



Ellerston Australian Market Neutral Fund

Webinar - April 2020

Boutique Australian investment manager with \$4 billion in FUM as at 31 March 2020. Clients include leading sovereign, industry and corporate pension funds as well as individual investors.

Investment Teams:

- Large Cap Australian Equities (Long Only and Market Neutral)
- Small Cap & Micro Cap Australian Equities (Long Only)
- Global (Long Only & Long/Short), Asian and Indian Equities
- Venture Capital

Ownership:

- 75% owned by Ellerston staff, 25% owned by Consolidated Press Holdings

Australian Market Neutral Fund:

- A\$140.4M in FUM as at 31 March 2020
- 5 year track record
- Strategy since inception annualised Net Sharpe Ratio of +0.41, Beta of 0.27*
- Dual investment objective: Provide an annualised 5% net return above RBA Cash Rate over rolling 5 year periods & preservation of capital

Investment management team

Paul Drzewucki
Portfolio Manager
(25)

- Co-founded Monterrey Investment Management in 2000.
- Won 2015 Australian Hedge Fund of the Year and best Market Neutral Fund (The Australian Hedge Fund Awards).
- Won best Fund Manager of the Year Equity Long/Short 2015 (Money Management), New Fund of the Year 2014 (Asia Hedge).
- Pioneered the first 125/25 Fund in 1997 – Portfolio Partners High Growth Shares Trust.
- Bachelor of Engineering (Honours); Masters in Finance.

Alistaire Paterson
Investment Analyst
(14)

- Previously, Senior Tactical Research Analyst at Goldman Sachs UK (Executive Director). Focused on developing short term trading strategies, statistical arbitrage, and fundamental baskets.
- Early career Quantitative Research Analyst at Goldman Sachs Australia (Executive Director). Focused on portfolio construction, risk modelling, development of stock selection models and investment strategies.
- Bachelor of Engineering (Honours); Bachelor of Commerce.

David Thomas
Senior Investment Analyst
(23)

- Previously Head of Consumer Research at CSLA for 5 years.
- Prior to CSLA, worked for Morgan Stanley in both Sydney and London for 8 years. David's role in London saw him as the Head of Consumer Specialist Sales where he focused on servicing the European hedge funds and managed US\$100m of the proprietary trading portfolio across the global consumer companies.
- Bachelor of Business, Double Major in Accounting and Finance.

Stephen Giubin
Senior Investment Analyst
(36)

- Previously CEO & Portfolio Manager at Sigma Funds Management for 10 years.
- Prior to Sigma, worked as Managing Director, Head of Asset Management and Head of Equities for Credit Suisse Asset Management based in Sydney. Prior roles included senior roles at BT Funds Management, Macquarie Bank and Schroders.
- Experienced predominantly in Australian equities within the mining and energy sectors.
- Masters of Business Administration & a Bachelor of Economics.

Investment management team

Neil Wesley

Senior Investment Analyst

(23)

- Previously was Head of Investor Relations and M&A at Perpetual Limited. Neil was responsible for all buy/sell-side engagement and strategic communication. He also led the group's M&A exploration and activity, reporting directly to the CFO.
- Prior to joining Perpetual, Neil was Director of Investor Relations and Strategy for Resolution Limited. Neil joined Resolution from Aviva Investors in London where he was a Fund Manager and Senior Analyst.
- Neil moved to London after working for Aviva Investors and Portfolio Partners in Melbourne as an Investment Analyst.

Carlos Castillo

Investment Analyst

(17)

- Previously, Carlos was at AMP Capital where he was part of a 10 person team managing more than AUD 12 billion in Australian Equities. In that role he managed portfolios under the core investment style and provided support to portfolio managers responsible for the sustainable, income, long/short, concentrated, enhanced index and small cap investment styles.
- Prior to this Carlos was an equities analyst at AMP.

Travis Duff

Investment Analyst

(4)

- Travis joined Ellerston in 2016. Prior to joining Ellerston, Travis completed internships at Morgan Stanley in Global Capital Markets, Macquarie Group, Atrium Investment Management and Morphic Asset Management.
- Travis holds a Bachelor of Science (Mathematics/Statistics) and Bachelor of Economics (Hons) from the University of Queensland.

Investment Philosophy

We believe that inefficiencies and mispricing opportunities commonly prevail within the Australian share market due to the:

- **Structure** of the Australian funds management industry;
- **Concentration** of the Australian equity market; and
- **Relatively** low level of short-interest in the Australian equity market (~30% of many developed markets).

