ELLERSTON CAPITAL

Ellerston Low-Vol Income Strategy Fund

Performance Report | November 19

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year p.a.	Since Inception (p.a.)
Net^	5.29%	6.44%	13.83%	-	-	12.91%
Benchmark*	3.28%	4.80%	9.24%	-	-	11.11%
Alpha	2.01%	1.64%	4.59%	-	-	1.80%

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	$1.1310
Net Asset Value	$1.1282
Redemption Price	$1.1254
Liquidity	Monthly
No Stocks	36
Management Fee	0.70%
Performance Fee	10%
Buy/Sell Spread	0.25%/0.25%

COMMENTARY

Global equities continued their strong run on the back of an expected trade truce between the US and China and the maintenance of loose monetary policy by Central Banks. In Australia, the ASX 200 rose 3.3%, led by a strong month in IT, Healthcare and Consumer Staples. Financials disappointed, led by the Banks. The Fund recorded very strong performance, rising 5.3% on a net basis, thereby outperforming its benchmark by 2.0%. The 6 month return for the Fund is now 4.6% over benchmark on a net basis, a very encouraging result.

For the month, key drivers of relative outperformance were derived from strong sector and stock performance in Energy and Consumer Discretionary (overweight Caltex, Aristocrat Leisure & Bravura Solutions). Caltex and Aristocrat Leisure alone added 82 bps of performance. Also, being very underweight the major banks (ANZ, CBA & NAB) contributed a further 80 bps due to continued concerns over bank profitability, dividend sustainability and regulatory capital requirements. Conversely, owning no BHP Billiton and Telstra cost the portfolio 40 bps of relative performance.

During the month we exited our position in Suncorp due to our new expectation that the dividend will be materially cut during 2020. This is due to the new CEO reviewing the company's group targets due to ongoing challenging market conditions. Suncorp is unlikely to achieve its 10% ROE target following the likely rebasing of the company's insurance margin to 10% due to lower, longer term bond yields. With the stock trading at a 15% PE discount to the market, in line with its long term valuation average, we see no catalyst for the stock to outperform. We also completely exited our position in Orora as the stock continued to rally post its disappointing result in August. Trading conditions still remain challenging. There were two portfolio additions during November, both undertaken via share placements. MNF Group (Australia's largest provider of VoIP telephony) raised $52m at $5.00 per share to fund the recent TIAB acquisition and rollout of services into the Singaporean market. Earnings and dividend per share growth of 20% plus is expected in FY20. Atlas Arteria raised A$1,350m comprising a A$452m institutional placement and a 4:21 accelerated, pro-rata non-renounceable entitlement offer to raise A$898m. Around $1.0bn of the raising will be used to acquire a 12.3% interest in MAF2, a major toll road in France. The transaction will result in a 6% increase in annual distributions to shareholders, resulting in a new distribution growth rate of 8%- 10% p.a over the next two years.

Expectations of an improvement in the global Purchasing Managers Index (PMI) auger well for some company earnings recovery throughout 2020. Global equities rose 2.3%, with the US market rising 3.4%, thereby reaching new highs. Developed Markets (+3.2%) materially outperformed Emerging Markets (+0.6%), with Brazil and Indonesia detracting from EM performance. In the US, optimism over a resolution to the trade dispute with China spurred markets. The US market had another stellar month, rising 3.6%. 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, but composite non-manufacturing ISM beat expectations, rising to 54.7. European equities overall were in positive territory. 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. In Asia, 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.

In Australia, 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. On the commodities front, the commodities index rose 1.9%. Precious metals were stronger in October, as both Gold (+2.8% to

Ellerston Capital Limited
ABN 34 110 397 674
AFSL 283 000

Level 11
179 Elizabeth Street
Sydney NSW 2000

Ph: +61 2 9021 7797
Fax: +61 2 9261 0528

info@ellerstoncapital.com
www.ellerstoncapital.com

US$ 1,968/oz) and Silver (+6.3%) shone. Among the bulks, Iron Ore had a poor month, down 5.5% with Thermal Coal weaker too, down 4.5%. Brent was up 1.9% to US$59.62/bbl. Base metals were mixed with Copper up 1.7% but Nickel and Alumina were down 3.1% and 4.1% respectively.

