ELLERSTON CAPITAL

Ellerston Global Equity Managers Fund (GEMS)

Performance Report | November 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	2.29%	4.68%	7.57%	4.09%	10.33%	10.12%

Source: Ellerston Capital

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

OUTLOOK AND PORTFOLIO COMMENTARY

The portfolio delivered a net gain of 2.3% during November. The portfolio's long exposure at the end of November was 126% while short exposure was 21%. 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.

Here comes 2020.

Instead of going out on a limb and making forecasts, let's turn it around a bit. What are the capital markets forecasting?

1. The steepening of the US yield curve is striking, especially if you come from the school that says, all roads lead to the US Federal Reserve.
2. NQE (Not Quantitative Easing) is now in full flight with the US Fed balance sheet expected to expand to pre QT (Quantitative Tightening) levels in the not too distant future. Anxiety over the $1 Trillion Daily US Rep market remains elevated and the Fed appears determined to deal with it.
3. Jerome Powell has made it clear that he will literally ignore inflation if it appears again, and in fact US Fed policy is to get behind the curve with regard to any belt tightening they may ever do.
4. The EU seems ready to embark on a new course in a post Merkel, post Brexit era with Christian Lagarde and French President Macron keen on priming the pump in the foreseeable future.

The sum of all this gives us an indication of what to expect: Value over Growth, Return of the Cyclicals, Small Caps and Mid Caps over Large Caps and Mega Caps, Europe over the US, Emerging Markets over the US.

We subscribe to all these views, with the proviso that Gold looks like a great hedge for weak equity markets, a weak USD and too much pump pruning in an Election Year.

STOCK FOCUS

iHeartMedia Inc.

iHeartMedia Inc. (IHRT) is the **#1 audio company** in the United States with a leadership position that extends across multiple platforms including **854 live broadcast radio stations**; its iHeartRadio digital service available across more than 250 platforms and 2,000 devices; branded iconic live music events; and podcasts as the **#1 commercial podcast publisher**.

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
Portfolio Manager	Ashok Jacob
Application Price	$1.5619
Net Asset Value	$1.5580
Redemption Price	$1.5541
Liquidity	Monthly
No Stocks	83
Gross Exposure	147%
Net Exposure	106%
Management Fee	1.50%
Performance Fee	16.50%
Buy/Sell Spread	0.25%/0.25%

History

Buyout: In 2008 as the financial crisis was gathering pace, Private Equity firms Bain Capital and Thomas H. Lee Partners acquired iHeart (formerly Clear Channel) for $24 billion, which included circa $20 billion of debt ($16 billion attributable to the audio business and $4 billion to the billboard business). Although the businesses generated extremely strong operating cash flow, the interest payments on the debt load approaching $1.8 billion were going to be unsustainable and the die was cast.

Bankruptcy: On March 14, 2018 the Company, iHeartCommunications, Inc. filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code. On January 22, 2019, the Plan of Reorganisation was confirmed by the Bankruptcy Court.

Plan of Reorganisation: Pursuant to the Plan of Reorganisation, the following occurred:

- CCOH (Billboard business, which included circa $4 billion of debt) was separated from and ceased to be controlled by iHeartCommunications.

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- The existing indebtedness of iHeartCommunications of approximately $16 billion was discharged. The Company entered into new debt facilities totalling circa $5.75 billion: Term Loan Facility ($3,500 million) and issued the 6.375% Senior Secured Notes ($800 million) and the Senior Unsecured Notes ($1,450 million).
- Shares of the Predecessor Company's issued and outstanding common stock immediately prior to the Effective Date were canceled. iHeartMedia issued an aggregate of 144 million shares and warrants to creditors or 99.1% of the new equity: 56,861,941 shares of iHeartMedia Class A common stock, 6,947,567 shares of Class B common stock and special warrants to purchase 81,453,648 shares of Class A common stock or Class B common stock to holders of claims pursuant to the Plan of Reorganisation.

Emergence from Bankruptcy: Listed as iHeartMedia Inc. "IHRT" on NASDAQ on July 18, 2019.