We aim to exploit these opportunities by investing in situations where the relative value of two securities trades at what we believe to be **unsustainable levels**.

Investment Process

The process combines fundamental & quantitative analysis and is disciplined, systematic and scalable.

Twenty Year Evolution of the Relative Value Investment Process

- Initial pairs trading at Portfolio Partners (1997).
- Introduction of Quantitative Screening (2000).
- Academic research led to the introduction of co-integration as the primary filter (2011).
- Special Situations added to the strategy (2013).
- Introduction of an evidence-based screening system (OTAS) in 2013.
- Adjusted REIT universe (2019).

Relative Value

SINCE INCEPTION TRADE SUCCESS OF 73%*

- Accounts for 80% of total gross exposure since inception.
- A unique investment process that combines a quantitative screen with fundamental analysis to create a true market neutral portfolio.
- The process focuses on the top 180 Australian listed securities; and is disciplined, systematic and scalable.
- Clearly defined parameters for the establishment and unwinding of positions.
- A quantitative screen is employed to filter a large number of potential ideas to a short list of pairs that are co-integrated, correlated and dislocated. The short list is then fundamentally evaluated with only the pairs that stack up both quantitatively and fundamentally making it into the portfolio.
- Typically hold between 25 and 50 paired positions.

** As at March 2020*

Funds inception: 3rd June 2013

Special Situations

SINCE INCEPTION TRADE SUCCESS OF 76%*

- Accounts for 20% of total gross exposure since inception.
- An opportunistic allocation to positions that have a low probability of generating a negative return.
- Each Special Situation is fundamentally assessed and is subject to the strategy's position restrictions.
- Special Situations must have an identified catalyst for realising the position. Examples include IPOs, placements, buybacks, recapitalisations etc.
- The capital applied to Special Situations will be zero if there are no situations that meet our strict risk/return parameters.

