

Ellerston Global Equity Managers Fund (GEMS)

Performance Report | February 20

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	0.32%	9.11%	19.67%	7.83%	10.73%	10.80%

Source: Ellerston Capital

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

PORTFOLIO COMMENTARY & MARKET OUTLOOK

Portfolio: The Ellerston GEMS portfolio delivered a **net gain of 0.32%** during February 2020 versus Australian ASX 200 losing -7.7% and US S&P 500 losing -8.2%

During these times of extreme market volatility, we appreciate that you will want to know more up to date performance data. Calendar Year to Date performance from January 1st to March 22nd, the Australian ASX 200 was down -27.6%, and the US S&P500 was down -21.0%. Your fund is down -3.7% for the same period.

Market Outlook: We anticipated in the last letter a robust equity outlook with the proviso of Corona not morphing into a pandemic. Well we now have a global pandemic.

We carried a very large put option position just in case as well as a very large gold option position. The put option position materially mitigated our losses. The gold position after moving up sharply suffered with general market capitulation and we reduced at break even. We are however very pleased with the net result Calendar Year to Date.

Where do we go from here?

The virus is like a hurricane/cyclone. You know it is there. You just do not know exactly when it will hit, how long it will last, when the eye of the storm will pass and what level of devastation it will cause. As such, the global economy has a short-term outlook that is nothing short of diabolical.

We have a health crisis, an economic crisis, a looming financial crisis, which may lead to a social crisis. Until the health crisis is under control, the markets carry too much short-term risk. The economy is now certain to head into a recession, the depth of which is likely to depend on the effectiveness of the global fiscal response and the amount of time until the storm passes. We anticipate that this could be severe and impactful for everyone let alone the equity market. Similarly, parts of the financial sector are likely to come under unbearable pressure because of their exposure to main street. As the Banking system is so robust, the large players will be stable and the GFC has forced regulators to keep the bank balance sheets in excellent shape. However, there is a potential catastrophe looming for non-bank financials, with significant financial leverage risk having shifted to this sector from traditional banks post the GFC

We have positioned ourselves to carry negligible equity risk at this point and anticipate ongoing heightened volatility.

There is substantial downside still in the market while the crisis worsens. The market as we write has only retraced to December 2018 levels which highlights what a great year 2019 was. Easy come, easy go

It is highly likely that equity markets will only recover when they see a coming economic recovery. When they do, the recovery could be seismic, or V shaped. We anticipate that many companies could be at least 50% higher in two years. While that is likely many iterations away there is a lot of work to be done as we assess the opportunities that are gradually beginning to emerge.

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 \$1.7041

Net Asset Value \$1.6998

Redemption Price \$1.6956

Liquidity Monthly

No Stocks 72

Gross Exposure 166%

Net Exposure 45%

Management Fee 1.50%

Performance Fee 16.50%

Buy/Sell Spread 0.25%/0.25%

MARKET COMMENTARY

Market Overview

As COVID-19 spread around the world, alarm over its negative impact on global growth and ongoing supply-chain disruption saw equity markets sell off rapidly and bond yields collapse to record lows in February. The sharp falls in equity markets in the last week of the month were reminiscent of the panic during the throes of the Global Financial Crisis (GFC). The collapse marked the swiftest 10% correction from an all-time high on record. Surprisingly, Emerging Markets outperformed Developed Markets by 3.2%. Gold rose to the highest level since 2013 given its safe haven status, while Brent crude oil prices fell to 2018 lows.

USA

The economic fallout from the spread of COVID-19 rattled investors, causing US stocks to tumble in late February. The final week of the month was the worst since the GFC, with equity indices down 11%, while treasury yields plummeted to all-time lows. For the month, the S&P 500 was down 8.2% (-8.3% calendar year-to-date) and the Dow Jones Industrial Average was down 9.8% (-10.6% calendar year-to-date). The Dow fell 3,583 points, the largest weekly point loss ever and 14.1% from its intraday zenith recorded on February 12th. The NASDAQ Composite was also in negative territory but fared slightly better, with a return of -6.3% in the period (-4.4% calendar year-to-date.)

On the 3rd of March, the Fed delivered an inter-meeting cut of 50 basis points, bringing rates to a range of 1 - 1.25%. It was the first emergency action since October 2008, which was during the heart of the GFC. The rate cut was followed by a press conference from Fed Chair Powell, where he noted that the Fed will use tools and act appropriately depending on the flow of events. In other words, additional cuts are on the table. The Dow Jones fell 785 points (2.94%) in response to Powell's misfired commentary that afternoon.