Business

iHeartMedia is the #1 audio company in the United States and the only major multi-platform audio company. The creation of the "iHeartRadio" master brand has allowed IHRT to consolidate all their consumer products under the iHeartRadio banner and create a highly recognisable brand with strong consumer awareness. The platforms include:

Broadcast Radio - The backbone of the Company is the portfolio of 854 live broadcast radio stations with a monthly reach of 275 million listeners. IHRT is the gorilla in the space with almost twice the broadcast radio audience of its next closest broadcast competitor. IHRT have the most number one ranked stations across the top 160 markets, and across the largest 50 markets, with 71 and 28 number one ranked stations in these markets, respectively (Nielsen's Fall 2018 book). US radio's weekly reach has remained steady (since the 1970s) at over 90% for persons aged 18+, and today reaches over 90% of Millennials and almost 90% of Generation Z weekly in the U.S., (Nielsen's Q3 2018 Total Audience Report). Nielsen data shows that radio still reaches essentially the same percentage of adults in the U.S. as in the early 1970s, demonstrating the enduring appeal of radio as a unique companionship medium. The IHRT relationship with the consumer is further enhanced by the production and distribution of syndicated media content (for iHeartMedia stations and for affiliated stations) through their Premiere Networks business. In addition, IHRT are the number one source of real-time traffic and weather content on broadcast radio through their Total Traffic & Weather Network.

Digital Radio Streaming - Deliver broadcast radio and custom radio (with a small on-demand component) to circa 128 million registered users on the iHeartRadio service and app on over 250 platforms and over 2,000 different connected devices — including smart speakers, digital auto dashes, tablets, wearables, smartphones, virtual assistants, televisions and gaming consoles. This digital audience is seven times larger than the digital listening hours of the next largest commercial broadcaster.

Podcasting - The 2018 acquisition of Stuff Media, LLC solidified IHRT's position as the number one commercial podcast publisher globally, as measured by monthly downloads and monthly unique listeners according to Podtrac, the industry standard for third-party podcast measurement. Overall podcasting industry revenue is expected to increase to $0.7 billion by 2020, according to the iAB, from an estimated $0.4 billion in 2018, a 28% CAGR.

Live Events – Run over 20,000 local live events per year and eight major nationally-recognized tentpole events: the iHeartRadio Music Festival, the iHeartRadio Music Awards, the iHeartCountry Festival, the iHeartRadio Fiesta Latina, the iHeartRadio Podcast Awards, iHeartRadio ALTer Ego, iHeartRadio Wango Tango and the iHeartRadio Jingle Ball Tour.

Social Reach - iHeartMedia's personalities, stations and brands have garnered 146 million social fans and followers. In 2019 the iHeartRadio Music Awards and associated activities generated 310 billion social media impressions.

Valuation and Potential Catalysts

Ellerston GEMS initially acquired a holding in iHeart Media as it traded near its lows, back in August 2019, as the stock sold off after emerging from bankruptcy.

Valuation – The current Market Capitalisation of IHRT is $2.3 billion with Net Debt (at 30/9/19) of $5.5 billion. With organic revenue growth in the low single digits IHRT is forecast to generate EBITDA of circa $1.05 billion and Free Cash Flow of circa $420 million. IHRT trades on an EV/EBITDA multiple of 7.4x and a FCF yield of 18%.

Leverage management – With over 5x net debt to EBITDA, IHRT is materially levered and the equity trades at a discount as a result. This however is also the opportunity. The company has a stated objective of using free cash flow to de-lever the balance sheet. With an estimated interest bill of circa $350m in 2020 the impact of de-levering is huge. Free cash flow increases as interest expense reduces, the reduction in debt increases the value of equity, and the discount applied to equity due to a materially levered balance sheet should dissipate.

Innovation – As an example another way IHRT is expanding its addressable market is with its automated self-serve advertising product called AdBuilder, which is now in beta. It will enable IHRT to efficiently begin to address the 7 million small businesses that are uneconomic for their sales force to call on instead of just the 60,000 clients IHRT reaches today. AdBuilder creates customized audio ads for advertisers using proven techniques to get their businesses heard based on information the advertisers share about the businesses. Once an advertiser has listened to the professionally written and recorded ad, approved it and decided on a budget and dates, AdBuilder's automated process then creates a media plan that connects the ads to the right people in the right times.

