ELLERSTON CAPITAL

Ellerston Australian Market Neutral Fund

Performance Report | November 19

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year (p.a.)	5 Year (p.a.)	Since Inception (p.a.)
Net^	1.52%	8.47%	18.03%	12.36%	2.33%	4.10%	7.38%
Benchmark*	0.06%	0.21%	0.48%	1.23%	1.41%	1.63%	1.84%
Alpha	1.46%	8.26%	17.55%	11.13%	0.92%	2.47%	5.54%

Source: Ellerston Capital

^Net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance
*RBA Cash Rate

PORTFOLIO CHARACTERISTICS

KEY PORTFOLIO METRICS

Positive months	67%	**Net Equity Exposure**	19.6%
No. Relative Value positions	52	**Gross Portfolio Exposure**	227.0%
No. Special Situations	28	**Correlation Coefficient (vs ASX 200 Accum)**	5.79%
Beta Adjusted	4.6%	**Net Sharpe Ratio (RFR = RBA Cash)**	1.01

SECTOR ALLOCATION

Sector	Long Equity	Short Equity	Net Equity
Financials	41.8%	-38.2%	3.6%
Industrials	47.8%	-18.5%	29.3%
Resources	29.9%	-26.6%	3.2%
Index	3.8%	-20.3%	-16.5%
Total	**123.3%**	**-103.7%**	**19.6%**

Investment Objective

The Fund targets Absolute Returns with an annualised return objective of 5% above the RBA Cash Rate over rolling five year periods.

Investment Strategy

The Fund will seek to provide investors with a return profile that has low correlation with traditional asset classes. The Fund aims to generate positive returns in all market environment by reducing the majority of market risk and focusing on capital preservation and alpha generation. The Fund will utilise a Relative Value and a Special Situations strategy.

Key Information

Strategy Inception	3 June 2013
Portfolio Manager	Paul Drzewucki
Application Price	$1.0874
Net Asset Value	$1.0847
Redemption Price	$1.0820
Liquidity	Daily
Management Fee	1.20%
Performance Fee	20% of outperformance
Buy/Sell Spread	0.25%/0.25%

COMMENTARY

The Fund produced a net return of +1.5% in November, outperforming the benchmark return of +0.1%. Once again, both Special Situations (+1.2% gross) and Relative Value (+0.5% gross) added to performance. Net exposure was +19.6% at the end of November, with a beta-adjusted net of 4.6%. Gross exposure closed the month at 227.0%.

It was a mixed bag in terms of contribution from the Energy sector, with a paired position between Karoon Energy (+14.9%) and Santos (+0.4%) adding value, whilst pairs featuring Carnavon Petroleum (-13.2%) and Senex Energy (-5.6%) were a headwind to performance.

A newly-established pair between oOh!media (+13.4%) and Nine Entertainment (-4.1%) proved timely with Nine downgrading FY20 earnings at its Annual General Meeting (AGM) in November. The extent of the weakness in TV surprised the market, with consensus FY20 EPS falling more than 11% following the announcement.

After working against us last month, there was a positive contribution from our paired position between utility infrastructure companies Spark Infrastructure (+7.4%) and AusNet Services (-3.2%) in November. Spark's share price has lagged peers after flagging a dividend cut due to the loss of a tax dispute with the ATO, and also the release of the AER's SAPN draft decision for the next regulatory cycle. Despite the negative data points, our updated SOTP valuation model pointed to an over-reaction by the market and highlighted the relative value of Spark compared to AusNet.

Property fund manager Primewest Group (+15.0%) listed during November, with our paired position hedged with Cromwell Property (-7.5%) adding value in the month. Primewest is one of Australia's leading real estate funds management businesses with $3.9b AUM, held in 75 funds and spanning 7 asset classes. Our preference for Primewest (over Cromwell) is supported by their stronger AUM growth potential, lower implied Funds Management valuation multiple, and significantly lower gearing.

The highly-regarded CEO of SmartGroup (-20.7%) announced his retirement during the month, with the stock de-rating following the announcement. Our long position, hedged with a short in McMillan Shakespeare (-6.7%) detracted from the performance of the Fund. The current CEO has led the business for 19 years and will be replaced by the current CFO following the FY19 results in February 2020. We believe the business is in good shape, with a strong balance sheet and a deep executive bench that goes well beyond the CEO, and we remain comfortable with the position.

