Ellerston Capital

Ellerston Global Equity Managers Fund (GEMS)

Performance Report | December 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	3.62%	6.90%	13.40%	5.42%	11.01%	10.43%

Source: Ellerston Capital

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

PORTFOLIO COMMENTARY

The portfolio delivered a net gain of 3.62% during December. The portfolio's long exposure at the end of December was 113% while short exposure was 22%. 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.

MARKET OUTLOOK

Every year we attempt to look into our Crystal Ball for an annual outlook.

The unpredictability of US politics does not necessarily make this harder, it simply lessens conviction around any particular view consequent to left field events driven by political agendas, in a very, very high stakes game to win the mantle of the most powerful person in the world.

The US economy is improving relentlessly. If this continues for another 6 months, business confidence which has been too low for too long will flip upwards significantly. Importantly, there is a chance of a serious inflection point with very positive ramifications for risk assets globally.

The Trump Doctrine appears to mandate double digit equity market gains annually. A compliant Fed with the Trump Put is positive.

NQE (Not QE) or Repo Funding or QE4 has seen the Fed reverse all the asset reductions from QT. The Fed will continue $60B of T-Bill purchases into the second quarter of 2020. Simplistically, the Fed has reversed 8 months of QT in 9 weeks. Equity markets are considering a melt up in risk assets with this monumental injection of liquidity. The excess liquidity injected by the Fed is working its way through to the S&P 500 and dragging everything up with it.

The Fed Chair, Powell, has again pledged that he wants to get BEHIND the inflation curve. That's like saying "when the car is speeding well beyond the speed limit, it can continue to do so with no risk of an accident for an undefined period of time" before the Fed hikes rates to slow it down.

This is fodder from heaven for an equity investor!

Europe looks ready to join the party. A post Merkel era is coming. Combining that with Christine Lagarde's clear intention to get out of the first gear that Europe has been stuck in for a decade bodes well for European Risk Assets.

China 2021 is potentially a put option for 2020. All roads in the Middle Kingdom lead to the 100th Anniversary of the creation of the Chinese Communist Party in 1921. A reflation has started in 2020 which bodes well for Chinese Equities.

All this has to be taken with a pinch of salt, as in the long run, investors do know that there is too much debt in the system. The US may well be running deficits for decades and any rise in rates will have a powerful impact on the economy.

Consequently, many investors believe that the US is pursuing a "monetization by stealth" of its balance sheet. Foreign investors are acutely aware of this and "Foreign demand" for funding the US 1T$ default is waning. As global sovereigns pull back from the US, we do see a potential multiyear top for the USD forming with a significant downside for the "Greenback" versus all other major currencies. This is an environment with balance sheet monetization, low rates and a weak USD that could be electrifying for gold, select gold equities and potentially many commodities. In fact, looking at many commodities they are breaking out from ten year down trends. Wheat is a prime example.

This decade may well be one for commodity investors.

To sum up the above, the macro short term backdrop in the absence of anything from left field looks very constructive.

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	$1.6185
Net Asset Value	$1.6144
Redemption Price	$1.6104
Liquidity	Monthly
No Stocks	80
Gross Exposure	135%
Net Exposure	90%
Management Fee	1.50%
Performance Fee	16.50%
Buy/Sell Spread	0.25%/0.25%

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

APIR Code: ECL0006AU

VALUATION

What of Equity Market Valuations?

We come from the school that says they can never be looked at in isolation but relative to bonds/rates. Primarily the US ten year yield.

Going back to 1961 (for Bloomberg convenience) and comparing the S&P 500 multiples (or earnings yields) to the US 10 year yields funds paints an interesting picture.

The first chart shows the earnings yield for the market, which is not far away from where it has always been. Bear in mind, the yield jumps back to over 5 this year as the closing 4.5 is a trailing PE.