***Strategic asset* – iHeartMedia is a strategic asset. In terms of music distribution there are two primary methods for music labels to distribute their content in the US market. Streaming/subscription services and radio. Spotify, Apple and SiriusXM dominate the former while iHeart, Entercom Communications, and Cumulus Media the latter. Aside from music distribution, iHeart has many of the leading radio personalities contracted to the company, a massive and stable listening audience and a strong and innovating infrastructure to maximise advertising revenue. While in bankruptcy it was rumoured that Apple was interested in acquiring the company and it is widely reported that John Malone's Liberty group made an offer to buy a controlling interest. Then last week the Wall Street Journal reported that "An affiliate of John Malone's Liberty Media Corp. is seeking Justice Department permission to buy a larger piece of iHeartMedia Inc., according to people familiar with the matter, a deal that would put the nation's largest radio broadcaster under the same corporate umbrella as the leading concert promoter and satellite-radio giant SiriusXM."**

"We believe the ear is under-monetized versus the eye"
- Liberty Media CEO Greg Maffei discussing podcasts in November 2019

MARKET COMMENTARY

Market Overview

In November, equity markets 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 strong 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

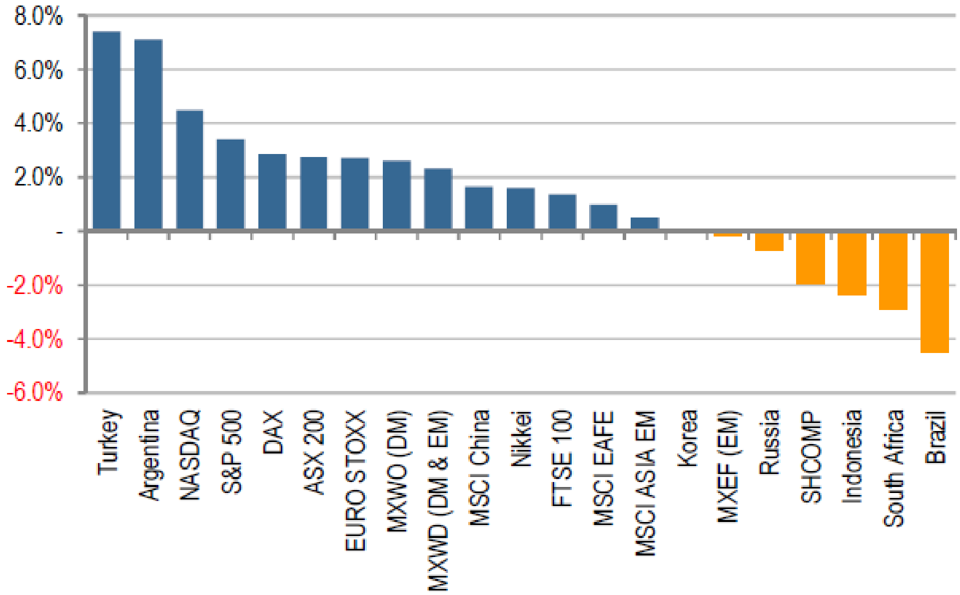
European equities overall were in positive territory, with the Euro Stoxx returning +2.8%. Among key markets, France's CAC 40 index was the strongest performer, up 3.1%, followed by Germany's DAX, with a return of +2.9%. The UK's FTSE 100 was up 1.8%, as Brexit fears abated and a major poll indicated 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

