

Ellerston Low-Vol Income Strategy Fund

Performance Report | July 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year p.a.	Since Inception (p.a.)
Net [^]	1.98	9.97	-10.99	-1.21	-	3.33
Benchmark*	0.50	7.62	-14.25	-9.87	-	-1.71
Alpha	1.47	2.35	3.26	8.65	-	5.04

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 the constant rapid rise in COVID-19 cases around the globe, as restrictions began to ease, global equity markets continued to move higher during July. The Australian market (S&P/ASX 200) rallied 0.5%, representing the 4th consecutive month of gains. The rally was driven predominantly by the Materials Sector, rising 5.8% for the month whilst Healthcare (-3.9%) and Energy (-6.6%) were the laggards. The Fund had a strong month, outperforming its benchmark by 1.47% on a net basis. The outperformance was driven by broad based stock specific factors, with Goodman Group, QBE Insurance, Breville Group and Northern Star Resources collectively adding 1.5% of relative performance. Key performance detractors were from stocks not owned in the portfolio, specifically Fortescue Metals and Newcrest Mining. Over the past 12 months, the Fund has outperformed its benchmark by 8.65% on a net basis.

PORTFOLIO ACTIVITY – MAJOR TRANSACTIONS

During the month we added Ampol Limited to the portfolio given the potential for its sale of a stake in its petrol stations that could reap over \$1.0bn. These funds are likely to then be used for accretive capital management purposes. Furthermore, there is still scope for Couche-Tard to renew its approach to buy the company once economic conditions stabilise. To fund this purchase we exited Origin Energy over concerns of weak wholesale electricity prices continuing to be a drag on profitability. We further reduced our position in CSL Limited over concerns regarding a slowing in plasma collection rates, specifically in the U.S. We participated in the Downer EDI placement, which saw the company raise \$400m via a 1:5.58 accelerated non-renounceable entitlement offer at \$3.75 per share. The proceeds will be used to strengthen the company's balance sheet and acquire the remaining shares in Spotless Group. This is expected to deliver \$15m of synergy benefits. We also added Perpetual Limited, an Australian owned asset manager, via participation in a \$265m capital raising at \$33.61 per share to help fund the acquisition of US asset manager, Barrow Hanley, for A\$465m. The deal is attractive as it transforms Perpetual's business and leads to underlying earnings per share accretion of greater than 20% on an annualised basis.

MARKETS AND MACRO NEWS

Global markets continued their strong rally in July, with the MSCI All Country World Index rising 5.1%, significantly outperforming the Australian share market. Asian markets led the way due to potential positive vaccine news and better economic data. China's June trade surplus and manufacturing PMI data beat expectations, underpinning faith in the economic recovery. The Chinese SSE Composite Index rose a significant 12.8% for the month. The US reporting season is now almost complete, faring better than expected as companies who aggressively cut labour and capex back in March to deal with COVID-19, have seen operating leverage begin to improve profits ahead of market expectations. US economic data, specifically non-farm payrolls and June manufacturing ISM provided a positive surprise vs expectations. The S&P500 rose 5.6%, led by the technology sector, which has now rallied over 20% in 2020.

Global commodity markets continued to rise in July. Brent Oil prices rose to US\$43.62 a barrel, driven in part by the expectations of an improving economic outlook and the fall in the US dollar. Iron Ore prices continued to climb and ended the month at US\$111 a tonne. Gold was a highlight, hovering around record highs at US\$1986/oz, as real yields in the US remained negative. However, the star performer was Silver, up 30% to US\$24.22/oz, finally playing catch up with the rest of the precious metals suite. The chart from Credit Suisse below underscores the positive tone towards commodity prices, given their correlation with money supply.

Investment Objective

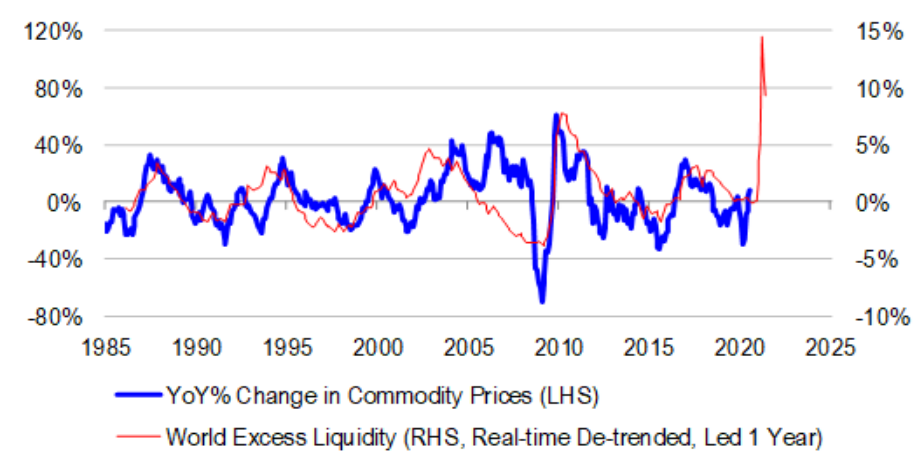
The investment objective of the Ellerston Low Volatility Income Strategy Fund ("ELVIS" or "the Fund") is to provide investors with returns and income growth greater than the S&P/ASX 200 Accumulation Index over rolling 3-5 year periods.

