ELLERSTON CAPITAL

Ellerston Australian Market Neutral Fund

Performance Report | April 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year (p.a.)	5 Year (p.a.)	Since Inception (p.a.)
Net^	8.51%	-13.00%	-9.07%	5.91%	-1.37%	1.34%	5.23%
Benchmark*	0.02%	0.12%	0.30%	0.85%	1.28%	1.48%	1.76%
Alpha	8.49%	-13.12%	-9.37%	5.06%	-2.65%	-0.14%	3.47%

Source: Ellerston Capital

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

PORTFOLIO CHARACTERISTICS

KEY PORTFOLIO METRICS

Positive months	65%	**Net Equity Exposure**	25%
No. Relative Value positions	35	**Gross Portfolio Exposure**	191.3%
No. Special Situations	23	**Correlation Coefficient (vs ASX 200 Accum)**	52.68%
Beta Adjusted	7.2%	**Net Sharpe Ratio (RFR = RBA Cash)**	0.39

SECTOR ALLOCATION

Sector	Long Equity	Short Equity	Net Equity
Financials	27.2%	-14.3%	12.9%
Industrials	46.5%	-8.2%	38.2%
Resources	27.0%	-22.7%	4.3%
Index	7.5%	-37.9%	-30.4%
Total	**108.1%**	**-83.2%**	**25.0%**

Investment Objective

The Fund targets Absolute Returns with an annualised return objective of 5% above the RBA Cash Rate over rolling five year periods.

Investment Strategy

The Fund will seek to provide investors with a return profile that has low correlation with traditional asset classes. The Fund aims to generate positive returns in all market environment by reducing the majority of market risk and focusing on capital preservation and alpha generation. The Fund will utilise a Relative Value and a Special Situations strategy.

Key Information

Strategy Inception	3 June 2013
Portfolio Manager	Paul Drzewucki
Application Price	$0.9718
Net Asset Value	$0.9694
Redemption Price	$0.9670
Liquidity	Daily
Management Fee	1.20%
Performance Fee	20% of outperformance
Buy/Sell Spread	0.25%/0.25%

COMMENTARY

Performance rebounded strongly in April, with the Fund producing a net return of +8.51% over the period. Net exposure was +25% at the end of April, with a beta-adjusted net of +7.2%. After reducing exposure during the past few months, our gross exposure moved higher, closing the period at 191.3%.

The two pairs that detracted the most from performance in March were the largest contributors in April. Our paired position between Infigen (+38.8%) and AGL Energy (-1.3%) was the biggest contributor, with the share price of Infigen outperforming significantly in the period. During the month, Infigen announced that it had entered into a Power Purchase Agreement (PPA) for output from the Collector Wind Farm in NSW, with first production scheduled to commence late in CY20. The PPA is for 60% of the output from the 227MW farm and operates from first production until 31 December 2030.

The share price of Karoon Energy (+23.6%) also bounced during April, with the company initiating a strategic review following the dramatic fall in the oil price. With over A$500m of net cash and no liabilities, the company is in an incredibly strong position, particularly when compared with other oil companies. The Karoon holding is hedged with a short position in Santos (+44.4%).

A paired position featuring Elanor Retail Property (-11.5%) and APN Industria (+1.0%) detracted from performance after Elanor Retail suspended the sale program for three of the Fund's income assets due to the COVID-19 pandemic. Like all shopping centre owners, Elanor is being asked for rent relief for a number of their speciality retail tenants, whilst supermarkets continue to trade very well. Recent remixing of the BigW space at Auburn Central (Aldi signed a lease) and Tweed Mall (Aldi commenced trading in August 2019) has made these centres more defensive and less exposed to discretionary consumer spending. Elanor trades at a 51% discount to NTA given general negative sentiment towards retail, but in time as the sales program is completed, and a buyback potentially begins, we believe their portfolio of defensive assets will trade more in-line with the likes of Charter Hall Retail (+1.9%) and Shopping Centres Australasia (-1.8%).

