ELLERSTON CAPITAL

Ellerston Low Volatility Income Strategy Fund

Performance Report | June 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	Since Inception (p.a.)
Net^	1.75%	15.76%	-8.41%	0.00%	1.85%
Benchmark*	2.61%	16.48%	-10.42%	-7.68%	-2.26%
Alpha	-0.86%	-0.72%	2.01%	7.68%	4.10%

Source: Ellerston Capital

^ The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

*S&P/ASX 200 Accumulation Index

COMMENTARY

Despite COVID-19 continuing to increase its case rate across the globe, 2Q20 was the second best quarter this century for global equity markets, with the MSCI ACWI gaining 18.7%. This rally followed the second worst quarter on record, with the MSCI ACWI falling 21.7% in 1Q20. June was characterised by a range of strong activity data, with the consumer especially bouncing back to life very rapidly. The key question is whether this surge reflects the unleashing of pent-up demand following some months of behavioural "shutdown" or just the beginnings of a return to normal. The shadow cast by the second wave coupled with many economists forecasting an incomplete recovery suggest that short-term cyclical portfolio positioning may be experiencing its best performance.

The Fund underperformed the market in June, rising 1.8% on a net basis compared to the benchmark's increase of 2.6%. The Fund therefore underperformed its benchmark by 0.9%. Again, it was a tale of two halves, with the Fund's more defensive positioning in quality stocks suffering painful underperformance over the first 1.5 weeks with the market rotation into value stocks. This rotation back into growth and quality stocks in the second half saw us claw back the majority of the early month underperformance. Over the past 12 months, the Fund has outperformed the index by 7.7% on a net basis.

The underperformance occurred due to unfavourable stock selection in Healthcare (Ramsay Healthcare), Materials (Northern Star Resources) and Financials (ASX Limited). Not owning Commonwealth Bank, Wesfarmers and Afterpay also cost the portfolio 70 bps of active performance. On a positive note, our key performance contributors came from Fisher & Paykel Health, JB Hi-Fi and James Hardie. Not owning Telstra Corporation, Brambles & Insurance Australia Group also added 30 bps of relative performance.

PORTFOLIO ACTIVITY – MAJOR TRANSACTIONS

During the month, we participated in a number of equity placements pertaining to our existing holdings. Specifically, these were in Iress Limited and Super Retail Group. Iress Limited raised $170m via an underwritten placement and share purchase plan at $10.42 per share to partly fund the acquisition of OneVue and also further strengthen its balance sheet. Super Retail announced a 1:7 accelerated pro-rata non-renounceable entitlement offer to raise $200m at $7.19 per share. The equity raising enables Super Retail Group to continue to execute its strategy and allow the Company to position the business to take advantage of accelerating consumer trends towards the Omni – retail digital experience. The pricing of both deals was seen as being very favourable, warranting further investment by the Fund. We also added a new position in Uniti Wireless, a broadband solutions provider in Australia, via an equity placement to raise $152m at $1.40 per share to partly fund the acquisition of OptiComm Limited. The company is forecast to grow earnings 25% p.a over the next two years and be in a position to pay a maiden dividend in FY22. We also added QBE Insurance to the portfolio as favourable premium growth, benign claims environment, steepening yield curve and compelling valuation justified its inclusion. We exited Woodside Petroleum as the stock had rallied hard over the past couple of months despite less desirable growth options and higher capex continuing to weigh on cash flows, despite a bounce in the oil price.

Investment Objective

The investment objective of the Ellerston Low Volatility Income Strategy Fund ("ELVIS" or "the Fund") is to provide investors with returns and income growth greater than the S&P/ASX 200 Accumulation Index over rolling 3-5 year periods.

Investment Strategy

The Fund is a fundamental, bottom up Australian equity strategy with a clear focus on delivering low volatility, sustainable income for investors through actively blending multiple, distinct dividend yield strategies throughout the market cycle.

Key Information

Strategy Inception	1 May 2019
Portfolio Manager	Chris Hall
Application Price	$1.0192
Net Asset Value	$1.0167
Redemption Price	$1.0142
Liquidity	Monthly
No Stocks	36
Management Fee	0.70%
Performance Fee	10%
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 7701
Fax: +61 2 9261 0528

info@ellerstoncapital.com
www.ellerstoncapital.com

APIR Code: ECL7259AU

MARKETS AND MACRO NEWS

Following the continued global rally in June, the ASX 200 enjoyed its second best quarter since the turn of the century, rising 16.5% for the quarter. Particularly strong returns from Mining (+27%) and Energy (+28%) led value to outperform in Australia. Interestingly, this was in contrast to the rest of the world, where growth markedly outperformed. Banks continued to be a clear laggard throughout the quarter, underperforming the ASX 200 by 5.6%. Importantly, market earnings per share expectations finally stabilised following 4 consecutive months of significant negative revisions.

