ELLERSTON CAPITAL

Ellerston Global Equity Managers Fund (GEMS)

Performance Report | March 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	-7.30%	-2.39%	10.54%	5.17%	8.30%	9.90%

Source: Ellerston Capital

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

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	$1.5796
Net Asset Value	$1.5757
Redemption Price	$1.5718
Liquidity	Monthly
No Stocks	59
Gross Exposure	92%
Net Exposure	37%
Management Fee	1.50%
Performance Fee	16.50%
Buy/Sell Spread	0.25%/0.25%

PORTFOLIO COMMENTARY & MARKET OUTLOOK

Portfolio:

Fiscal Year to Date from June 30 to April 23, the Australian ASX 200 was down -18.6%, and the US S&P500 was down -3.35%. **Your fund is up +13.59%.**

Calendar Year to Date from January 1st to April 23, the Australian ASX 200 was down -21.0%, and the US S&P500 was down -12.9%. Your fund is up +0.7%

We entered March well invested but extremely cautious with significant portfolio protection in place via put options, index futures shorts and equity shorts. As it became clear that the world and markets were in trouble, we aggressively reduced your fund's long exposure with a pure focus on capital preservation. As investors sought liquidity through sales of all assets, our gold positions were not immune from the market malaise. Our actions highlight the advantages of being invested in a long/short strategy that has the ability to pivot rapidly.

We entered April with very materially reduced exposures and a view that anything could happen, including a vicious bear market rally or continuation of downward momentum and new lows. With a keen eye on capital preservation and obviously wanting to participate in any rally, we positioned the portfolio to participate yet not be too vulnerable to a sharp downdraft.

Your portfolio currently has a net exposure of circa 32% plus an exposure to gold of circa 15% and continues to have no foreign currency exposure.

Market Outlook: Let's look back over March and April before we focus on the path ahead.

March was a month driven by fear as COVID-19 penetrated globally leading the great shutdown and hibernation. During the first 3 weeks of March the S&P 500 fell -28% before bottoming on March 23rd when the US Federal Reserve stepped in "to support the flow of credit to households and businesses by addressing strains in the markets for Treasury securities and agency mortgage-backed securities." This was followed on the 27th by the passing of the $2 trillion coronavirus relief bill.

April has to date seen a continuation of an aggressive rally from the March lows, driven by extreme liquidity provided by ongoing extraordinary monetary and fiscal actions. On April 9 the FOMC announced that it "took additional actions to provide up to $2.3 trillion in loans to support the economy." The mantras of don't fight the Fed and don't underestimate the impact of government came to the fore. As the month moved on negative news flow shifted to optimistic news flow with a focus on passing peak virus cases and discussion about reopening of economies. With this backdrop the S&P500 has rallied 8.5% MTD to April 23. Meanwhile the great global hibernation continues.

The path forward

Many investors are trying to reference the Global Corona Crisis (Main Street) to the Global Financial Crisis (Wall Street). The GFC felt like a heart attack. Without immediate relief, many banks would have failed and created a crisis of unparalleled magnitude. This time, the GCC impact on the economy feels more like Cancer. The disease has arrived, the economy is numbed quickly, next step is chemotherapy. This could linger for many years.

Every crisis teaches us something new. Over the coming months the great hibernation will give way to lockdown releases everywhere and the restarting of global economies. Will the new normal resemble the old normal or will the global landscape be materially changed?

Over the last couple of months, we have witnessed some extraordinary events unfold, including;

- The great work from home experiment which will likely change the way we work forever.
- Governments supplementing wages for the masses via Corona relief packages.

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- The emergence of a new credit class, Corona Credit. Payment of interest and Principal has become somewhat optional, payments of retail and some residential rentals have been stopped, tax payments deferred and more. The rights of asset owners have now become uncertain and redefined, at odds with the foundation of the capitalist system that we live in today which ensures Credit obligations are enforced perfectly through Contract Law.
- A pension crisis in the West and a superannuation crisis looming in Australia. The impact of the Government allowing a staggered $20,000 redemption over two years is devastating for funds with low average balances per member.