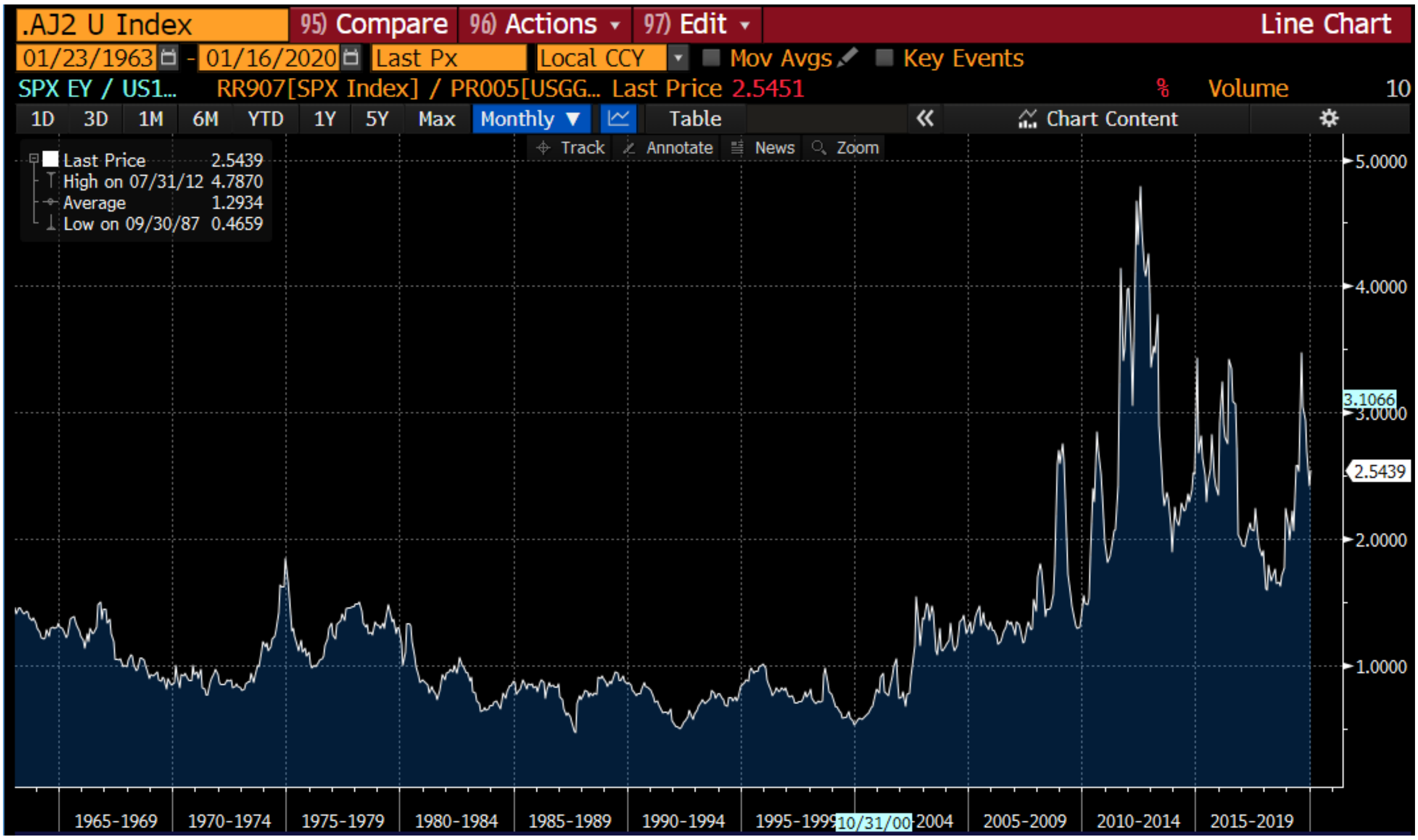
Source: Bloomberg

The second chart shows the yield on the US 10 year bond over the same period.

Source: Bloomberg

Now, if we divide the Earnings Yield by the 10 year interest rate, we see a market that is not expensive according to its biggest brother, the Global Bond Market.

What is clear is that in the Post GFC QE era, there are wild swings in this ratio as the market comes to grips with the new paradigm of very low long term bond yields. With an earnings yield of 5.4% for 2020, it is hard to come to the view that the S&P is expensive at the current level of the bond market. We will talk about this more next month.



