays fundamental bottom-up stock selection with global macroeconomic and market outlook.

### Key Information

\*\*Class Inception Date 1 December 2009

Application Price	\$1.5139
Net Asset Value	\$1.5101
Redemption Price	\$1.5063
Liquidity	Monthly
No Stocks	88
Gross Exposure	140%
Net Exposure	88%
Management Fee	1.50%
Performance Fee	16.50%
Buy/Sell Spread	0.25%/0.25%

### Global Equity Markets' Performance in the month of September 2019

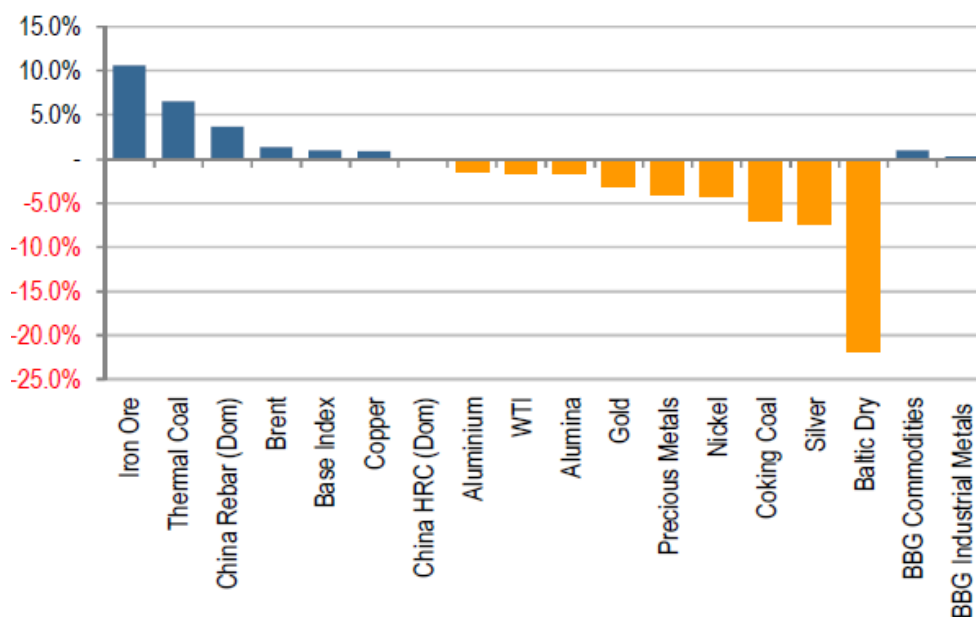


Source: JP Morgan, Bloomberg.

### Commodities

The commodities index was up in September. Among the Bulk commodities, Iron Ore rebounded and closed up 10.6% to US\$93.8/t, Coking Coal was down 7.1%, but Thermal Coal rose 6.5%. The Base Metals Index was stronger up 1.0%, with Copper up 1%. Nickel was the laggard, down 4.4%. Oil prices were volatile in the month as two Saudi oil processing facilities were attacked by drones. The facilities were shut down for immediate repairs, which resulted in 5.7mb/d or over half of Saudi Arabia's total oil production temporarily being cut (around 5% of global oil supply). Brent Crude oil futures prices initially surged 15%, but as production was brought back on line, the oil price retraced from those highs. Brent soon normalized and ended the month +1.4% or US\$59.25/bbl. Precious metals were weaker as a "risk on" mindset took hold: Gold was down 3.2% and silver was down 7.3%.

### Commodity Performance in September 2019



Source: JP Morgan, Bloomberg.

### Bonds

Despite ongoing weakening global economic data, the relentless compression in bond yields came to a shuddering halt, with global bond yields rising sharply in early September, but then drifted lower. US 10-year bond yields rose 18 basis points to 1.68%. In the US, August retail sales and consumer sentiment were better than expected and this may have contributed to the sell-off in US bonds. The Norwegians bucked the trend and lifted their official rates, causing the Krone to rally. Australian 10-year bonds rose 7 basis points to 0.96% and are now 72 basis points below 10-year US yields.