The spread between the Australian and UK listings of both BHP Group (+11.6%) and Rio Tinto (+3.5%) widened during the period, detracting from the performance of the Fund.

After falling 61.4% in March, the share price of Village Roadshow (+66.8%) bounced strongly in April, despite not yet being able to operate their two main divisions - cinemas or theme parks. Our position in Uniti Group (+31.2%) also added value, with the company reconfirming guidance and the business showing little negative impact from the COVID-19 restrictions.

The shares of oOh!media (+61.7%) traded higher in the month, following a recapitalisation of the company in March. As mentioned in last month's report, the deeply discounted equity raise was required to reduce gearing and improve the company's debt covenants. Our long position was established in the recapitalisation and added to the value of the Fund.

We revised down the carrying value of our holding in Kalium Lakes ahead of a proposed equity raise, expected in May. The company's potash project has experienced cost overruns due to a weaker AUD, higher specification of equipment and unbudgeted COVID-19 related costs.

The rising equity market and decline in volatility caused the value of our index protection to fall, detracting value from the Fund.

ACTIVITY

Relative Value – Gross Contribution 3.04%

The general stabilisation in equity markets provided an increased number of opportunities within the Relative Value strategy during April.

We participated in the Charter Hall Retail (+1.9%) equity placement, hedging the exposure with GPT Group (+16.5%), BWP Trust (+5.4%) and National Storage (+9.8%). The new shares were issued at $2.90, an eye-watering 25.8% discount to the pro-forma NTA, using 31 December 2019 valuations. In comparison, Shopping Centres Australasia, Charter Hall's nearest peer, trades at just a 2.2% discount to NTA.

A paired position between diagnostic companies Capitol Health (+14.3%) and Integral Diagnostics (+32.0%) was established in April, following a $30m capital raise from Capitol in the period. Proceeds of the raise will be used to strengthen the balance sheet and fund potential acquisitions. We prefer the smaller Capitol to Integral, with Capital forecast to grow EPS at almost double the rate of its larger peer.

A pair was also established between QANTM Intellectual Property (+17.1%) and IPH Limited (+2.6%), two intellectual property services firms. Despite the rally in April, QANTM still trades at an FY20 EV/EBITDA multiple of 7.0x – a 50% discount to the larger IPH, which trades at 14.0x.

We unwound a number of REIT positions in April, including pairs between Growthpoint Properties (+22.6%) and Centuria Industrial (+1.9%), APN Convenience Retail (+13.9%) and Viva Energy (+4.8%) and childcare landlords Arena REIT (+33.3%) and Charter Hall Social Infrastructure (+31.2%).

Special Situations – Gross Contribution 5.59%

It was a frantic month within Special Situations, with the Fund participating in a number of equity raises including Kathmandu (+1.0%), Flight Centre (+10.0%), InvoCare (-2.2%), Lend Lease (+20.0%), Paradigm Biopharmaceuticals (+22.3%), IDP Education (+28.5%), Infomedia (+13.3%) and Dacian Gold (-20.0%).

Volpara Health Technologies (+24.3%) also conducted an equity raise during April, with the $35m in proceeds expected to be applied to acquisition opportunities. Earlier in the month, the company announced that it had partnered with Ambry Genetics (part of Konica Minolta Precision Medicine) to bring an online ordering process for genetic testing to Volpara patients. The partnership has the potential to significantly increase Average Revenue Per User (ARPU) upon successful clinical implementation. Currently, at least one Volpara software product is used in over 27% of women who attend screening each year in the US - we estimate this could be closer to 40% following an acquisition. We participated in the equity raise, adding to our existing position.

Contract delays for Electro Optic Systems (+11.9%) led to an equity raise equity in April, with delays caused by the COVID-19 lockdown in the United Arab Emirates. Electro Optic Systems make advanced weapon systems for the military and develops tracking systems for orbiting satellites and space debris. The relevant contract is worth $140m with payment due on delivery (and delivery being impossible during the lockdown). We capitalised on the placement, establishing a new holding at a 17.4% discount to the previous close.