Source: Bloomberg

Technically, many indicators are flashing green and many sectors are breaking out. As a firm we favour value overgrowth. Small and mid caps over large caps. Emerging markets over developed markets.

Why? This is the trade for a strengthening economy, with a Fed determined to get BEHIND the curve and in line with our weaker USD hypothesis. Technically various markets are breaking out. This does NOT look like an amber light.

My favourite quote on markets is the old Japanese adage: "When the fools are dancing, only the greater fools are watching".

This is not a comment that valuations are crazy and only those without experience are benefiting. The macro environment looks very positive. Equity market valuations are cheap relative to the bond market and the technicals look good.

Happy hunting for 2020.

STOCK FOCUS

Cellnex

Cellnex is a telecoms and broadcast infrastructure **spin-off from Abertis** that became an independently listed company in May, 2015. Cellnex has been the biggest beneficiary of the transition of European telco tower infrastructure from mobile network operator ownership to independent ownership. Since its listing the company has aggressively expanded via a number of strategic acquisitions to become the **leading European telecommunications tower infrastructure operator with in excess of 50,000 sites.** Ellerston GEMS has been a long term investor in Cellnex.

History

Spinoff: The company was created by Abertis, the Spanish toll road group, which after the IPO remained the largest shareholder with a c.34% stake. At the time, Cellnex was running a tower infrastructure portfolio of over 15,000 sites across Spain and Italy.

Strategic Investors:

July 2018 - ConnecT S.p.A, ultimately owned by Italy's **Benetton Family** (prominent infrastructure investors)**, acquired Abertis's remaining shares in Cellnex**, which represented 29.9% of the total share capital, for a total consideration of €1.5 billion.

October 2018 – Benetton Family sells a 20% stake in ConnecT to the Abu Dhabi Investment Authority and a 20% stake to Singapore's Sovereign Wealth Fund GIC, on same economic terms as it acquired the Cellnex stake. All shareholders of ConnecT **committed to spend an additional 1.5 billion euros to support Cellnex's growth plans**.

Acquisitions: Since the company's IPO in 2015, Cellnex has **invested or committed to invest €10.8 billion**, via multiple acquisitions and future construction. Major acquisitions have included:

February, 2017 – Acquisition from Bouygues Telecom of up to **1,800 sites for €500 million,** primarily urban sites in the main cities of France. Cellnex and Bouygues Telecom also agreed on a second project for the building of up to 1,200 sites for a total investment of €354 million.

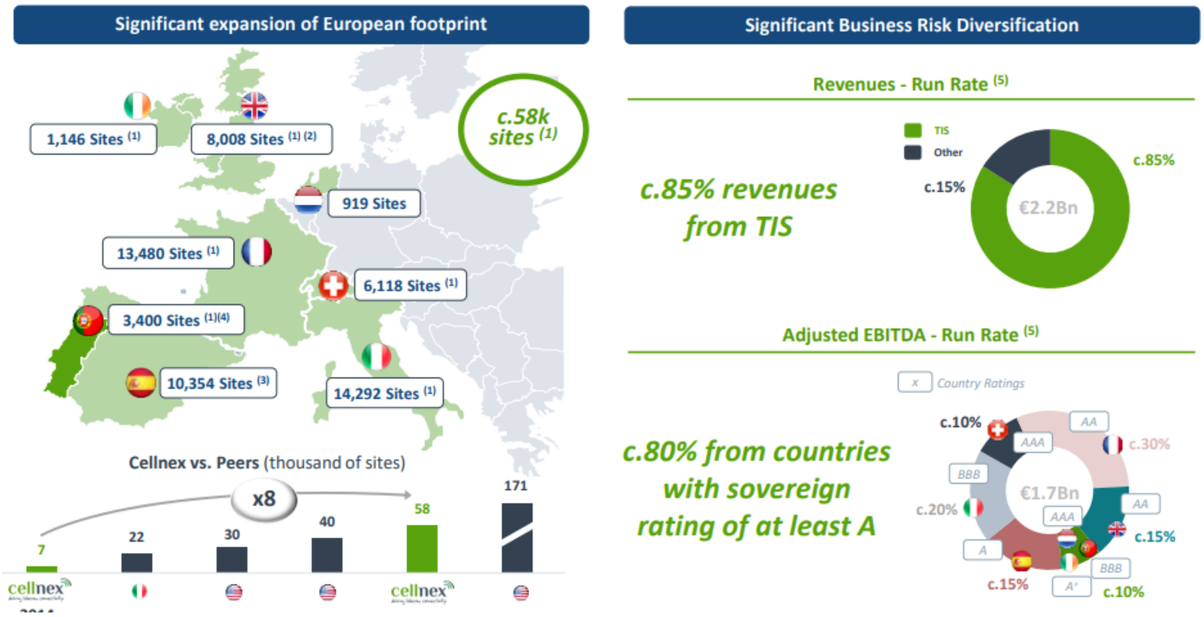
May, 2019 – Agreement to acquire **10,700 sites in France, Italy and Switzerland for a cash consideration of €2.7 billion**, €1.4 billion for 70% of the new company that will operate the 5,700 sites acquired from Iliad in France, plus €600 million for 100% of the 2,200 sites to be acquired from Iliad in Italy; and €700 million for control of 90% of the company that will manage the Salt sites in Switzerland. This is combined with a build out program of up to 4,000 new sites (estimated cost €1.35 billion to be completed by 2027).