## Australia

The S&P/ASX 200 Accumulation Index ended the month up 1.8%. The Small Ordinaries Accumulation Index returned +2.6%, while the ASX 200 Industrial Accumulation Index rose 1.6%. The RBA September minutes were more dovish than expected and business confidence fell further. In early October, the RBA cut rates by 25 basis points taking official rates to 0.75%. The RBA is widely expected to cut rates by a further 25 basis points in the coming months. The Australian dollar was up marginally against the US dollar, and ended the month at 0.68 cents.

## OUTLOOK AND PORTFOLIO COMMENTARY

The portfolio delivered a net gain of 1.46% during September with our gold positions detracting from performance as markets rallied globally. The portfolio's long exposure at the end of September was 114.4% while short exposure was 26.1%. 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 moved higher globally, brushing off uncertainty around Brexit as the 31 October deadline looms and ongoing USA/China trade tensions continue to simmer. 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:

**Clover Corp**, a global leader in the refining and sale of omega-3 oils primarily using its patented encapsulation technology to provide bioactive ingredients for infant formula, children's foods, and supplements. During the month the company reported very robust earnings for FY19 with strong top line growth and earnings growth. This was the catalyst for a 35% rally in the share price over September. We trimmed the position towards the end of the month while maintaining a core position.

**Generation Development Group**, provides financial services through Generation Life and Austock Financial Services. Generation Life is a specialist provider of investment bond product solutions, including "LifeBuilder" – a flexible, tax effective way to building wealth, "ChildBuilder" – a smart way to plan for a child's head start, and "FuneralBond" – simple investment to meet future funeral costs. Austock Financial Services provides administration services, including unit pricing, fund valuation, investment and fund accounting, fund administration and business registry services.

**Catapult**, a global leader in sports technology with solutions for every element of the performance ecosystem, from wearable tracking to athlete management and video analysis.

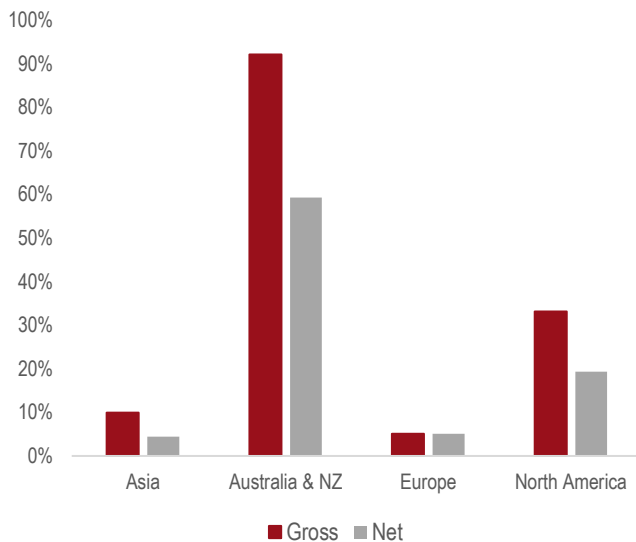
**Independence Group (IGO)**, is a leading exploration and mining company with a strategic focus on high quality assets of scale and longevity, and an evolving strategy to align the business to the structural shift to energy storage. The Company focuses on nickel, copper and cobalt and gold mining in Australia. IGO owns 100% of the Nova nickel-copper-cobalt operation, holds 30% non-operated interest in the Tropicana gold mine (a Joint Venture with AngloGold Ashanti), and is pursuing aggressive growth through a portfolio of belt scale exploration projects. IGO has a substantial cash balance, low debt and is currently net cash positive. They also provide exposure to a quality Nickel producer, with Nickel being a key component of rechargeable batteries and battery storage systems.