We capitalised on increased interest in New Hope (+15.7%) and Painchek (+52.4%) and liquidated our remaining holdings. We also reduced our exposure to the Nufarm (+2.6%) hybrids, following the completion of the sale of Nufarm Brazil to Sumitomo early in the month.

MARKET COMMENTRY

Market Overview

April was a triumph of optimism over fear, as unprecedented fiscal and monetary support from governments and central banks saw investors drive global markets sharply higher. Also, the developed world appeared to be past the peak of new COVID-19 cases and there were tentative plans for reopening economies. Cyclical sectors were the most robust, with the energy sector looking through the depressed oil price and rallying hard. The surging stock markets were in stark contrast to the dire economic data hitting the newswires globally, especially in the developed world. Flash PMIs for the G-4 plunged, with the services sector hit the hardest. US GDP contracted 4.8% in 1Q and yields on US 10-year bonds remained at record low levels, closing at 0.64%.

USA

In April, the S&P 500 surged 12.8%, the Dow Jones was up 11.2% and the NASDAQ Composite was up an astonishing 15.5%. As at the end of April, the NASDAQ was only down 0.6% for the calendar year-to-date! US equities rallied, as optimism that the number of COVID-19 cases were stabilising led to increased talk of reopening key segments of the economy. April was dominated by US reporting season. The picture that emerged wasn't pretty. Earnings have begun to deteriorate with around one-third of reported companies having missed expectations. Outlook statements from technological giants Apple and Amazon offered a reality check about the economic impact of the pandemic. Apple was unable to provide a forecast for the first time in a decade and Amazon missed consensus estimates for its Q1 EPS by 20%, saying it would incur a loss in the current quarter as it boosted spending for logistics.

US March activity indicators weakened further, with manufacturing ISM at 49.1 (previous: 50.1). Non-farm payrolls fell -701,000 in March (substantially worse than consensus: -100,000; previous: +275,000). Approximately, 30 million Americans have now filed for unemployment benefits since mid-March, representing around 19% of the US labour force. The outlook for earnings, given falling employment and demand is looking grim.

Europe

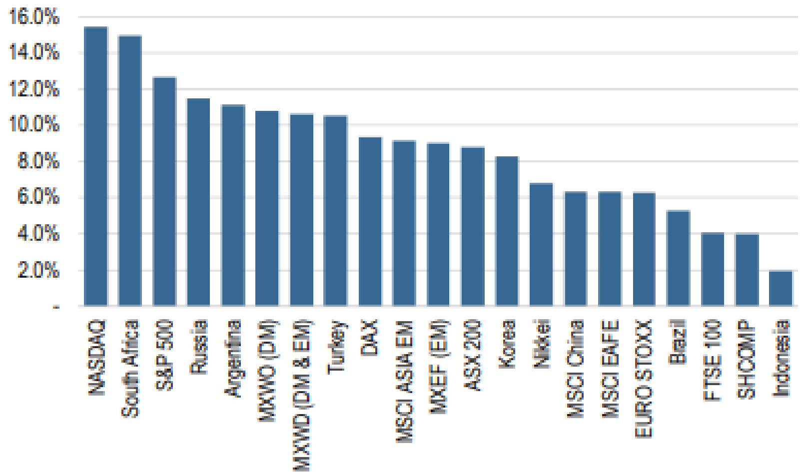
European exchanges joined in the global rally, with the Euro STOXX 50 recording a 5.3% gain. Among the major exchanges, the returns were: UK's FTSE 100 +3.9%, France's CAC 40 +4.1%, and Germany's DAX +9.3%.

European activity indicators were dreadful. Flash Eurozone manufacturing PMI for April plunged to 33.6 (consensus: 38.0; previous: 44.5). Composite PMI also fell to 13.5 (consensus: 25.0; previous: 29.7). Towards the end of April, EU leaders, after some disagreement, ultimately agreed to a further stimulus package of around 1 trillion euros.

Asia

Asian equities also rose on optimism that the virus was showing signs of containment in some countries in the region. The Hang Seng Index was up 4.1% and the Chinese SSE Total Market Index was up 4.9%. But in Japan and South Korea, where there was greater optimism on the curve being flattened, markets were buoyed even further, rising 6.8% and 11.0% respectively. The Indian market, after falling very dramatically last month, regained some poise, rising 14.4% in April.