The AGM for Impedimed (+21.4%) was held during November, with the market seeming to warm to the company's strategy around gaining inclusion in the NCCN guidelines. The company has employed the services of MCRA, a US-based, reimbursement specialist to help navigate the ongoing discussions with payors, with the imminent release of 2-year trial data to help negotiations. With or without inclusion in the guidelines, we believe the company is undervalued, with the stock's performance in the month adding value.

For the second month running, our long position in Uniti Group (+15.3%) added to the Fund's performance. Other than some positive commentary at the AGM and settlement of the OPENetworks acquisition, there was little news in the period.

We participated in equity placements in PointsBet (+14.1%), Ebos (-5.8%) and PainChek (-17.3%), each of which contributed to the performance of the Fund.

ACTIVITY

Relative Value – Gross Contribution +0.47%

We capitalised on the increased liquidity in Karoon Energy (+14.9%) during November, establishing a long position and hedging the exposure with Santos (+0.4%). During October, Karoon completed a significant equity raise, the proceeds of which are to be used to complete the funding of the Bauna oil field in Brazil. The company also announced that there is a need to refresh the composition of the Board, with a number of new independent directors scheduled to replace the existing non-executives. Corporate governance has long been identified as an issue at Karoon, and we think the board changes, coupled with the new Chairman (ex- AWE Ltd) will give investors confidence around the company.

The long-awaited restructure of the APRR-related agreements resulted in an unexpected $1.35b equity raise by Atlas Arteria (-3.2%), with the majority of the proceeds used to buy an additional 6.14% stake in the APRR toll road in France. Atlas is also taking the opportunity to pay out Macquarie (thereby terminating its MAF management contracts) and also Eiffage (thereby removing poison pills in the shareholders' agreement). We believe the transactions simplify the structure and make Atlas Arteria more attractive to investors. We added to our existing position, which is hedged with Sydney Airport (+4.6%) and established a new position, hedged with Transurban (+3.4%).

Both Westpac (-10.5%) and the Bank of Queensland (-10.4%) conducted equity raises during November, with the proceeds used to strengthen their respective balance sheets, and in Bank of Queensland's case, earmarked to "implement strategic priorities". Both placements were completed at a discount to the prevailing share prices, and both banks indicated that future dividends were expected to be reduced to a more sustainable range. We participated in the placements, hedging the Westpac exposure with Commonwealth Bank (+2.7%) and National Australia Bank, and hedging the Bank of Queensland expose with Bendigo Bank (-5.8%).

We unwound our paired position between media companies oOh!media and Nine Entertainment, following the previously mentioned earnings downgrade from Nine. We also unwound paired positions between Scentre (+2.9%) and Vicinity (+0.4%), Sydney Airport and Transurban, and Charter Hall Retail (+4.3%) and Shopping Centres Australasia (+1.1%) following a narrowing in their respective spreads.

Special Situations – Gross Contribution +1.16%

A share market raid on Cromwell Property (-7.5%) by majority-shareholder ARA Real Estate, provided an opportunity to establish a short position in Cromwell, at what ended up being an all-time-high price for the property fund manager's shares. Ahead of the Cromwell AGM, ARA accumulated an additional 6% stake in Cromwell, the maximum allowable under the Australian takeover law "creep" provision. The plan was to use the additional shares to improve the chances of ARA-nominee-director Gary Weiss being elected to the board at the Cromwell AGM, a vote which they ended up losing 49% to 51%.

Also in November, we established a long in the NZ-listed EBOS Group (-7.5%), with majority shareholder Sybos Holdings conducting a block sale of 15m shares, or about 9.3% of the company. EBOS is Australia's and NZ's largest distributor and wholesaler to community pharmacies and hospitals, with sales in both healthcare and animal care. With the block sale cleared at a 9.9% discount to last and implying a +6% return to consensus price target, we felt comfortable purchasing shares.