During the period detractors from performance included:

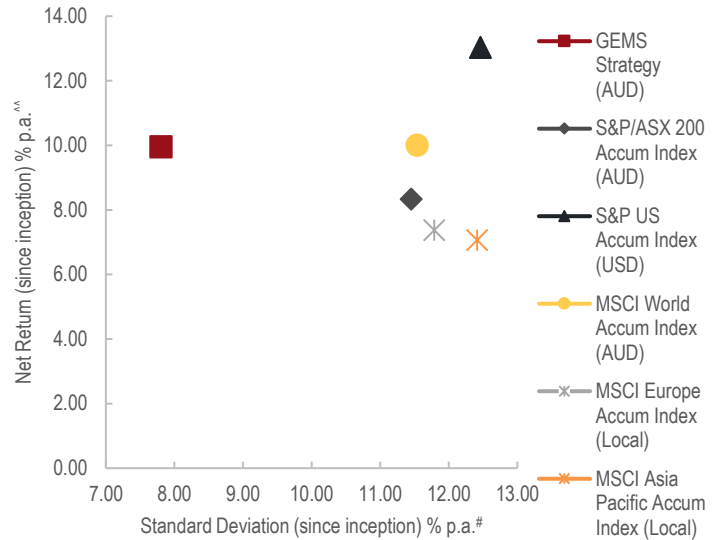
**Gold Exposure**, with the single biggest detractor from performance being the long dated call options over the US listed Gold ETF. Other gold positions that detracted from performance were Newcrest Mining and Evolution Mining.

## PORTFOLIO CHARACTERISTICS

### Market Exposure as a % of NAV



### GEMS Strategy Performance & Volatility<sup>^</sup>



### Top 10 Holdings (Alphabetical, Long Only)

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

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

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<sup>^</sup> Actual performance for your account may vary from that set out in this newsletter and will vary for investments made in different classes, or at different times throughout the year. Some performance data is estimated and preliminary and subject to change.

<sup>^^</sup> For the period 1 January 2002 to 30 April 2006, the CPH Group GEMS Portfolio was not operated within a separate fund structure. The underlying investment assets of the CPH Group GEMS Portfolio were owned during that time within corporate entities of the CPH Group for which audited accounts were prepared on an annual basis. Accordingly, in order to provide relevant historical performance information for the period 1 January 2002 to 30 April 2006 (Historical Returns) net returns were calculated on the basis of the actual dollar returns of the CPH Group GEMS Portfolio adjusted to reflect a fund structure similar to the Fund and including all fees. For GEMS B, GEMS A returns have been used between 1 May 2006 and 2 November 2009. The returns of the Fund and the relevant Indices are net of fees, expenses and taxes and assuming distributions are reinvested.

<sup>#</sup> 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.

The returns and risk of the Fund and the relevant Indices are net of taxes, fees and expenses and assuming distributions are reinvested. The performance figures presented are for the Ellerston Global Equity Managers Fund GEMS C Units. The one month return figure may be an estimate and not the final return. This estimate also impacts other performance information provided. Estimated performance figures are preliminary and subject to change. Returns for other classes may differ slightly. Past performance is not indicative of future performance. Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000 is the responsible entity of the Ellerston Global Equity Managers Fund ARSN 118 887 095 (Fund). This newsletter has been prepared by Ellerston Capital Limited without taking account of the objectives, financial situation or needs of investors. Before making an investment decision you should consider your own individual circumstances and obtain a copy of the Product Disclosure Statement for the Fund which is available by contacting Ellerston Capital. This material has been prepared based on information believed to be accurate at the time of publication. Assumptions and estimates may have been made which may prove not to be accurate. Ellerston Capital undertakes no responsibility to correct any such inaccuracy. Subsequent changes in circumstances may occur at any time and may impact the accuracy of the information. To the full extent permitted by law, none of Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, or any member of the Ellerston Capital Limited Group of companies makes any warranty as to the accuracy or completeness of the information in this newsletter and disclaims all liability that may arise due to any information contained in this newsletter being inaccurate, unreliable or incomplete.