Europe

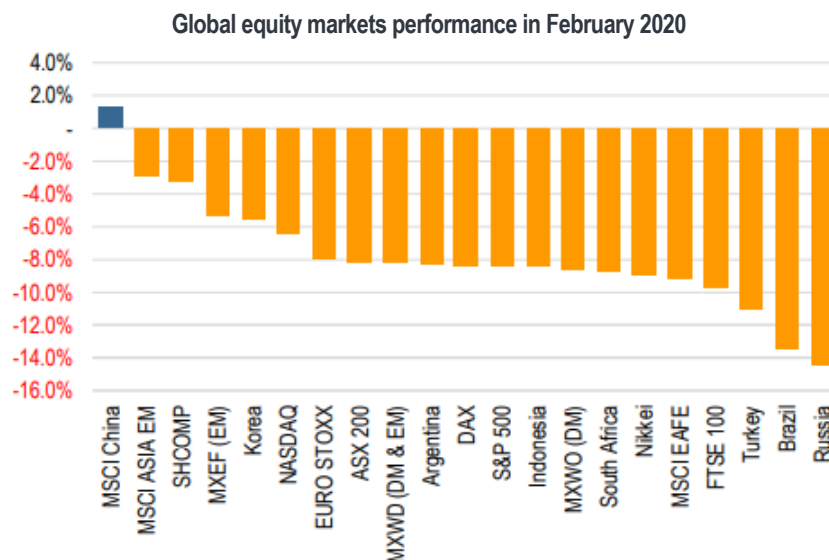
European stocks were also much weaker as fears of a pandemic spread, with a sudden outbreak in Italy and numerous cases reported across Europe. Stocks had been weak the previous month, but collapsed in February. The Euro Stoxx 50 was down 8.5%, with all major markets in the red: the FTSE 100 returned -9.0%, France's CAC 40 -8.6% and Germany's DAX -8.4%. At the end of February, the FTSE 100, CAC 40 and the DAX registered returns below 10% in the calendar year-to-date - officially in "correction" territory.

Activity indicators in Europe moderated, with the flash Eurozone manufacturing PMI for February beating, but still only at 49.1. January inflation data came in at 1.4% year-on-year, as expected.

Asia

Asian equities were also dragged down in the global sell-off, with Japan's Nikkei 225 and Korea's KOSPI Composite the worst performers, down 8.8% and 6.2% respectively. The Hang Seng was a comparatively good performer, being down only 0.4% and the broader Chinese market, represented by the SSE Total Market Index, was down 2.7%.

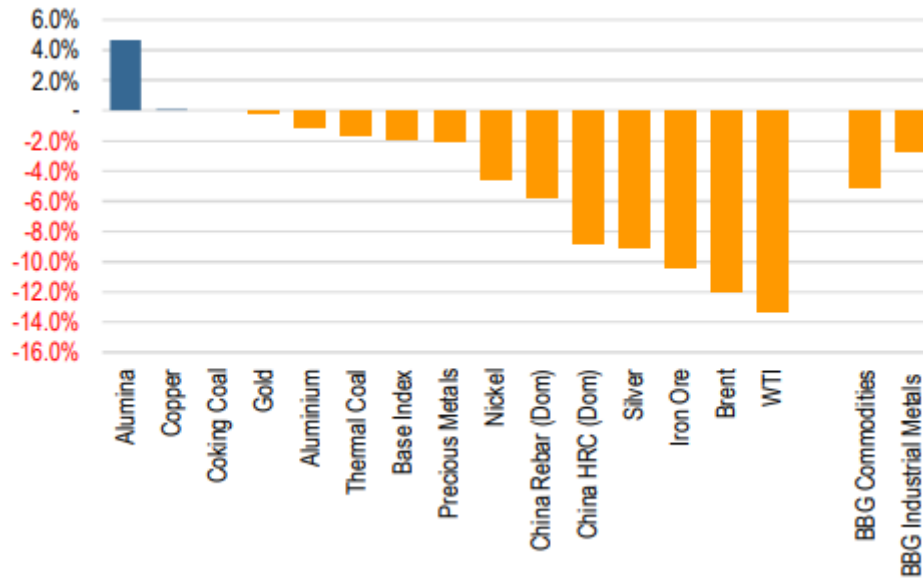
It was widely expected that the spread of COVID-19 and measures imposed to contain it would severely impact Chinese economic growth. Manufacturing activity data released in early March showed that Chinese factories were reeling, with China's manufacturing purchasing managers' index sinking far worse than expected to 35.7 in February - the lowest reading since the survey began in 2004 - and down from 51.1 in January.



Source: JP Morgan, Bloomberg

Commodities

The BBG commodities index fell 5.2% in the month. Iron Ore was down 10.4%, as China-related demand unease saw iron ore prices close at US\$86/t and Brent dropped 12% as fears that COVID-19 would negatively impact global growth took hold. Base metals were also weaker and precious metals weren't spared either. Alumina was the best performer, up 4.7%.