It was a busy period for capital raisings with the Fund participating in a number of equity placements including Electro Optic Systems (-2.6%), NRW Holdings (+33.3%), Zip Co (+4.3%) and Painchek (-17.3%). We also received a modest allocation of shares as part of previously agreed sub-underwriting agreements in companies including Costa Group (-8.8%) and Palla Pharma (-2.3%).

We reduced our shareholding in Bigtincan (+1.5%) and Uniti Group (+15.3%), and completely exited our position in QMS Media (-0.4%). Our short position in Aveo (+0.0%) was repurchased before the stock was taken over by Brookfield and delisted.

ELLERSTON CAPITAL

MARKET COMMENTRY

Market Overview

In November, equity market rallied strongly. Developed Markets rose 3.2% in local currency terms, while Emerging Markets rose more modestly (+0.6%). Developed Markets were buoyed by ongoing optimism on a likely resolution to the trade dispute. And markets and investor sentiment were supported by central banks remaining accommodative.

USA

Optimism over a resolution to the trade dispute with China spurred markets. The S&P 500 Index had another stellar month, with further gains of +3.6%. The Dow Jones Industrial Average Index's return was even more impressive, up +4.1%. The NASDAQ was the strongest performer, with a return of +4.6%.

With little new concrete information on the trade dispute, markets were left analysing Mr Trump's tweets and came away more positively disposed. During the last week of the month, moves by China and the US suggested an imminent Phase 1 trade deal. The October FOMC minutes revealed that its members were split over last month's rate cut, with most participants thinking that policy was well calibrated to support the economy, barring a material reassessment of the outlook. US economic date was mixed, with manufacturing ISM missing consensus despite rising modestly to 48.3 (consensus: 48.9; previous: 47.8), but composite non-manufacturing ISM beat expectations, rising to 54.7 (consensus: 53.5; previous: 52.6).

Europe

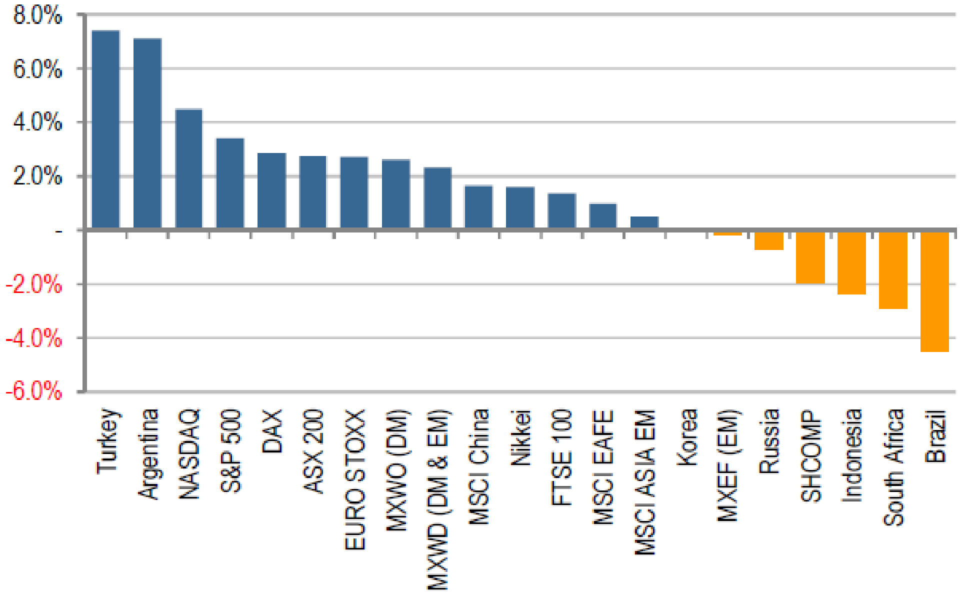
European equities overall were in positive territory, with the Euro Stoxx returning +2.8%. Among key markets, France's CAC 40 index was the strongest performer, up 3.1%, followed by Germany's DAX, with a return of +2.9%. The UK's FTSE 100 was up 1.8%, as Brexit fears abated and a major poll indicated that the Tory government was on course for victory, with a significant majority in parliament at the upcoming general election.