** As at March 2020*

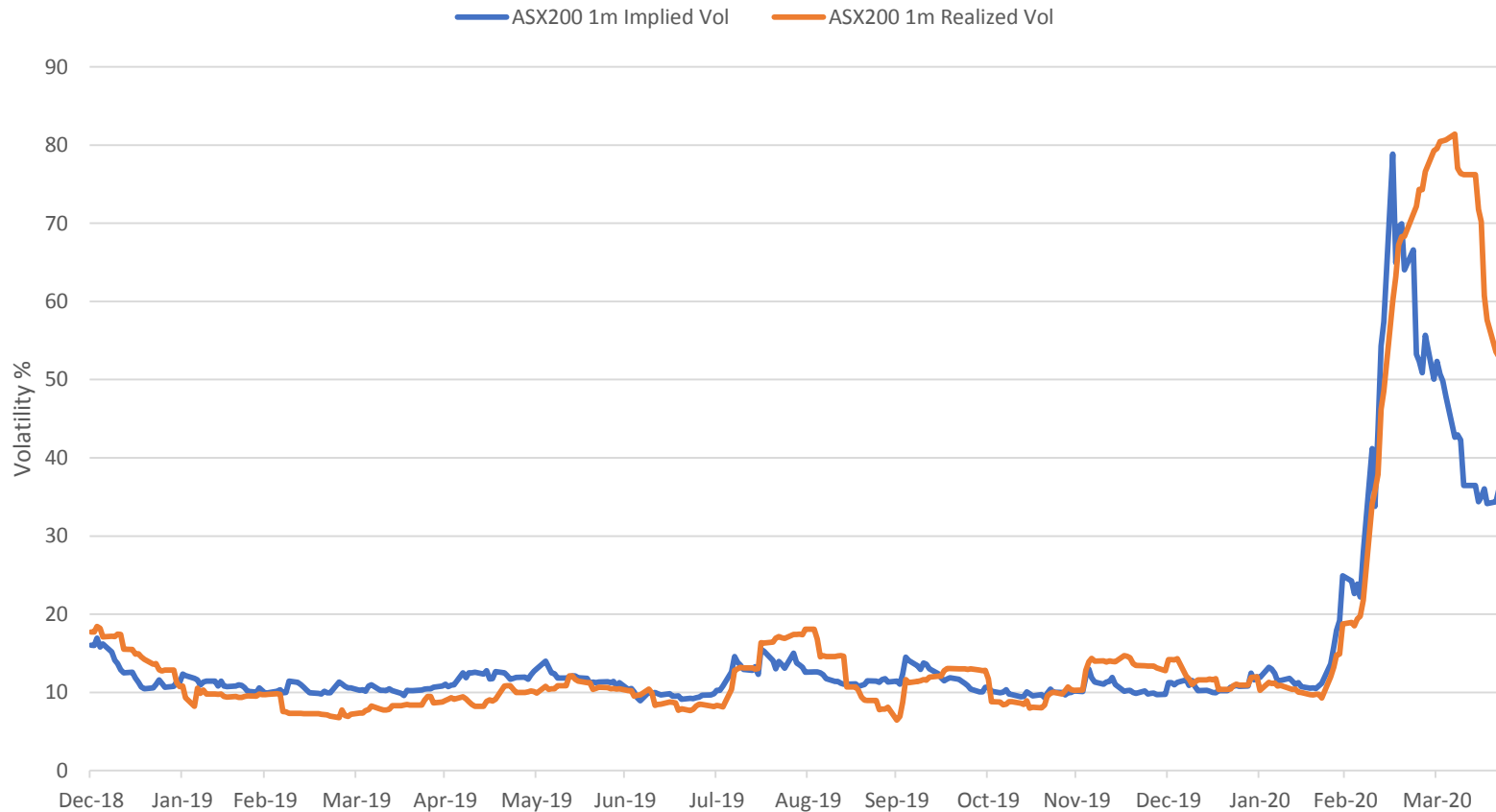
Funds inception: 3rd June 2013

- Incredible market volatility – after spending the past few years in the mid-low teens, Implied Volatility jumped to high 70s
- Unprecedented price moves in the period between 4pm and 4:10pm which indicates the impact of Market On Close (MOC) orders
- Unusual moves in traditionally stable spreads and stocks with stable earnings may indicate distressed investors forced to reduce gross exposure