We have also experienced a significant acceleration in some previous trends, including;

- The use of digital payments versus physical cash payments has increased dramatically as online sales have surged and many bricks and mortar retailers stopped taking physical cash payments.
- One of the greatest forced experiments of all time has been a global shut down of the non-essential economy combined with stay home and work from home restrictions. This has led to accelerated mass adoption rates of digital technology solutions, including in online communication, online shopping, online payments, online remote working environments, and telehealth. Solutions like Zoom, Teams, Teladoc, Amazon, and Shopify have seen material acceleration of growth rates. This period will likely accelerate a paradigm shift in the way we work, the way we access healthcare, the way we shop, and the way we educate, amongst other things. Could this lead to changes in our travel and commute patterns amongst other things?

We have also experienced unprecedented fiscal and monetary actions and relief as mentioned above. However, the current US and global economic packages are not stimulus packages. As the US Senate Speaker Mitch McConnell noted, this is simply a safety net package. It tries to keep people off the street, relieve short term issues and maintain human dignity. While in Australia the packages are focussed on getting us through the period of hibernation. What we do however know with a high degree of confidence is that there is a lot more to come. This was well summed up by Jay Powell when he said, "We will continue to use these powers forcefully, pro-actively and aggressively until we are confident that we are solidly on the road to recovery".

Crises always create opportunities. We are invested in companies where we believe the risk reward profile is compelling. Your fund also has a significant exposure to gold. We remain extremely confident off a surge in the gold price over the short to medium term. Government reflation and Central Bank money printing are all on the cards. The only asset whose price is outside the financial system is Gold. Some investors believe that physical gold will outperform paper gold, but we believe the latter should be a core part of any portfolio. We will give a more expanded outline of our thesis in our next monthly update.

Finally, the move by the US Fed to indirectly support the risky end of the Investment Grade Credit market as well as provide liquidity to the Junk Bond market begins a new journey that was inconceivable a decade ago and takes quantitative easing to a different level. Pumping USD into the system and providing liquidity to debt markets brings the system back from the brink. All of this may not be enough eventually, but it is more than enough for the moment.

Very oddly there is an almost eerie similarity between the behaviour of this market to the similar crash in 1929. Although probably coincidental, the crash sees a solid recovery for about 6 months before falling to a level 50% below the previous level.

As a Long short fund, we are focussed on the core principles of Absolute Return Investing. Rule number 1 has always been preservation of and limitation of permanent loss of capital. Over the last 10 years the global environment has been largely benign and participating as fully as possible during the long bull market while managing risk was the focus. In the current environment the focus on preservation of capital is more important than ever.

Our current intention is to keep a net exposure to the mkt of 20-35% and a 10-15% exposure to Gold.

MARCH MARKET COMMENTARY

Market Overview

Fear and panic gripped investors in March, as COVID-19 infected and dislocated markets and societies globally. Five weeks ago, it was hard to imagine this type of systemic shock to the global economy and all asset classes. The scale and speed of the response from central banks and governments have been impressive and extraordinary. We do indeed live in unprecedented times!

Global equity markets and bond yields collapsed in March. The VIX, the so-called "fear index" spiked to near peak volatility levels seen during the GFC. In Australia, the share market had its worst month since October 1987 and the March quarter of was the worst on record. The Australian dollar fell to US$0.61 after touching an intra-month low of US$0.55. Gold, with its safe haven status shining brightly, reached 2013 highs before settling at US$1,609/oz. Oil slumped to a 17 year low as Russia and Saudi Arabia abandoned supply restraint just at a time when global demand was about to collapse.