Global equity markets performance in April 2020



Source: JP Morgan, Bloomberg

The recovery in markets since the lows of 23 March has been impressive, despite very poor economic data. See table below.

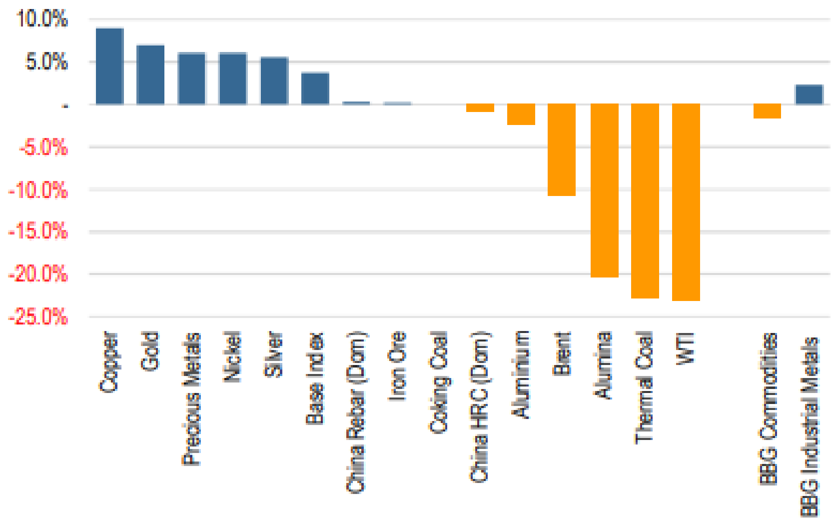
MARKET	20-Feb	23-Mar	30-Apr	Downturn	Recovery	% RECOVERED
NASDAQ	9,751	6,861	8,890	-29.6%	29.6%	70.2%
MSCI China	87	70	81	-19.8%	16.4%	66.3%
S&P 500	3,373	2,237	2,912	-33.7%	30.2%	59.4%
MSCI World	577	384	489	-33.4%	27.4%	54.5%
Nikkei	23,479	16,888	20,194	-28.1%	19.6%	50.2%
MSCI EM	1,095	758	925	-30.8%	22.0%	49.5%
DAX	13,664	8,741	10,862	-36.0%	24.3%	43.1%
ASX 200	7,162	4,546	5,522	-36.5%	21.5%	37.3%
FTSE 100	7,437	4,994	5,901	-32.8%	18.2%	37.1%
Euro Stoxx	417	271	322	-35.0%	18.8%	34.9%

Source: JP Morgan, Bloomberg

Commodities

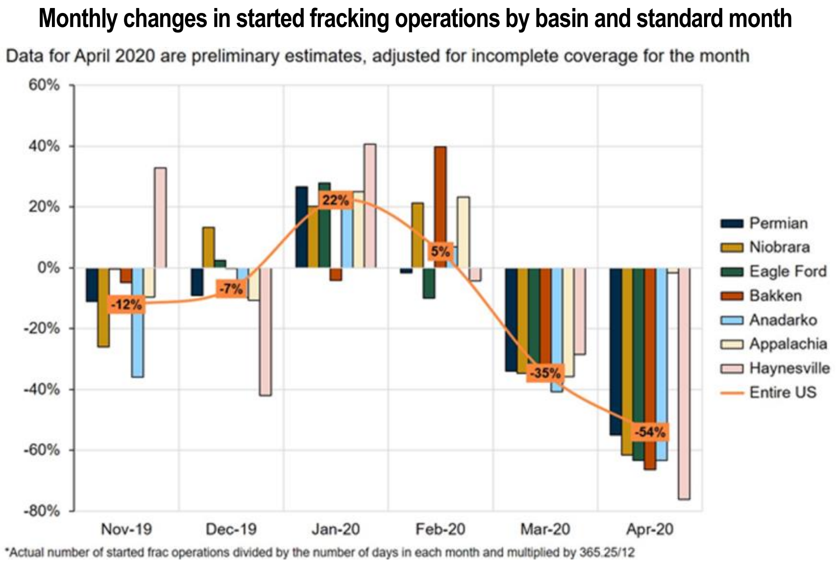
The BBG commodities index fell 1.6%, mainly driven by the continued fall in oil - down another 10.7% (refer more detailed comment below). Despite rallying equity markets, precious metals actually rose, with gains in Gold and Silver of 6.9% and 5.5% respectively. Iron Ore was broadly flat.