As we saw last month, bond yields appeared to have stemmed their seemingly inexorable decline. The US 10-year bond yield moved up to 1.69% while the Australian 10-year bond yield backed up sharply to 1.14%. The Australian 10-year bond yield is now 55 basis points below the US 10-year bond.

The portfolio broadly maintained its recent increased positioning into cyclical yield as the RBA rate cuts seem to be approaching the end game and optimism over trade US – China trade talks should provide good support for the materials and consumer discretionary sector. The beta of the fund (a measure of volatility) has moved marginally higher as a result of this but still sits comfortably at 0.92 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 4.3% vs -0.2% for the ASX 200. The expected dividend yield of investee companies held within the portfolio is currently 4.2%

Regards,

Chris Hall - Portfolio Manager, CIO

PORTFOLIO CHARACTERISTICS

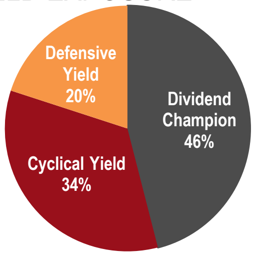
HOLDINGS

Top 10 holdings	Sector	%
CSL Limited	Health Care	8.4%
Macquarie Group Limited	Financials	6.7%
Rio Tinto Limited	Materials	5.8%
Westpac Banking Corporation	Financials	5.3%
Aristocrat Leisure Limited	Consumer Discretionary	5.0%
Goodman Group	Real Estate	4.8%
James Hardie Industries	Materials	4.8%
Caltex Australia Limited	Energy	4.7%
Sonic Healthcare Limited	Health Care	4.6%
Woodside Petroleum Ltd	Energy	4.0%

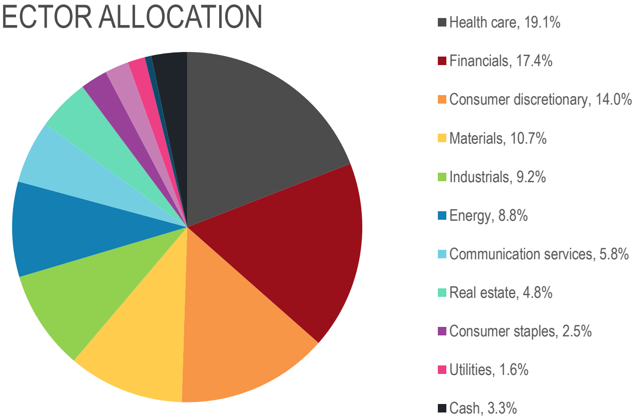
KEY PORTFOLIO METRICS

Fy21(E)	Fund	Benchmark
Price/Earnings (x)	18.8	17
Dividend Yield (%)	3.5	4.2
Dividend Growth rate (%)	4.3	-0.2
Beta*	0.92	1.00

PORTFOLIO YIELD EXPOSURE

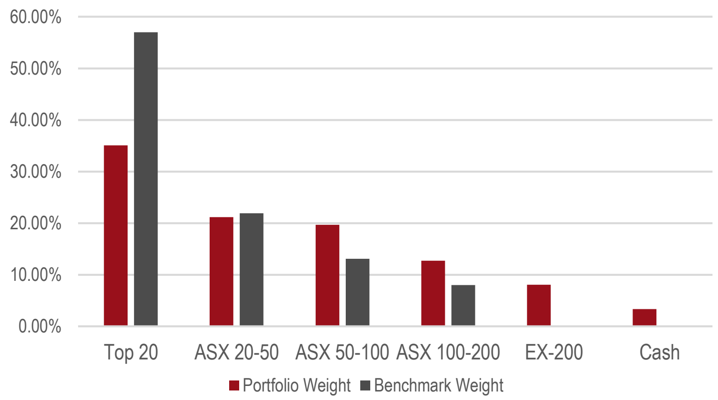


SECTOR ALLOCATION



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,

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