Activity indicators may have bottomed, with flash Eurozone manufacturing PMI for November rising to 46.6, still weak, but ahead of consensus of 46.4 and the previous measure of 45.9.

Asia

Asian equities were mixed in November. Protest and residual concerns over trade dampened investor sentiment. In Hong Kong, the Hang Seng Index was down almost 2% and China's SSE Total Market Index returned -1.5%. But Japan and India bucked the trend: Japan's Nikkei 225 was again the best performer of the major Asian bourses, up 1.6%, followed closely by India's S&P BSE Sensex (+1.7%). Korea's KOPSI Composite Index was up modestly (+0.2).

Global Equity Markets' Performance in November 2019

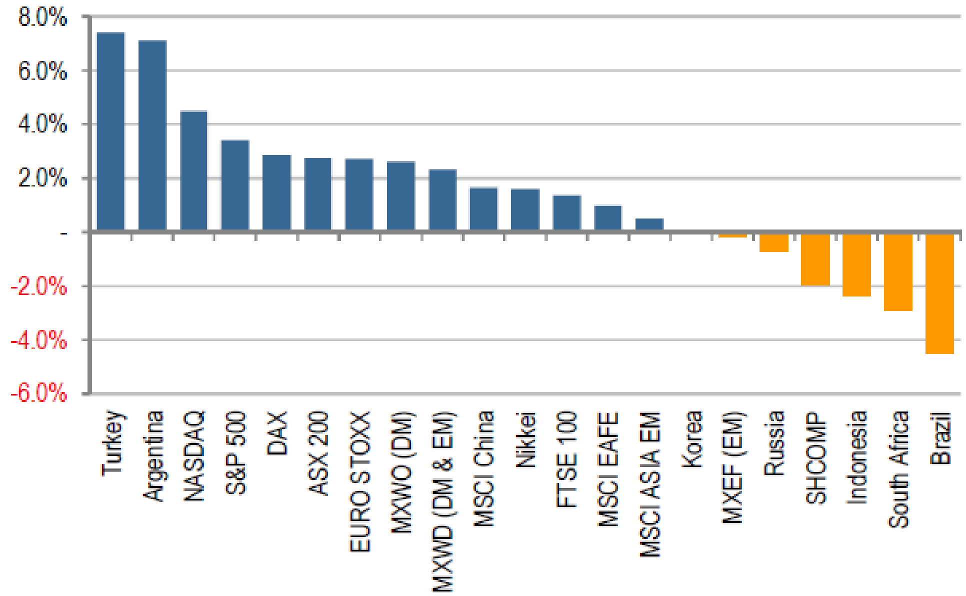


Source: JP Morgan, Bloomberg.

Commodities

The commodities index fell 2.7%. Base metals were down 3.1%, with Nickel falling the furthest (-18.4% on weak demand from the stainless steel industry), but Copper (+0.5%) and Aluminium (+1.1%) were in the black. Among the bulks, Iron Ore nudged higher (+2.3%) to $87.50/t, but coking coal was down 10%, while thermal coal was up 1.4%. Brent was up 2.7% to $60.49/bbl. Precious metals were weaker with Gold down 3.2% to US$1,464/oz and Silver down 6.1%.

Commodity Performance in November 2019



Source: JP Morgan, Bloomberg.

Bonds

Global bond yields sold off sharply at the start of the month, but rallied towards the month end. US 10-year bond yields rose a further 9 basis points to 1.78%, supported by optimism on a settlement to the trade dispute between the US and China. In contrast, the Australian 10-year bond yields fell to 1.03% from 1.14% the previous month, further widening the gap between the Australian and US 10-year bond yields.

Australia

The S&P/ASX 200 Accumulation Index had a very strong month, with a return of 3.3%. The index is now up 26.1% for the calendar year to date.

In November, the best three performing sectors in terms of their contribution to the index's performance were Health Care (rising 8.9%, with another stellar run from CSL, up 10.7% and for the second month running, the largest contributor to the ASX 200 Accumulation Index), Materials (+4.7%, with BHP Group up 6.3%) and Consumer Staples (+8.3%, with Telstra Corporation up 10.6%). The bottom three sectors were Financials (-2.1%, with three of the four majors in the red and only Commonwealth Bank (+2.8%) delivering a positive return), Utilities (-0.6%) and Real Estate (despite a positive return of +2.4%).