October, 2019 – Acquired Arqiva's telecoms division for a total consideration of **£2 billion for c.7,400 sites** and the rights to market c.900 sites spread across the UK.

January, 2020 – Acquired nationwide portfolio of c. **3,000 sites in Portugal for €800 million**.

Business

Cellnex is now the largest independent tower company in Europe with up to c. 58,000 sites, of which up to c. 8,300 are to be added through 'Build-to-Suit' programs.



Valuation and Potential Catalysts

Cellnex continues to report very solid organic growth in addition to the well-publicized inorganic growth. With strong organic growth and the current 'Build-to-Suit' programs in place today, Cellnex has ample opportunity to continue to re-invest its free cash flows at attractive returns on capital and in effect, continue to compound the intrinsic value of the business. Opportunities in additional infrastructure, such as fiber, edge data centers, small cells, etc. only add to this opportunity. The execution by management of asset acquisition and integration, capital management and operating performance has been outstanding. While at first glance the valuation of Cellnex looks far too expensive, this is one of those situations where a unique and strategic suite of assets will always appear that way and the value of the assets will keep grinding higher as earnings grow. A long term compounding machine for investors.

"We are improving our market and customer diversification while ensuring a visible and growing cash flow generation. We are building industrial ties with all key European mobile operators, with the objective to become a long-term partner. And we are ideally positioned to continue capturing the massive European tower opportunity."

Tobias Martinez, CEO, Cellnex. (Nov, 2019)

ELLERSTON CAPITAL

MARKET COMMENTARY

Market Overview

In December, global equities squeezed higher with Australia being the exception. Developed Markets rose 5.2% in local currency terms, outperforming Emerging Markets which rose 2.3%, despite strong gains in Argentina, Brazil and China. Investors were encouraged by positive developments in the discussions between the US and China regarding their ongoing trade war.

USA

The US equities market continued to rally in December buoyed by positive headlines on the trade war with China and reinforced by solid economic data. The Dow Jones Industrial Average Index was up 1.9%, while the NASDAQ returned an impressive +3.6%. The best performing sectors for the month were Energy and Information Technology.

The S&P 500 had its fourth consecutive month in the black with a return of +3.0%, capping off a very strong calendar year that rewarded investors with a total return of +31.5% and enduring the first decade without a recession. Impressively, 67 of the 68 S&P 1500 Industries (GICSL3) finished in positive territory. The top 5 stocks for 2019 (AAPL, MSFT, FB, GOOGL and AMZN) accounted for 730 basis points of the S&P 500's 31.5% gain, or c. 23% of the performance, very similar to last calendar year's percentage contribution.

The markets finally had some concrete good news on the trade war front towards the end of the year after it was confirmed that the US and China had agreed to a "phase one" trade deal. Also, a stronger non-farm payroll number which showed that payrolls had increased to 266,000 in November against an estimate of 180,000, contributed positively to investor sentiment.