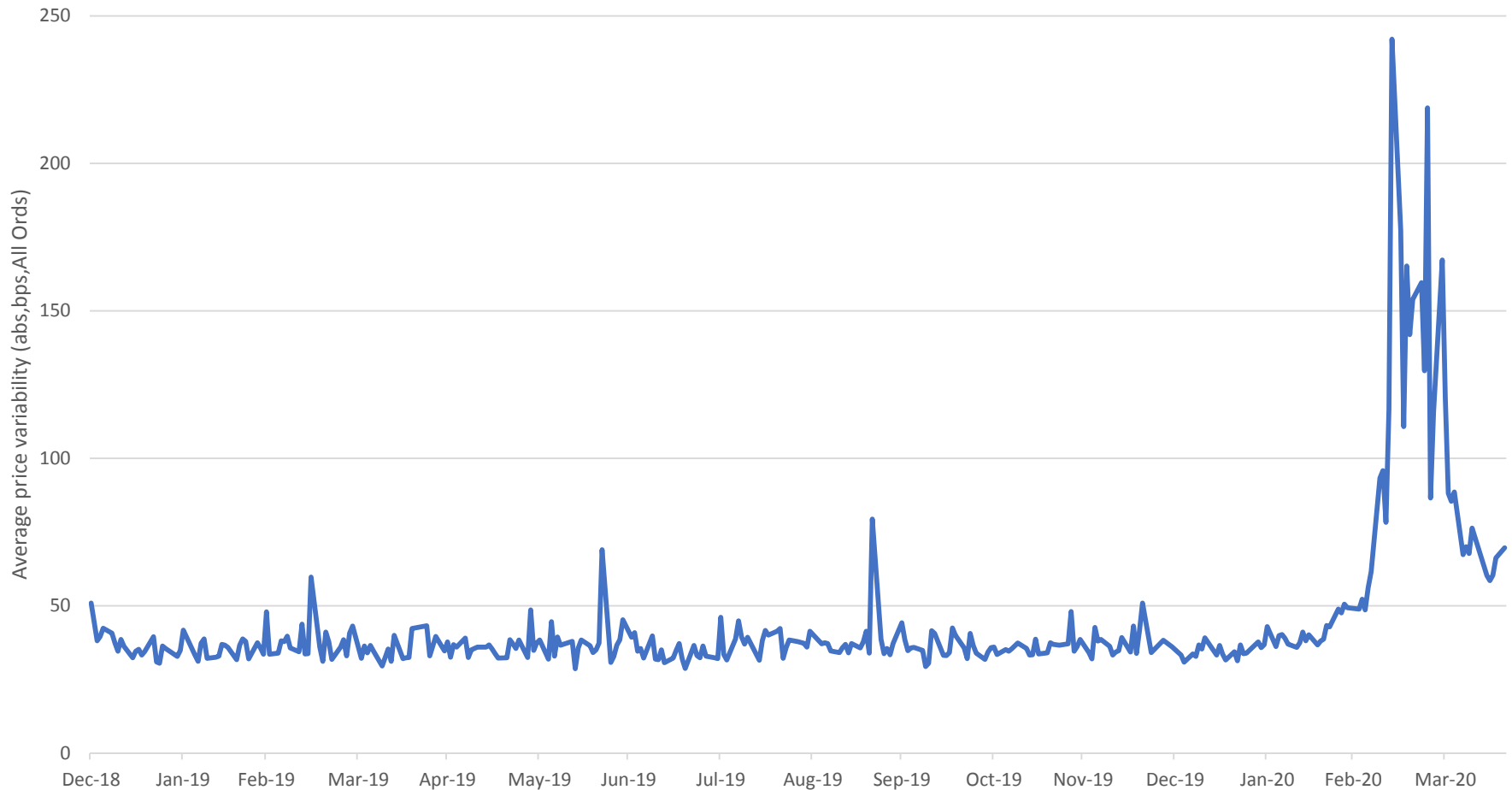
** As at March 2020*

Funds inception: 3rd June 2013