USA

In March, the S&P 500 fell 12.4%, the Dow Jones was down 13.6% and the NASDAQ Composite fell 10.0%. Extreme volatility featured prominently. The S&P 500 also recorded two of its worst days since 1987 (-12.0% on 16 March and -9.5% on 12 March), but also had two days with gains of over 9.0%. The Dow Jones ended the quarter in bear market territory, with a return of -22.7%. This shocking quarter ended its bull run that started in 2009. From February 19th to March 23rd, the US equity market in fact experienced its quickest meltdown in history, losing 33.9% on the S&P500. The 17.5% rally that followed marked the best 3 day stretch since the 1930s. US bond yields also collapsed, with the 10-year treasury yield down 0.46% to finish 0.68%. It was yielding 1.9% at the start of the quarter!

The economic data and activity indicators were irrelevant given the enormous contraction expected in US GDP. As we write, around 10 million Americans have filed for unemployment support - a number likely to continue to rise, along with the death toll, which is the grim reality of COVID-19. The unprecedented response of the US government and the US Federal Reserve is addressed in later commentary.

Europe

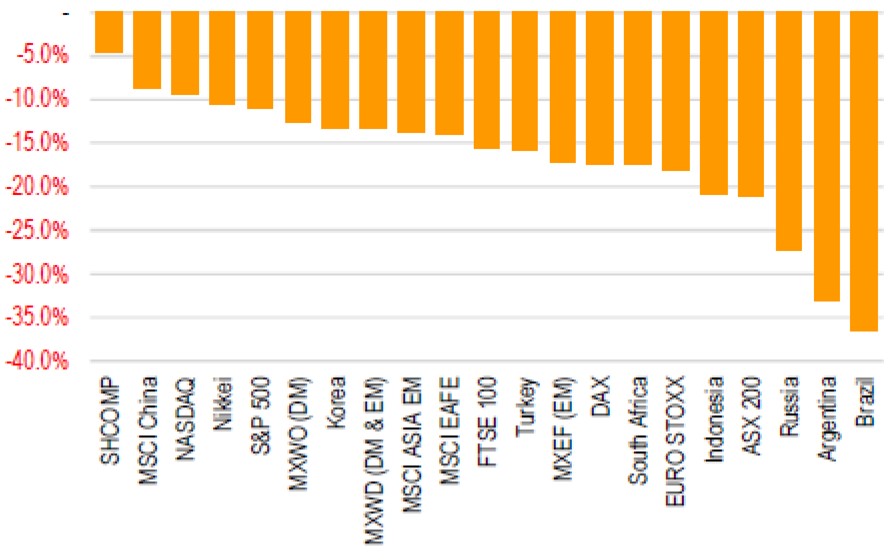
European bourses were also hit hard during the month, with the Euro STOXX 50 closing down 16.2%. Among the major exchanges, the returns were UK's FTSE 100 -13.4%, France's CAC 40 -17.0%, and Germany's DAX -16.4%. These three major markets were in deep bear territory for the quarter, all falling over 25%!

The sheer scale of the major European government's responses to COVID-19 indicates the significant deterioration expected for the wider European economies ahead.

Asia

Asian equities also fell, but outperformed on the downside. China, Korea, Japan and Hong Kong were the earliest to experience COVID-19, so signs that it was being controlled and China "going back to work" helped buffer the declines. The Hang Seng Index was down 9.5%, Japan's Nikkei 225 fell 9.9% and Korea's KOPSI Composite Index finished down 11.7%. The SSE Total Market Index, a broad representative of the Chinese market, proved resilient, only falling by 4.9%. The Indian market was battered, with the BSE Sensex sliding down 22.8%. Investors feared a looming crisis from COVID-19 in an emerging market which lacks key infrastructure and resources to cope with the pandemic.