Europe

European equities overall were also in positive territory, with the Euro Stoxx 50 returning +1.2%. The month started with some trepidation with respect to the trade war, but equities rallied with the announcement of the "phase one" deal and the resounding re-election of the Conservative Party in the UK.

The UK's FTSE 100 was up 2.8%, lifted by the convincing victory by the Conservative Party. France's CAC 40 was up 1.3%, while Germany's DAX was only modestly in positive territory, returning +0.1%.

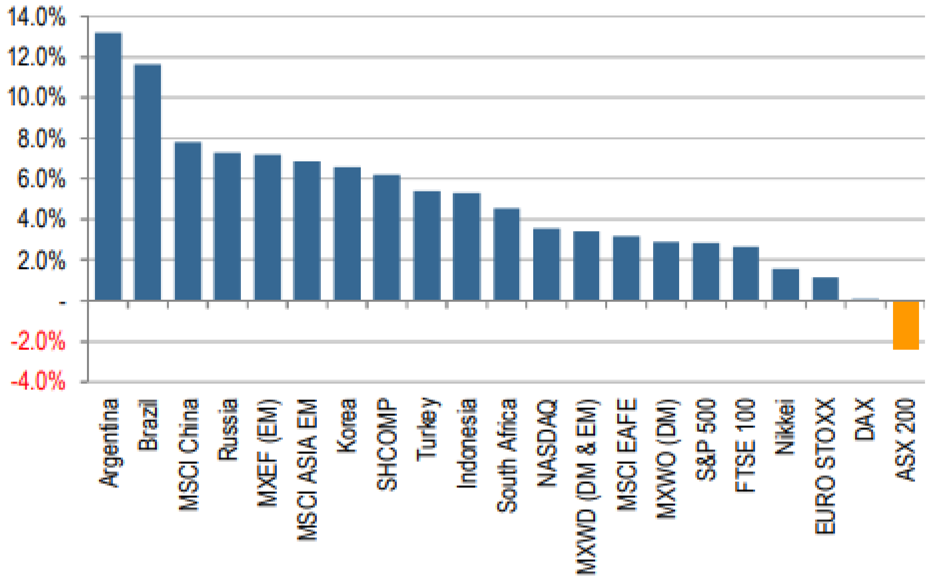
Activity indicators may have bottomed, with flash Eurozone manufacturing PMI for November of 46.9, ahead of consensus of 46.6.

Asia

Asian equities finished December in positive territory after enduring a few months of protests in Hong Kong and trade-war related uncertainty. Markets were stronger after a fresh round of tariffs on Chinese consumer goods were averted following the "phase one" deal on trade.

In Hong Kong, the Hang Seng Index rallied strongly, up 7.0%, China's SSE Total Market Index returned +6.5%, and Korea's KOSPI Composite Index was up 5.3%. Japan and India rose more modestly in comparison: Japan's Nikkei 225 was up 1.7% and India's S&P BSE Sensex was up 1.1%.