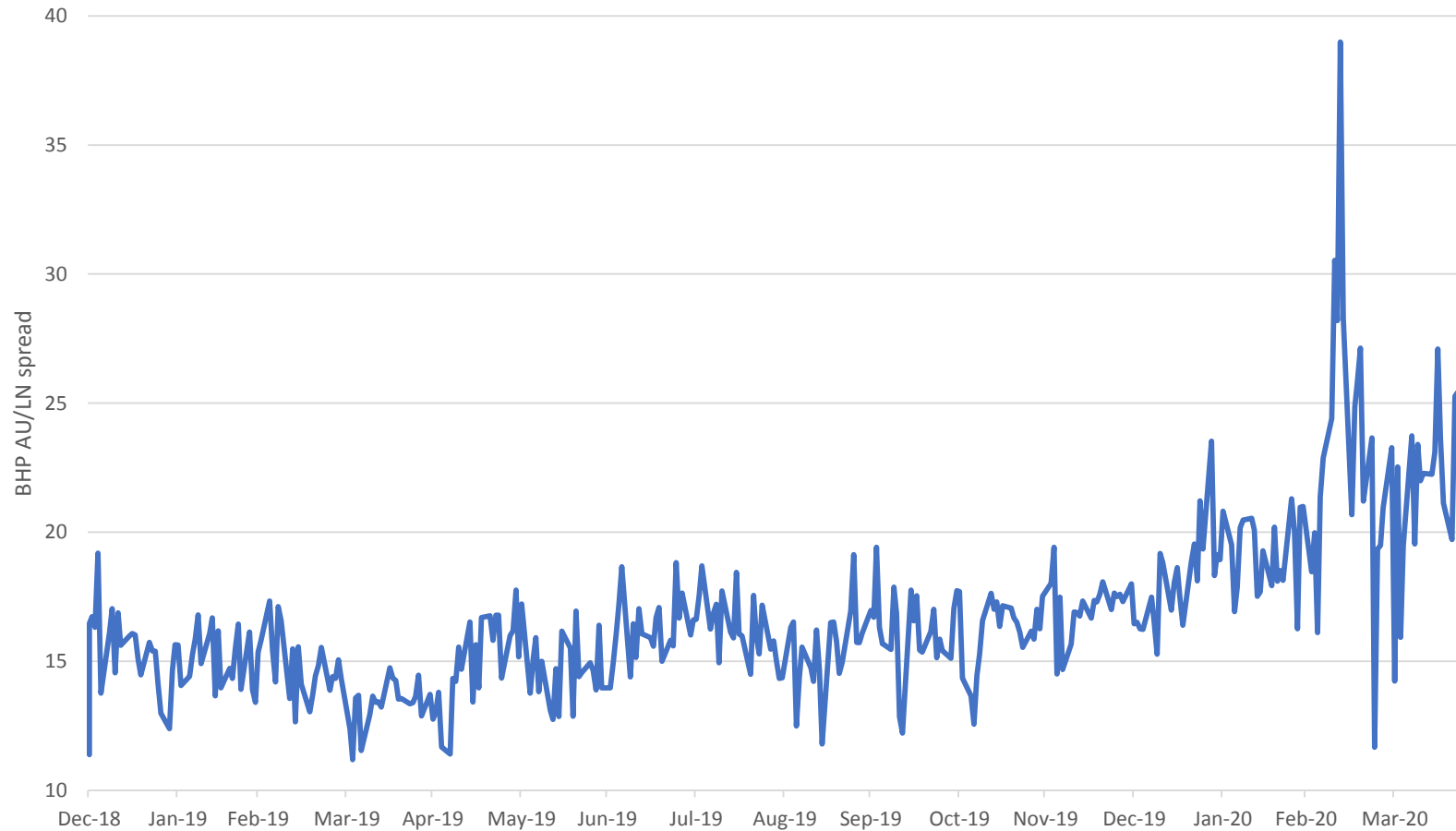
Implied index volatility trading below realized