The ASX 200 Resources Accumulation Index, with a return of almost +5.0% was the strongest performer, followed by the ASX 200 Industrial Accumulation Index with a return of +2.9%, and the Small Ordinaries Accumulation Index took the wooden spoon, but was in positive territory too with a return of +1.6%.

The top five stocks that detracted from the performance of the S&P/ASX 200 Accumulation Index were Westpac Banking Group (-56 points), National Australia Bank (-31points), Australia and New Zealand Banking Group (-18 points), APA Group (-4 points) and Saracen Minerals Holdings (-3 points).

The top five stocks that made a positive contribution to the index's return were CSL (+70 points), BHP Group (+38 points), Telstra Corporation (+24 points), Commonwealth Bank (+21 points) and Woolworths Group (+18 points).

NAB business conditions ticked up to +3 in October (from +2 previously), while business confidence also ticked up to +2 (from +0). But September retail sales and employment in October missed expectations.

The RBA left rates unchanged at 0.75%, as expected. But its statement contained an easing bias looking forward. The Australian dollar was down 1.9% against the US dollar, and ended the month at 0.68 cents.

CONTRIBUTION

RELATIVE VALUE GROSS CONTRIBUTION +0.47%			
Positive		**Negative**	
KAROON GAS AUSTRALIA LTD - SANTOS	0.73%	MCMILLAN SHAKESPEARE LTD - SMARTGROUP CORP LTD	-0.85%
CROMWELL PROPERTY GROUP - PRIMEWEST GROUP LTD	0.57%	COMMONWEALTH BANK OF AUSTRALIA - WESTPAC BANKING CORP	-0.39%
NINE ENTERTAINMENT CO HOLDINGS - OOH!MEDIA	0.24%	CARNARVON PETROLEUM LTD - SANTOS	-0.32%
AUSNET SERVICES - SPARK INFRASTRUCTURE	0.22%	BWP TRUST - CARINDALE PROPERTY TRUST	-0.20%
NATIONAL AUSTRALIA BANK - WESTPAC BANKING CORP	0.19%	SANTOS - SENEX ENERGY LTD	-0.18%

SPECIAL SITUATIONS GROSS CONTRIBUTION +1.16%			
Positive		**Negative**	
IMPEDIMED LTD	0.39%	360 CAPITAL DIGITAL INFRA FD	-0.04%
UNITI WIRELESS LTD	0.39%	NUFARM FINANCE NZ LTD - NSS	-0.03%
CROMWELL PROPERTY GROUP	0.26%	VITALHARVEST FREEHOLD TRUST	-0.02%
POINTSBET HOLDINGS LTD	0.22%	COSTA GROUP HOLDINGS LTD	-0.01%
KALIUM LAKES LTD	0.16%	SUPERLOOP LTD	-0.01%

TOP 10 RELATIVE VALUE POSITIONS	
RIO TINTO - RIO TINTO	ATLAS ARTERIA LTD - SYDNEY AIRPORT
BHP BILLITON - BHP BILLITON	BWP TRUST - CARINDALE PROPERTY TRUST
MIRVAC GROUP - STOCKLAND	GDI PROPERTY GROUP - NATIONAL STORAGE REIT
APN INDUSTRIA REIT - ELANOR RETAIL PROPERTY FUND	AGL ENERGY LTD - INFIGEN ENERGY
EVENT HOSPITALITY AND ENTERTAINMENT LTD - VILLAGE ROADSHOW	MCMILLAN SHAKESPEARE LTD - SMARTGROUP CORP LTD

TOP 10 SPECIAL SITUATION POSITIONS	
PUT SPREAD ON AS51	ATOMOS LTD
NUFARM FINANCE NZ LTD - NSS	SUNCORP GROUP
KALIUM LAKES LTD	INFIGEN ENERGY
SUPERLOOP LTD	MNF GROUP LTD
IMPEDIMED LTD	VOLPARA HEALTH TECHNOLOGIESS

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/

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

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