Global commodity performance in April 2020



Source: JP Morgan, Bloomberg

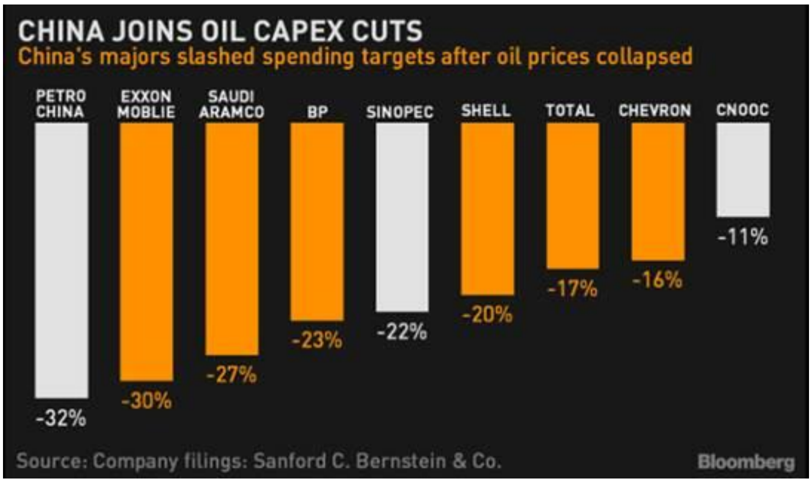
Oil prices ended the month slightly higher, yet the level of volatility was off the Richter scale, with prices bizarrely going negative for the WTI May contract - paying someone to take the crude oil. OPEC+ agreed on 10 April to reduce oil supply by 10mbpd, with both Saudi Arabia and Russia cutting output by 2.5mbpd each. This is less than the apparent demand collapse from the COVID-19 impact, with demand destruction estimated to be around 25mbpd. However, given limited oil storage, non-OPEC producers will need to start curtailing production quickly. The chart below highlights the large decline in new wells in the US, which will lead to much lower production in the near future. The physical markets require storage to operate and we continue to see material discounts in the US to the benchmark West Texas Intermediate (WTI), which unlike the Brent oil price, can be settled by either cash or physical delivery. **On 20 April the WTI May futures contract went into negative territory for the first time and closed at an all-time low of - $37.43/bbl**, as no-one wanted to take physical delivery. This was not the only "once in a lifetime" oil event during the month. **For the first time since WW2, Royal Dutch Shell cut its dividend**. Things may seem bad, but it means the market should rebalance much quicker. **The North Sea Brent oil price under US$20.00 per barrel is clearly unsustainable and we would expect a recovery from these levels.** This is why globally, energy was the best performing sector during the month.



Source: Rystad

China's three biggest state oil producers will also slash their spending plans this year by a combined US$19 billion, with PetroChina's 32% chop leading the way.

PetroChina and Sinopec both reported a first-quarter loss, while CNOOC said its revenue dropped, without providing a profit figure.



Bonds

Global bond yields remained at very low levels in April. The US 10-year bond yield ended the month slightly lower at 0.64%, while the Australian 10-year bond yield rose 13 basis points to 0.89%. The Australian 3-year bond yield closed at 0.25%, at the RBA's target level.

Australia

The S&P/ASX 200 Accumulation Index had rebounded strongly, up 8.8% and is now down 16.4% CYTD to the end of April 2020.

