

Ellerston Low Volatility Income Strategy Fund

Performance Report | December 19

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year p.a.	Since Inception (p.a.)
Net [^]	-1.21%	4.39%	9.18%	-	-	11.54%
Benchmark*	-2.17%	0.68%	3.06%	-	-	8.71%
Alpha	0.96%	3.71%	6.12%	-	-	2.83%

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

COMMENTARY

The ASX 200 was the only market to record a negative return over December, falling 2.2%. Emerging Markets outperformed Developed Markets by 4.3%. From a sector perspective in the Australian market, Materials and Resources were the star performers, rising 1.5% and 1.4% respectively. Conversely, Consumer Staples and Communications were the disappointments, declining 8.1% and 5.8% respectively.

The Fund recorded solid relative performance, falling 1.21% on a net basis, thereby outperforming its benchmark by 0.96%. Over the 6 month period, the Fund has outperformed the benchmark by 6.12% on a net basis.

For the month, a key driver of relative outperformance was derived from strong sector and stock performance in Materials (overweight Northern Star Resources & Rio Tinto). These two stocks added 50 bps of relative performance. Also, having no exposure to Woolworths and Telstra Corporation contributed a further 40 bps as the market continued to sell down defensive stocks in exchange for higher beta cyclical stock exposure. Owning Goodman Group and not owning BHP Billiton detracted 40 bps of relative performance.

During the month we exited our position in Kathmandu Holdings over concerns that the bushfires / smoke will potentially have a meaningful impact on sales of outdoor adventure clothing and equipment over the critical Christmas period. The stock has performed strongly and is trading at its long term PER valuation average. We also reduced our position in James Hardie Industries after a very strong performance period, with the stock trading at a PE multiple close to two standard deviations above its long term average versus the market. We still like the company on a longer term basis but feel the valuation has run ahead of fundamentals for now.

There were three portfolio additions during December. We added Northern Star Resources (Gold explorer and producer) via participation in a A\$760m share placement at \$9.00 per share to help fund the purchase of 50% of the Kalgoorlie Super Pit gold mine. The transaction delivers Northern Star a half-share of one of the most significant gold systems in the world. The acquisition will be immediately earnings and dividend accretive and provide the portfolio with negatively market correlated gold exposure. The company is sticking to its dividend payout of 8% of group revenue, forecast to grow by 40% over the next few years. We also added Origin Energy (Integrated Energy Company) post its recent investor day as the company continues to deleverage and look to return surplus cash to shareholders from 2022 onwards. Origin's strong free cash flow (FCF) generation and increasingly strong balance sheet should deliver near term dividends at the top end of the 30-50% of FCF guidance range. A continued cost out program and an easing in retail energy competition will also help kick start earnings growth. Finally, we started building a position in Pandal Group (global investment management) as we believe that earnings and expectations for the business have rebased enough to see performance fees begin to recover. Given the diversity of geography and asset class, we believe relative to other ASX listed asset managers, the share price represents an attractive risk/reward investment. Dividend growth is expected to run at 10% plus per annum post 2020.

Three factors dominated the performance of the Australian market in December. Strong commodity prices (+4.9%), a surging AUD (+3.8%), and a sharp rise in Australian 10 year bond yields (+34 bps) drove cyclical higher beta stocks, namely Energy and Materials, but placed great pressure on REITs (-6.0%) and Staples (-8.1%). This led to an overall, underwhelming Australian share market performance versus global peers.

An agreement between the US and China moving to a 'phase one' trade deal triggered a meaningful sell-off in treasuries, with the yield on the US 10 year posting its largest increase since September. Macro encouragement was further bolstered by gains in the JPMorgan Global All Industry PMI, showing improvements in both Services and Manufacturing.

On the commodities front, the Bloomberg Commodity Index climbed 4.9%. Both base (+2.6%) and precious metals (+3.5%) made ground through December. Bulks, however, led the pack with WTI (Oil) leaping 10.7% and iron ore pushing 3.4% higher.