Price variability: last trade vs closing match

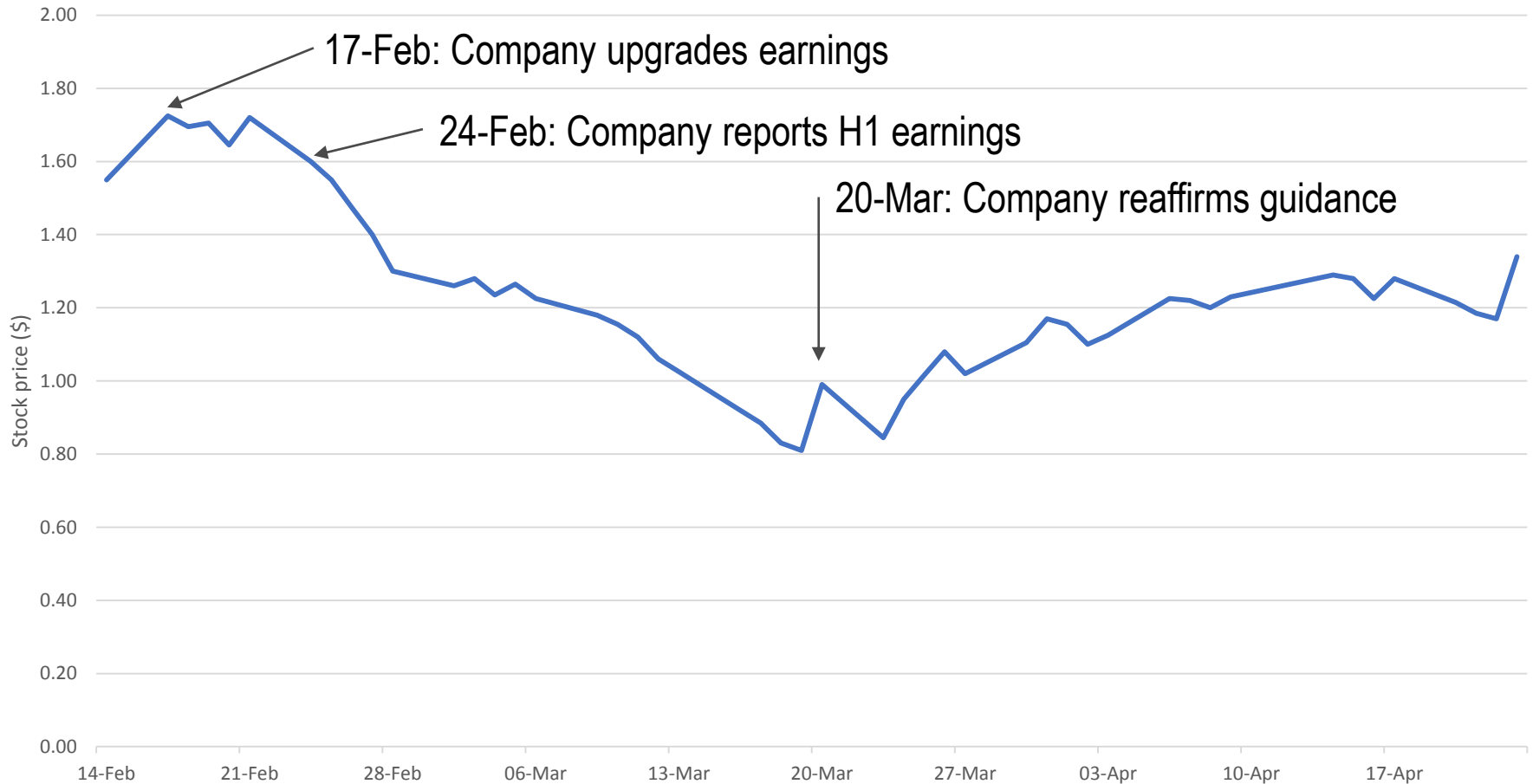


BHP AU / LN Spread



Source: Bloomberg. Calculation: $BHP AU / (BHP LN * GBPAUD) - 1$

Uniti Group Ltd (UWL AU)



March 2020 Performance Summary

- S&P/ASX 200 -20.7%, S&P/ASX Small Caps -22.4%, Market Neutral Fund -15.2%.
- More than ½ the negative performance in the period was due to 2 Special Situations where the companies suffered deal breaks:
 - Village Roadshow – received 2x takeover bids from PE in December and January. Forced to close cinemas and theme parks in March. Currently negotiating with landlords on rental during the COVID-19 environment.
 - National Storage – received 3x takeover bids in Jan & Feb (2x PE & 1x Industry). Despite DD completed by 2x bidders, unable to move forward with proposal due to COVID-19 restrictions. Trading at a modest discount to NTA.
- Aggressive unwinding of exposure by some distressed investment funds led to some out-sized moves in over-lapping positions, for example Limeade (-26%), Atomos (-46%), Uniti Group (-10%) & Volpara Health Technologies (-22%).
- Performance has rebounded in April, currently +7.1% MTD.

- Net Exposure of 24.5%, Gross Exposure of 200%
- Key positions:
 - Relative Value
 - Infigen Energy / AGL Energy – Infigen trading at a discount following Brookfield sell down
 - Karoon Energy / Santos – Karoon trading below net cash backing with option on Brazilian oilfield
 - Special Situations
 - Volpara Health Technologies – war chest to capitalise on distressed competitors
 - Nufarm hybrids – credit re-rating post the sale of Nufarm Brazil
 - Uniti Group & OptiComm – benefiting from the WFH environment

- Share price volatility has subsided – for now.
- Huge uncertainty in earnings for the June Quarter and FY21.
- Some incredible opportunities from deeply discounted recapitalisation in the Media, Tourism, Healthcare & Real Estate sectors – more to come, similar to 2009.
- Reduced competition with some competitors shutting Funds and others with dramatically lower FUM.

Risk Return Characteristics

AS AT MARCH 2020

Net Performance	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.	Strategy Inception p.a.*
Market Neutral	-15.25%	-20.61%	-13.46%	0.81%	-4.03%	-0.10%	4.04%
RBA Cash Rate	0.04%	0.16%	0.35%	0.96%	1.32%	1.51%	1.78%
Alpha	-12.29%	-20.77%	-13.81%	-0.15%	-5.34%	-1.61%	2.27%

Strategy Volatility

	1 Yr	3 Yrs	5 Yrs	Strategy Inception*
Market Neutral	19.63%	11.82%	9.35%	7.78%
ASX 200	24.56%	15.90%	14.66%	13.36%

Strategy Correlation

	Strategy Inception*	Down Months	Up Months
Market Neutral	+0.47	+0.73	+0.08
ASX 200	1	1	1

*Strategy Inception Date: 30 November 2011

Fund Inception Date: 03 June 2013

Source: Ellerston Capital Limited



Q & A

Ellerston Distribution & Investor Relations Team ELLERSTON CAPITAL

CONTACT DETAILS



Lisa Rose
Head of Key Accounts & Research Relationships

P: +61 2 9021 7790
M: +61 410 564 775
E: lrose@ellerstoncapital.com



Irene Kardasis
Manager, Marketing & Investor Relations

P: +61 2 9021 7726
M: +61 449 108 080
E: ikardasis@ellerstoncapital.com



Andrew Koolman
Account Manager

P: +61 2 9021 7760
M: +61 417 697 106
E: akoolman@ellerstoncapital.com



Erik Candido
Account Manager

P: +61 2 9021 7707
M: +61 413 879 583
E: ecandido@ellerstoncapital.com

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