In April, the best performing sector, in terms of its contribution to the Index's performance, was Materials, with a contribution of 2.6%. The next two best sectors were Consumer Discretionary (+0.97% contribution), and Industrials (+0.96% contribution). Not surprisingly, the bottom three sectors were the more defensive segments of the market, including Utilities (+0.1% contribution), Consumer Staples (+0.2% contribution) and Communication Services (+0.2% contribution).

The ASX 200 Resources Accumulation Index was the best performing sub-sector, up 16.2%, followed by the Small Ordinaries Accumulation Index, up 14.3% and the ASX 200 Industrial Accumulation Index brought up the rear with a return of 7.0%. The ASX 200 A-REIT sector staged a recovery in April rising 13.7% after last month's crash.

The top five stocks that detracted from the performance of the S&P/ASX 200 Accumulation Index were: Westpac Banking Corporation (-7 points), Insurance Australia Group (-7 points), Metcash (-5 points), Fisher & Paykel Healthcare (-4 points) and Resmed (-4 points).

The top five stocks that made a positive contribution to the index's return were BHP Group (+75 points), CSL (+50 points), Macquarie Group (+39 points), Transurban Group (+31 points) and Woodside Petroleum (+30 points).

Not surprisingly, the RBA left rates unchanged in April. This helped sentiment toward the Australian dollar, which after plunging to a recent low of 55 cents, was up 7% against the US dollar, to end the month at 0.65 US cents.

CONTRIBUTION

Relative Value Gross Contribution 3.04%			
Positive		**Negative**	
AGL ENERGY LTD - INFIGEN ENERGY	2.47%	RIO TINTO - RIO TINTO	-1.01%
KAROON GAS AUSTRALIA LTD - SANTOS	0.42%	BHP BILLITON - BHP BILLITON	-0.92%
APN INDUSTRIA REIT - GDI PROPERTY GROUP	0.37%	APN INDUSTRIA REIT - ELANOR RETAIL PROPERTY FUND	-0.32%
CENTURIA INDUSTRIAL REIT - GROWTHPOINT PROPERTIES	0.27%	CARNARVON PETROLEUM LTD - SANTOS	-0.10%
IPH - QANTM INTELLECTUAL PROPERTY	0.25%	PRIMEWEST GROUP LTD - RURAL FUNDS GROUP	-0.07%

Special Situations Gross Contribution 5.59%			
Positive		**Negative**	
VILLAGE ROADSHOW LTD	2.06%	PUT SPREADS ON THE ASX 200	-2.35%
UNITI WIRELESS LTD	1.11%	KALIUM LAKES LTD	-2.27%
VOLPARA HEALTH TECHNOLOGIESS	0.67%	METCASH LTD	-0.10%
OOH!MEDIA LTD	0.63%	US MASTERS RESIDENTIAL PROPE	-0.04%
PARADIGM BIOPHARMACEUTICALS	0.54%	SHOPPING CENTRES AUSTRALASIA	-0.02%

Top 10 Relative Value Positions	
RIO TINTO - RIO TINTO	CHARTER HALL RETAIL REIT - GPT GROUP
BHP BILLITON - BHP BILLITON	CENTURIA INDUSTRIAL REIT - CROMWELL PROPERTY GROUP
AGL ENERGY LTD - INFIGEN ENERGY	APN INDUSTRIA REIT - GDI PROPERTY GROUP
KAROON GAS AUSTRALIA LTD - SANTOS	APN INDUSTRIA REIT - ELANOR RETAIL PROPERTY FUND
BWP TRUST - CHARTER HALL RETAIL REIT	RURAL FUNDS GROUP - VITALHARVEST FREEHOLD TRUST

Top 10 Special Situation Positions	
PUT SPREAD ON ASX 200	VOLPARA HEALTH TECHNOLOGIESS
NUFARM FINANCE NZ LTD-NSS	UNITI WIRELESS LTD
LIMEADE INC-CDI	SUNCORP GROUP NOTE
ELECTRO OPTIC SYSTEMS HOLDIN	KALIUM LAKES LTD
VILLAGE ROADSHOW LTD	OPTICOMM 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,

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