Global equity markets performance in March 2020

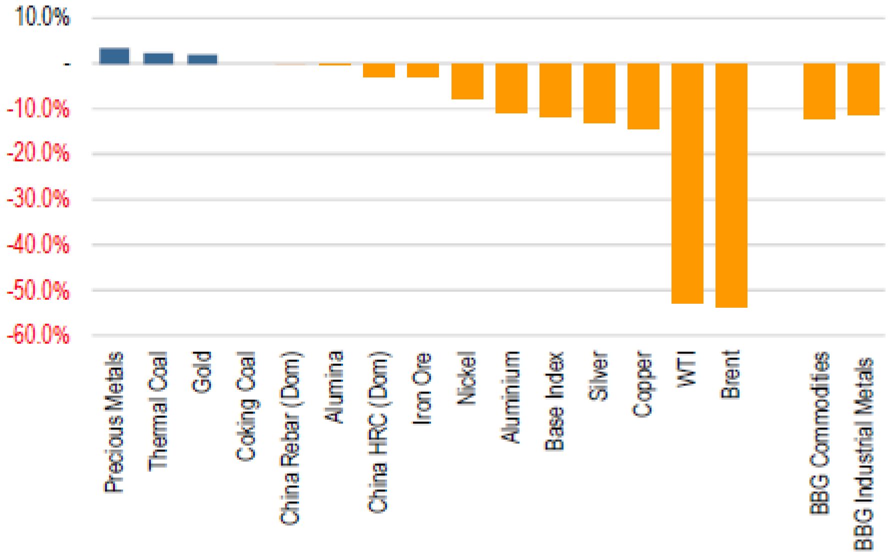


Source: JP Morgan, Bloomberg

Commodities

The BBG commodities index fell 12.1%, mainly driven by the collapse in oil (> 50%). Oil recorded its worst ever quarterly performance, as Russia and Saudi Arabia abandoned supply discipline at a time when demand was about to collapse as a result of forced isolation policies and the grounding of all non-essential air travel, causing jet fuel demand to fall off a cliff. Please see separate section on oil below.

Global commodity performance in March 2020



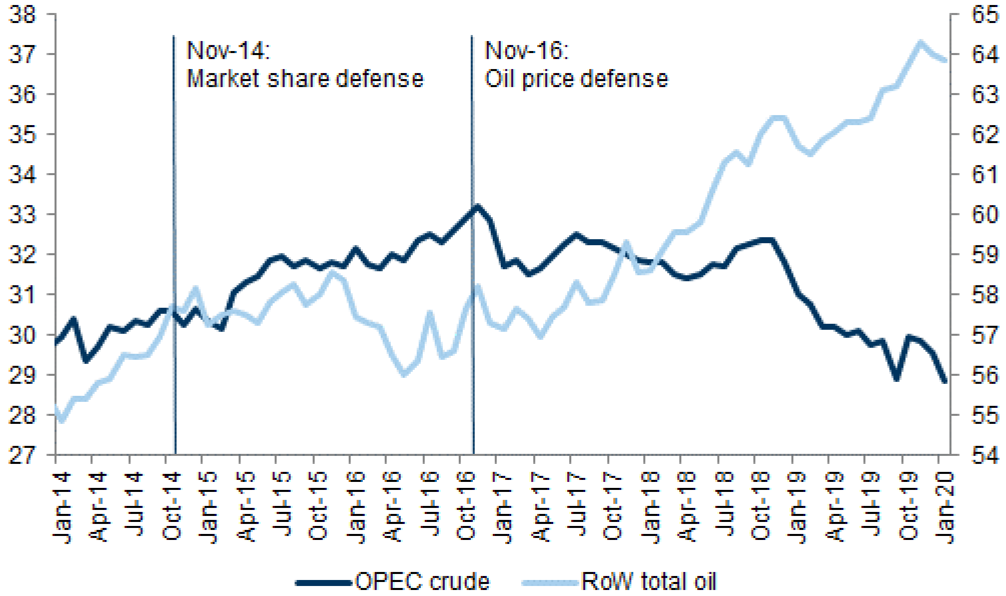
Source: JP Morgan, Bloomberg

Oil Price Collapse

Oil prices have collapsed by over 50% during the month of March with Brent oil down to US$25/bbl. This is the timeline of what happened:

Having traded between US$60-70/bbl for most of calendar 2019, Brent was hovering at US$50/bbl when OPEC+ (which includes 10 non-OPEC countries, the most notable being Russia, Mexico and Kazakhstan) met in Vienna on the 5th of March. Saudi Arabia proposed a further production cut, due to the negative demand impact of COVID-19, of 1.5mbpd (1.5% of global supply) and to extend the previous cut (2.1mbpd) to the end of 2020, which was due to expire at the end of the month. On Friday 6th March, the proposal was rejected by Russia, suggesting it was too soon to make firm determinations on the demand impact of COVID-19 and that it should be US producers who help balance the market. Further, Russia also refused to extend the previous production cut, causing the oil price to fall 10%, given the outcome was a shock to the market. On Saturday 7th March, Saudi Arabia (via Aramco) approached buyers with massive price discounts and vowed to produce more than 11mbpd (later threatening 12.5mbpd), versus its current output of 10mbpd. Russia responded with an additional 0.5mbpd and by Monday the price collapsed to US$33/bbl, a further 27%. Later in the month, with a number on countries in lockdown, it was clear that the negative demand impact of COVID-19 would be significantly more than anyone expected, pushing prices down another 25%.

What occurred leaves one with a feeling of déjà vu. In late 2014, OPEC abandoned their strategy of supporting the market via production cuts and chased market share which had been taken by others and particularly by the US shale producers. Prices collapsed and OPEC's share was reinstated as the high cost producers, especially US shale, curtailed production. Later in 2016, OPEC moved to a price defence strategy and as you can see on the graph below, OPEC's market share (dark line) has declined whilst non-OPEC production (blue line) has increased. This time around, it seems that Russia has been the instigator, however, Saudi Arabia with substantially more additional production capacity appears to be upping the ante to ensure that the burden of supply cuts is appropriately shared.



Source: Goldman Sachs, IEA

Whilst this game of brinkmanship between Saudi Arabia and Russia could possibly be resolved quickly following President Trump's recent intervention in April, it's more likely that it resolves similarly to recent history, whereby supply cuts due to lower prices, rebalance the market and restore prices.

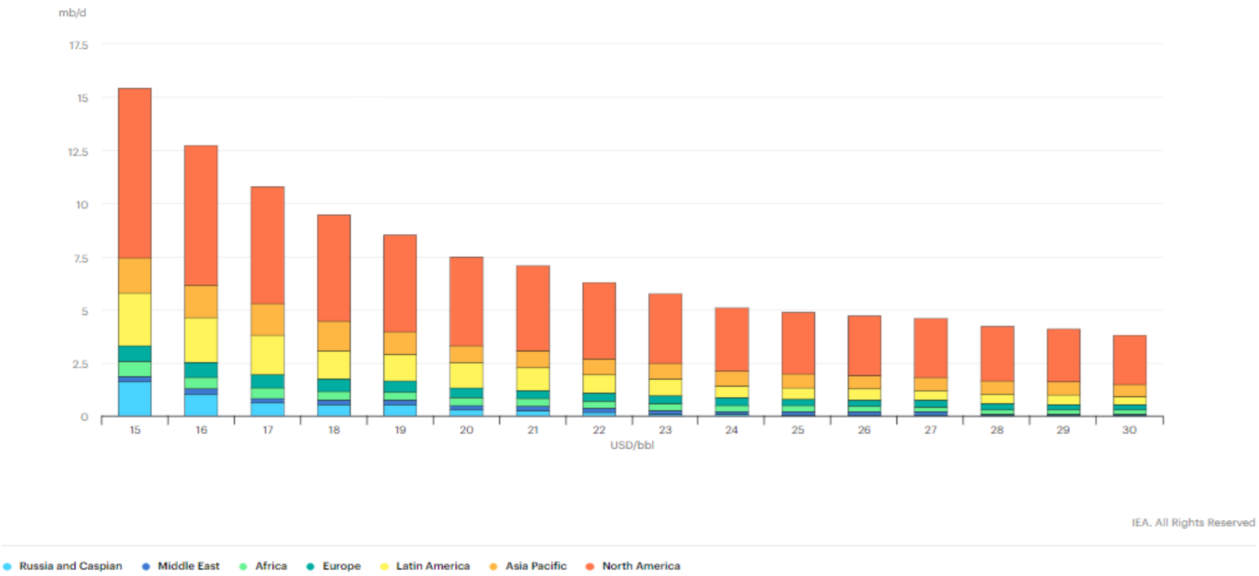
The Bad News:

- Based on the IEA chart below, the current $25/bbl Brent price implies only 5mbpd of production shut-ins. The IEA has forecast a ~20% demand hit of 20mbpd from April. To balance the market, unless OPEC+ go back to the negotiating table to cut a new supply deal, this means we would need a price of < $15/bbl.

The Good News:

- Given storage and other logistical issues, producers (especially in the US) are receiving substantially lower prices than the Brent or WTI benchmarks e.g. Texas Midland crude is at a $10/bbl discount to WTI which is trading at $20/bbl.
- We will run out of storage if the shut-ins don't occur - we have around 3 months of onshore and offshore storage assuming a 20% demand drop. The good news is the US has the bulk of the uneconomic crude (estimated break even at US$48/bbl) which has also been financed by high yield credit.
- China has stated that it wants to increase total oil stockpiles from 85 days of imports which are 10mbpd. They could increase stockpiles by 15 days with existing spare capacity by buying an additional 150mbbls which represents 7 days of the current global surplus. It helps, but it is up to price to drive the shut-ins.
- Chinese stockpiling and any hint of a new OPEC+ deal will help shorten the duration of prices below US20/bbl. If this transpires, the paper markets should rally hard and so will energy stocks, but physical markets always seem to win out and time is what will get them to parity. We may have already seen the low in the oil shares in March if and when OPEC+ shake hands, but the physical oil price could be lower than it has been - its needs to be, in order to rebalance the market. OPEC+ and the markets had universally grossly underestimated the oil demand impact of the COVID-19 pandemic.

IEA's estimate of daily production which cannot cover production costs at various oil prices – Brent basis



Source: IEA

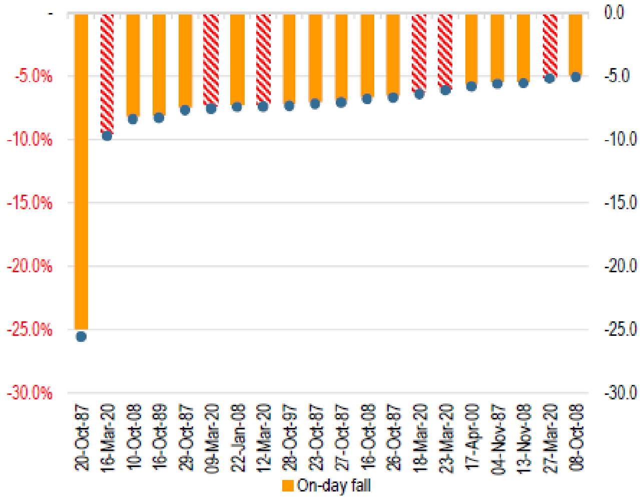
Bonds

Global bond yields collapsed in March due to the announcements and commencement of asset purchases by central banks and considerably lower inflation expectations. The US 10-year bond yield fell 46 basis points to 0.68%, whereas the Australian 10-year bond yield fell modestly, down 6 basis points to 0.76%.