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	\$1.1173
Net Asset Value	\$1.1145
Redemption Price	\$1.1117
Liquidity	Monthly
No Stocks	37
Management Fee	0.70%
Performance Fee	10%*
Buy/Sell Spread	0.25%/0.25%

* 10% of the investment return over the benchmark return (S&P/ASX 200 Accumulation Index), after recovering any underperformance in past periods.

The portfolio continued to add to its positioning in 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 energy sector. The beta of the fund (a measure of volatility) has moved marginally higher as a result of this but still sits comfortably at 0.93 vs a market beta of 1.00. The expected FY21 dividend growth rate of investee companies held within the portfolio is comfortably above that of the market, at 4.4% vs 0.7% for the ASX 200. The expected dividend yield of investee companies held within the portfolio is currently 3.5%.

Regards,
Chris Hall - Portfolio Manager, CIO

PORTFOLIO CHARACTERISTICS

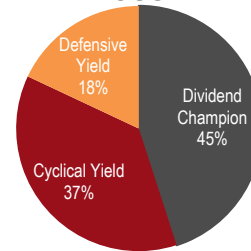
HOLDINGS

Top 10 holdings	Sector	%
CSL Limited	Health Care	8.3%
Macquarie Group Limited	Financials	6.8%
Rio Tinto Limited	Materials	6.1%
Westpac Banking Corporation	Financials	5.3%
Aristocrat Leisure Limited	Consumer Discretionary	5.0%
Caltex Australia Limited	Energy	4.7%
Sonic Healthcare Limited	Health Care	4.5%
Goodman Group	Real Estate	4.4%
Woodside Petroleum Ltd	Energy	4.1%
Resmed Inc	Health Care	3.9%

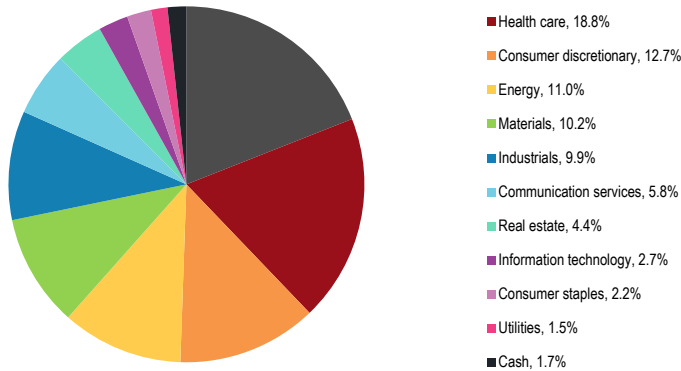
KEY PORTFOLIO METRICS

FY21(e)	Fund	Benchmark
Price/Earnings (x)	19.1	17.5
Dividend Yield (%)	3.5	4.1
Dividend Growth rate (%)	4.4	0.7
Beta*	0.93	1.00

PORTFOLIO YIELD EXPOSURE

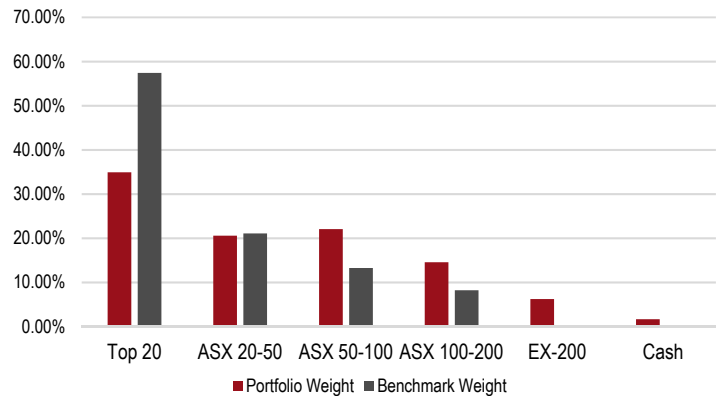


SECTOR ALLOCATION



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/>

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