Global commodity performance in February 2020


Source: JP Morgan, Bloomberg

Bonds

Global bond yields fell again in February, hitting new record lows as investors clamoured for the safety of government paper and safe haven assets. The US 10-year bond yield ended the month at 1.15% (and has continued to fall in early March) and the Australian 10-year bond yield remained below 1%, closing the month at 0.82%.

Australia

The S&P/ASX 200 Accumulation Index had a shocking February, ending the month at 6,441.2, down 7.7% (-3.1% calendar year-to-date), as the first-half earnings season was quickly brushed aside. Investor confidence that saw the market achieve a record high of 7,197.2 intra month and outperform the previous month, dissipated rapidly as COVID-19 spread globally, dominating news headlines. The battering represented a 10.5% decline and the fastest correction from its recent high on record, with every GICS in the red in the month of February.

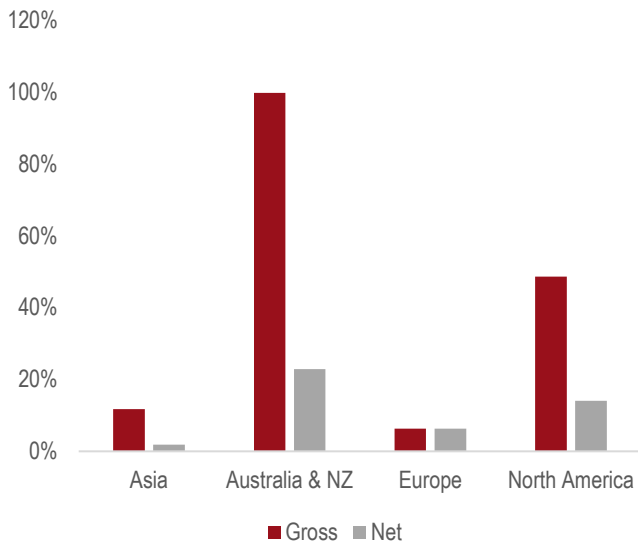
The month featured the semi-annual reporting season which is now over, with more misses than beats. ASX 200 Industrial firms delivered their weakest profit growth since the GFC. EPS fell 8% year-on-year and 43% of firms missed EPS forecasts (according to data compiled by Goldman Sachs). It is estimated that 49% of ASX 100 companies saw downward EPS revisions to FY20 EPS of greater than 2%, against just 14% of stocks seeing 2% plus upward revisions.

In a move widely expected, the RBA left rates unchanged after its meeting in early February but immediately cut rates by 25 basis points to their lowest level in Australian history following its meeting in early March. The move follows three rate cuts last year. The RBA's statement said: "The Board took this decision to support the economy as it responds to the global COVID-19 outbreak." The four major banks passed on the rate cut in full. It is expected that the government will announce a fiscal stimulus package ahead of the budget, but details remain scarce.

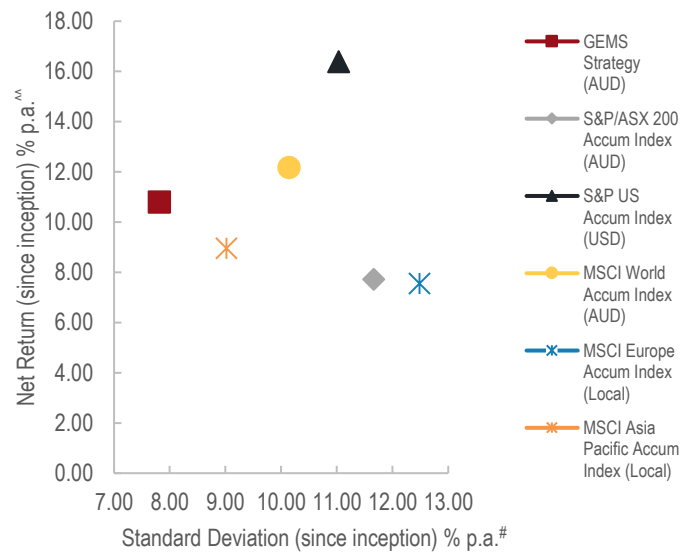
The Australian dollar fell 2.6% against the US dollar in February, ending the month at 0.65 cents.

PORTFOLIO CHARACTERISTICS

Market Exposure as a % of NAV



GEMS Strategy Performance & Volatility[^]



Top 10 Holdings (Alphabetical, Long Only)

- CELLNEX TELECOM SAU
- DIAMOND EAGLE ACQUISITION CORP
- GRAINCORP LTD
- IMDEX LTD
- JP MORGAN CHASE & CO
- MICROSOFT CORP
- MONEY3 CORP LTD
- NEXTDC LTD
- TYRO PAYMENTS LTD
- WHEATON PERCIOSUS METALS

All holding enquiries should be directed to our registrar, [Link Market Services](mailto:linkmarket@linkmarketservices.com.au) on 1800 992 149 or ellerston@linkmarketservices.com.au

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Should investors have any questions or queries regarding the Fund,

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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.