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	\$1.0352
Net Asset Value	\$1.0326
Redemption Price	\$1.0300
Liquidity	Monthly
No Stocks	37
Management Fee	0.70%
Performance Fee	10%
Buy/Sell Spread	0.25%/0.25%



Source: Credit Suisse

In Australia, the Reserve Bank left rates unchanged in July. The Australian dollar had a strong month, its third best quarter since 2000. It gained 3.5% against the US dollar and broke through 70 US cents in mid-July, finishing the month at 71.4 US cents.

We are about to embark on FY 20 company reporting season, following a turbulent period which has seen ASX 200 earnings per share expectations cut by 25%, coupled with dividends per share cut by 40%, since March. Consequently, we expect far greater variance in company profit outcomes and guidance given the enormous uncertainty facing corporate Australia.

CONCLUSION

Looking ahead, conditions for global asset prices, including equities, still look supportive with dovish Central Banks and stimulus focused governments driving better than expected economic data outcomes. This is likely to persist for a few months yet but caution around 2021 is warranted as inflationary risks begin to emerge in the U.S. This outcome raises the risk of placing upward pressure on interest rates and, therefore, lower asset prices given their current levels.

The portfolio has broadly maintained its recent reweighting into cyclical yield as continued government stimulus programs are extended whilst global economic data continues to improve, albeit off a low base. The beta of the fund (a measure of volatility) has moved marginally higher as a result of this but still sits comfortably at 0.95 vs a market beta of 1.00. The expected FY 21 dividend growth rate of investee companies held within the portfolio is comfortably above that of the market, at 3.8% vs -3.6% respectively. The expected dividend yield of investee companies held within the portfolio is currently 3.7%.

Regards,

Chris Hall - Portfolio Manager, CIO

PORTFOLIO CHARACTERISTICS

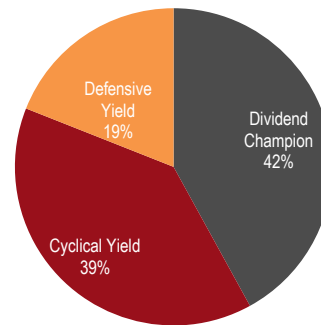
HOLDINGS

Top 10 holdings	Sector	%
Rio Tinto Limited	Materials	5.4
Westpac Banking Corporation	Real Estate	5.2
Goodman Group	Health Care	5.1
CSL Limited	Materials	4.9
James Hardie Industries	Materials	4.7
Macquarie Group Limited	Financials	4.1
Sonic Healthcare Limited	Health Care	3.8
ASX Limited	Financials	3.8
Ramsay Health Care Limited	Health Care	3.2
Spark New Zealand Limited	Communication Services	3.0

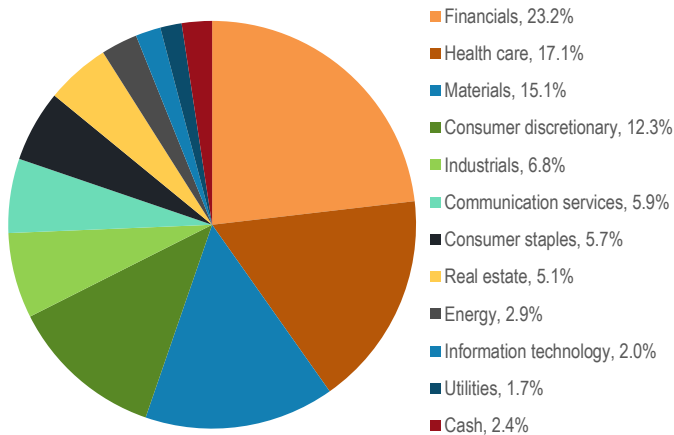
KEY PORTFOLIO METRICS

FY21(e)	Fund	Benchmark
Price/Earnings (x)	21.4	20.4
Dividend Yield (%)	3	3.1
Dividend Growth rate (%)	3.8	-3.6
Beta*	0.95	1.00

PORTFOLIO YIELD EXPOSURE

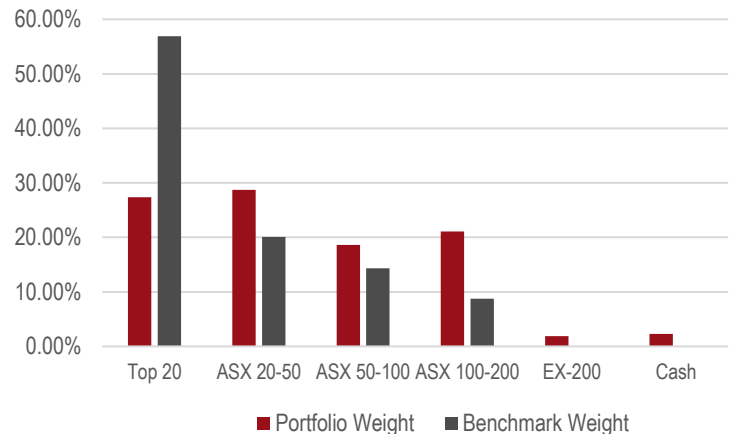


SECTOR ALLOCATION



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 7797 or info@ellerstoncapital.com or visit us at <https://ellerstoncapital.com/>

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