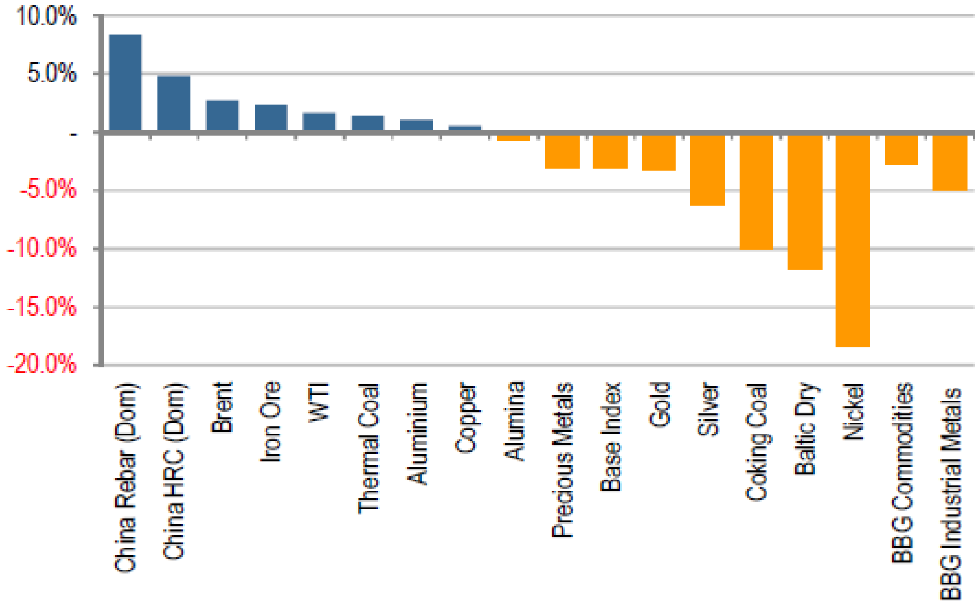


Source: JP Morgan, Bloomberg.

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 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

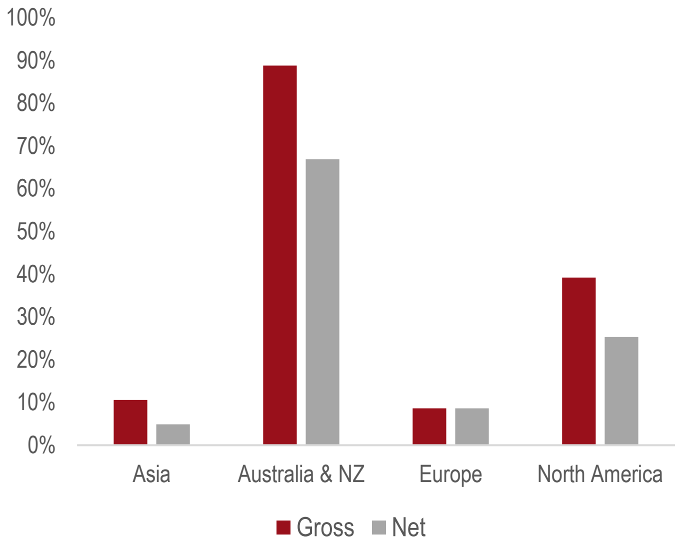
The S&P/ASX 200 Accumulation Index had a very strong month, with a return of 3.3%. The ASX 200 Resources Accumulation Index, with a return of almost +5.0% was the strongest performer, followed by the ASX 200 Industrial Accumulation Index with a return of +2.9%, and the Small Ordinaries Accumulation Index took the wooden spoon, but was in positive territory too with a return of +1.6%.

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.

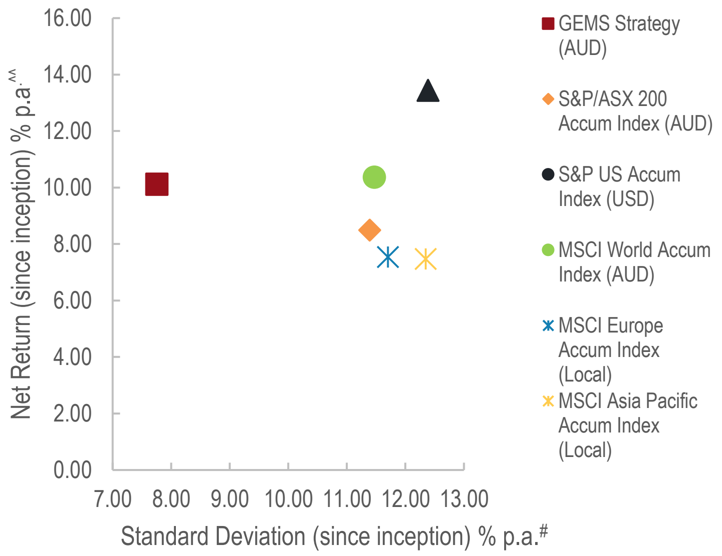
The RBA left rates unchanged at 0.75%, as expected. But its statement contained an easing bias looking forward. The Australian dollar was down 1.9% against the US dollar, and ended the month at 0.68 cents.

PORTFOLIO CHARACTERISTICS

Market Exposure as a % of NAV



GEMS Strategy Performance & Volatility^



Top 10 Holdings (Alphabetical, Long Only)

- BANK OF AMERICA CORP
- CATAPULT GROUP INTERNATIONAL
- CELLNEX TELECOM
- CLOVER CORP LTD
- GRAINCORP LTD
- JPMORGAN CHASE & CO
- MICROSOFT CORP
- MONEY3 CORP LTD
- ORICA LTD
- POINTSBET HOLDINGS LTD

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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