Looking at Australian Macro events, in a setback for what has otherwise been a largely unscathed re-opening process, the Victorian Government re-imposed a range of restrictions in June following an outbreak of community transmitted COVID-19 cases. Of great concern is the rapid increase in the number of cases in the first week of July. Victoria accounts for a large proportion of the country's SME's. Australian GDP forecasts have been revised up from the early dire predictions, with GDP likely to close the year down 2.5% vs the original forecast of -3.9%.

Pleasingly, global PMI data continued to surprise on the upside, especially China. New orders, export orders and non-manufacturing PMI all reported strong improvement. US loan applications also continued to show a strong rebound, a lead indicator of housing activity.

CONCLUSION

During the month we continued to add back to our cyclical yield positioning, along with a greater focus on "value" stocks as the opening up of world economies post COVID-19 gathered pace. At the time of writing in mid-July, we are mindful of the second wave of COVID-19 occurring in the US and here in Australia, especially Victoria. We are also watching the continued rapid expansion of the disease in emerging economy regions, especially Brazil and Africa. Should this trend continue, we are likely to move to a more defensive bias towards the end of the month. This market navigation process is extremely challenging at present given the unknown pathway and impact of the virus. The beta of the Fund (a measure of volatility) has moved higher as a result of our increase in cyclical yield exposure but we are monitoring this closely. The beta of the portfolio is sitting at 0.95, below the market beta of 1.00. The expected FY21 dividend growth rate of investee companies held within the portfolio is comfortably above that of the market, at 4.7% vs -2.3% for the ASX 200 .The expected dividend yield of investee companies held within the portfolio is currently 3.0% and is forecast to grow by 20% to 3.6% in FY22.

Regards,

Chris Hall - Portfolio Manager, CIO

PORTFOLIO CHARACTERISTICS

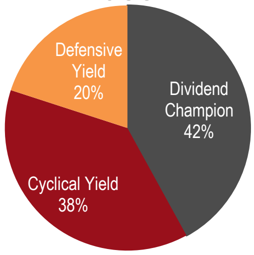
HOLDINGS

Top 10 holdings	Sector	%
CSL Limited	Health Care	5.7%
Westpac Banking Corporation	Materials	5.5%
Rio Tinto Limited	Real Estate	5.3%
Goodman Group	Materials	4.9%
James Hardie Industries	Materials	4.6%
Macquarie Group Limited	Materials	4.0%
ASX Limited	Financials	4.0%
Sonic Healthcare Limited	Health Care	3.7%
QBE Insurance Group Limited	Health Care	3.6%
Ramsay Health Care Limited	Health Care	3.5%

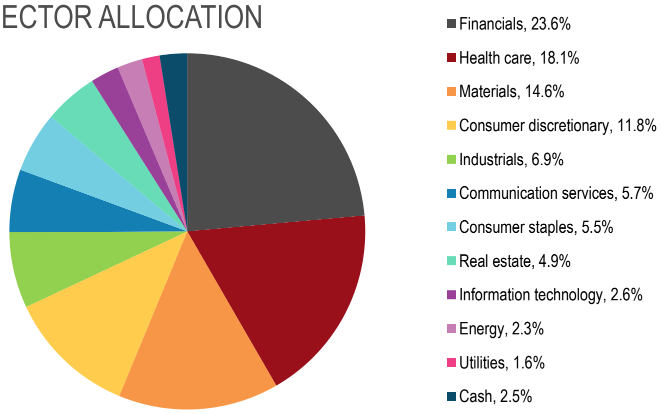
KEY PORTFOLIO METRICS

FY21(e)	Fund	Benchmark
Price/Earnings (x)	20.5	19.8
Dividend Yield (%)	3	3.3
Dividend Growth rate (%)	4.7	-2.3
Beta*	0.95	1.00

PORTFOLIO YIELD EXPOSURE

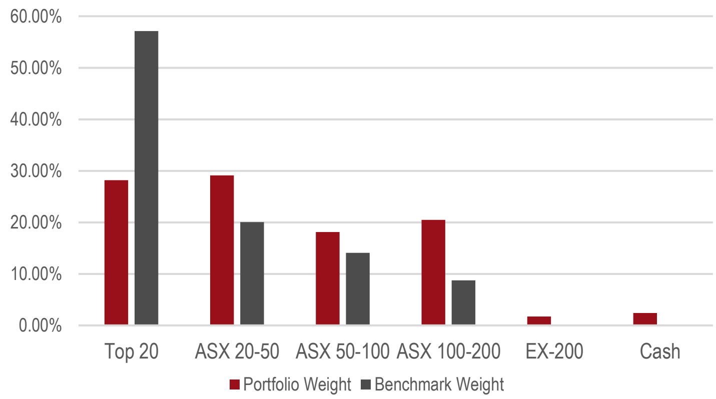


SECTOR ALLOCATION



Source: Ellerston Capital

MARKET CAPITALISATION



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

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