Global Equity Markets' Performance in December 2019

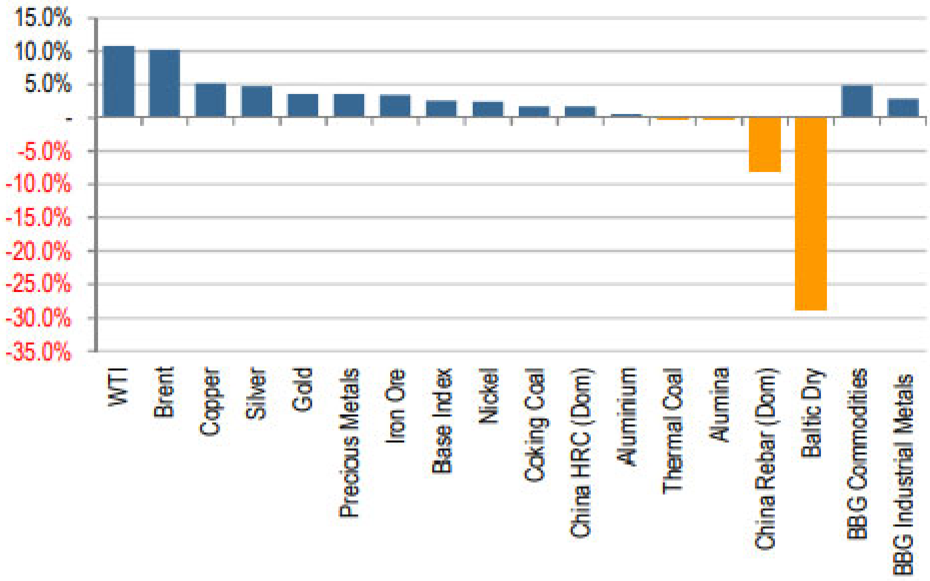


Source: JP Morgan, Bloomberg.

Commodities

Bulk commodities were mixed, with iron ore up 3.4% to US$90.50/t, whilst thermal coal drifted lower. Brent oil rose 10.3% to US$66/bbl, while gold prices rose to $1,517/oz. as geopolitical risks rose.

Commodity Performance in December 2019



Source: JP Morgan, Bloomberg.

Bonds

Global bond yields sold off again in December. The US 10 year bond yield rose 14 basis points to 1.92% and the Australian 10 year bond yield rose 34 basis points to 1.37%, the highest level since July 2019.

Australia

The S&P/ASX 200 Accumulation Index bucked the trend and had a poor month, with a return of -2.2%, but was one of the top performing global equity indices in both AUD and USD terms for the year. The domestic market finished the calendar year with a total return of 23.4%, its best performance since 2009 and rising from the ashes of a dreadful end to the previous year, where global equities sold off sharply in December 2018.

It was a mixed bag on the economics front. NAB business confidence dropped to +0 from +2 previously. October retail sales missed expectations and were flat at 0.0% month-on-month. But employment in November was ahead of expectations, lifting by almost 40,000 against consensus of 15,000.

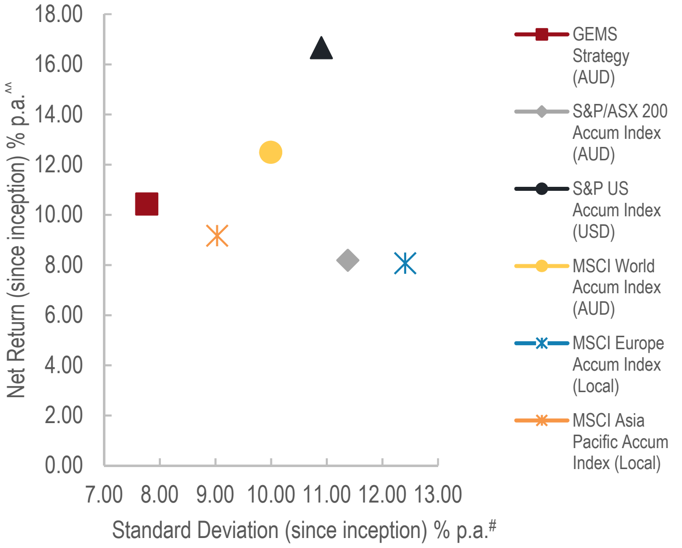
The RBA left interest rates unchanged at 0.75%, and economic growth, measured by GDP, was in line with expectations at 1.7% year-on-year (in the third quarter of 2019) annualised.

The Australian dollar rose 3.5% against the US dollar, and ended the month at 0.70 cents.

PORTFOLIO CHARACTERISTICS

Market Exposure as a % of NAV

GEMS Strategy Performance & Volatility^



Top 10 Holdings (Alphabetical, Long Only)

- BANK OF AMERICA CORP
- GRAINCORP LTD
- JPMORGAN CHASE & CO
- MICROSOFT CORP
- MONEY3 CORP LTD
- NEXTDC LTD
- NORTHERN STAR RESOURCES LTD
- ORICA LTD
- POINTSBET HOLDINGS LTD
- TYRO PAYMENTS 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,

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

DISCLAIMER

^ 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.

^^ 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.

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.