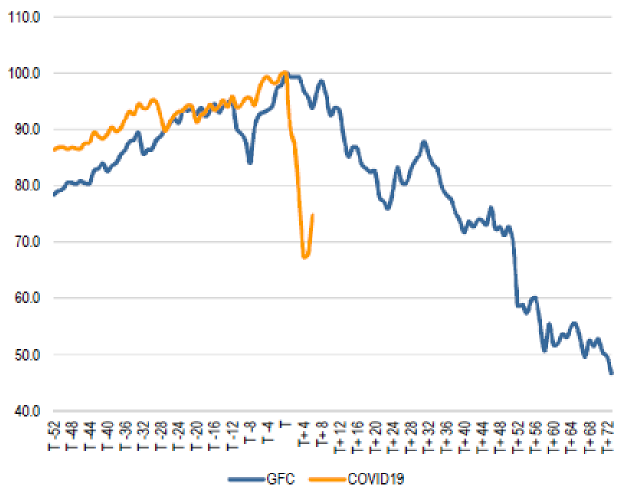
Australia

The S&P/ASX 200 Accumulation Index had a dreadful month, down 20.7% and falling by 23.1% for the March quarter, due to "recessionary" fears brought about by the significant slowdown in global and domestic activity as a result of COVID-19 government mandated shutdowns. The month of March alone has delivered six out of the largest one-day declines in the past 40 years for the All Ordinaries Index, as shown on the first chart. For context, the second chart shows that although the decline in March was shocking, it was less than half of the peak-to-trough decline seen during the GFC (-53.4%).

ASX All Ordinaries – on-day falls



ASX 200: GFC versus Covid-19 (peak rebased to 100)



Source: JP Morgan, Bloomberg

In March, the ASX 200 Resources Accumulation Index was the best (of a bad bunch) performing sub-sector, down 17.4%, The Small Ordinaries Accumulation Index also fared worse, down 22.4% and the ASX 200 Industrial Accumulation Index fell 21.4%.

The worst was the ASX 200 A-REIT sector, falling an astounding 35.1% as Australia went into lockdown and tenants refused to pay rents as shopping malls emptied and retail stores and restaurants were shut down.

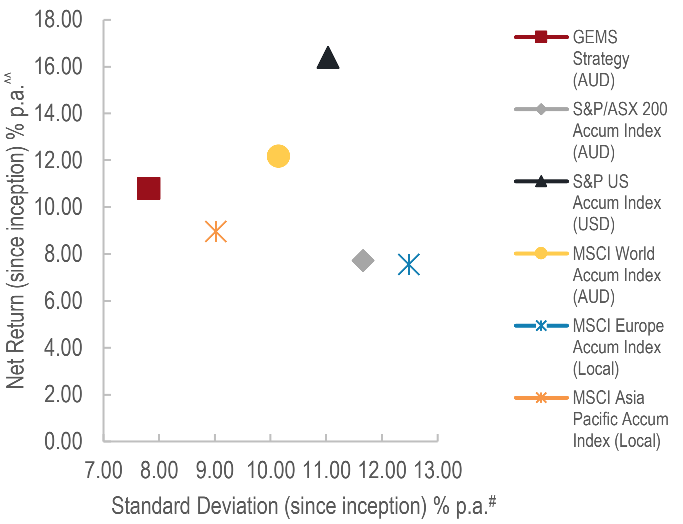
The RBA took drastic measures by cutting rates twice in March to a record low of 0.25%, announced a target for 3-year bond yields of 0.25% and its own quantitative easing program.

The Australian dollar was volatile against the US dollar, collapsing by US$0.10 to US$0.55, before staging a recovery to end the month at US$061.

PORTFOLIO CHARACTERISTICS

Market Exposure as a % of NAV

GEMS Strategy Performance & Volatility^



Source: Ellerston Capital

Top 10 Holdings (Alphabetical, Long Only)

- ALPHABET INC
- AMAZON.COM INC
- GENERATION DEVELOPMENT GROUP LTD
- GRAINCORP LTD
- JOHNS LYNG GROUP LTD
- MICROSOFT CORP
- MONEY3 CORP LTD
- NEXTDC LTD
- SPDR GOLD SHARES (USA)
- UNITED MALT GROUP 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 7701 or info@ellerstoncapital.com

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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.