ELLERSTON CAPITAL

# Ellerston Overlay Australian Share Fund (OASF)

Performance Report | July 20

## PERFORMANCE SUMMARY

| Performance Class A (%) | 1 Month | 3 Month | Rolling 12 Months | 5 Year (p.a.) | Since Inception (p.a.) |
|---|---|---|---|---|---|
| Net^ | 0.12 | 2.23 | -10.52 | 2.43 | 5.39 |
| Benchmark* | 0.50 | 7.62 | -9.87 | 5.15 | 7.74 |

Source: Ellerston Capital

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

*The benchmark was changed from the S&P/ASX 200 Accumulation Ex REITS Index to the S&P/ASX 200 Accumulation Index on 1 July 2012.

## MARKET COMMENTARY

### Market Overview

In July, there was a continued sharp rise in global COVID-19 cases as restrictions on mobility were eased around the world. Despite this, global equities recorded another solid rise. The Australian market lagged many of the major indices as sentiment turned negative following the spike in cases in Victoria. Investor sentiment remains fragile despite some tentative signs of an uptick in manufacturing. Regulators continue to maintain an accommodative stance with bond yields continuing to decline and the bullion price keeps rising, touching a record high. Markets are looking to the upcoming reporting season for guidance on the financial health of companies.

### USA

In July, US equity markets squeezed higher despite rising numbers of COVID-19 cases. Hopes of a vaccine and better than expected results from companies at the start of the US reporting season, helped support the market. Debate among US legislators continues on whether to extend unemployment benefits. At the time of writing, a deal to extend unemployment benefits remains elusive, and COVID-19 deaths in the U.S. (especially the South and West) continue to surge. While 5 million jobs were created in June, further advances are likely to slow. A similar pattern is evident in weekly claims, which has flattened in recent weeks.

78% of S&P 500 stocks by market cap have reported 2Q results. While earnings are on target for a -35% year-on-year contraction, companies have topped expectations by 23%, the largest surprise on record. Over the past year, the 5 largest S&P 500 companies (Apple, Microsoft, Amazon, Alphabet and Facebook) returned 58% versus 1% for the rest of the market, driven predominantly by superior top line growth and earnings. 2Q EPS for the Big 5 grew 19% versus -40% for the rest of the market.

For the month, the S&P 500 was up +5.6%, the Dow Jones was up +2.5% and the NASDAQ Composite was up an impressive +6.9%. The NASDAQ has delivered a stellar return of +20.4% for the calendar year to date.

Activity indicators from June showed positive signs: the manufacturing ISM rose to 52.6, slightly better than expectations, and non-farm payrolls rose by +4800K in June (consensus: +3230K; previous: +2509K), with the unemployment rate falling to 11.1% from 13.3% previously.

### Europe

European equities started the month strongly on optimism over better US jobs data and a surprise beat on the German PMI. The initial rally soon faded as policy makers disagreed on the structure of the next stage of the stimulus.

The Euro STOXX 50 Index closed the month down 1.6%. Among the major exchanges, the UK's FTSE 100 was the hardest hit, 4.2%, France's CAC 40 was down 2.6%, and Germany's DAX ended the month flat.

European equities sold off despite activity indicators improving ahead of expectations. Flash Eurozone manufacturing PMI for June was higher, up to (a still weak) 47.4 (previous: 39.4) and the composite PMI rose to 48.5 (previous: 31.9).

### Investment Objective

The Investment objective for the Ellerston Overlay ASF is to outperform the S&P/ASX 200 Accumulation Index (Benchmark).

### Investment Strategy

The Fund uses a benchmark-independent, high conviction approach that looks beyond investing in the Top 20 Australian equity stocks in order to capture the neglected opportunities and uses derivatives to enhance income.

### Key Information

| | |
|---|---|
| Class Inception | 1 July 2011 |
| Portfolio Manager | Chris Kourtis |
| Application Price | $0.9957 |
| Net Asset Value | $0.9932 |
| Redemption Price | $0.9907 |
| Liquidity | Weekly |
| No Stocks | 22 |
| Management Fee | 0.90% |
| Performance Fee | 15% |
| Buy/Sell Spread | 0.25%/0.25% |

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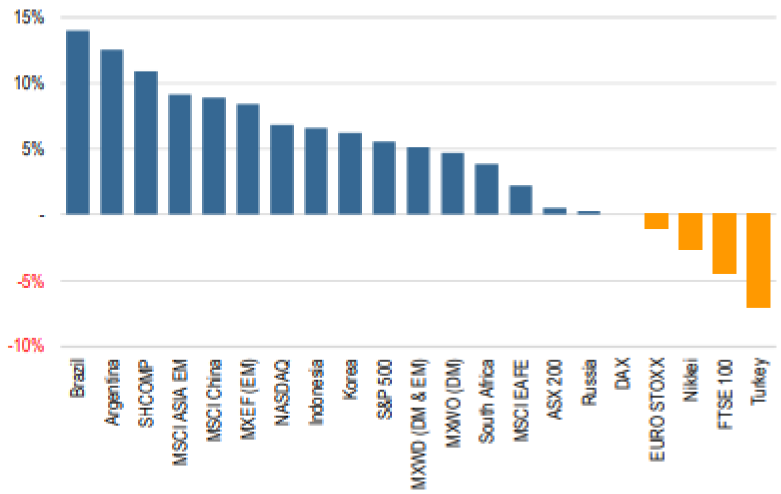
## Asia

Asian equities were broadly stronger as positive vaccine news and a better than expected Chinese GDP print supported markets. The Hang Seng Composite Index returned +1.5%, the Chinese SSE Composite Index was up a massive

12.8%, but Japan's Nikkei 225 Index bucked the trend and closed down 2.6%. Chinese economic data showed some improvement, with the June trade surplus ahead of expectations and importantly, the June manufacturing PMI moved up to 51.2 (consensus: 50.5, previous: 50.7).

**Global markets performance in July 2020**

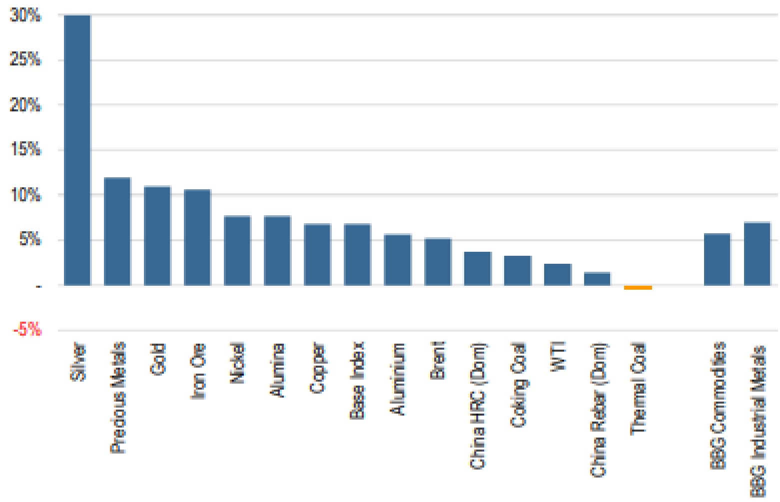



Source: JP Morgan, Bloomberg

## Commodities

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.

**Global commodity performance in July 2020**




Source: JP Morgan, Bloomberg

## Bonds

Global bond yields continued their decline in July. The US 10-year government bond yield fell another 10 basis points to 0.55%, while the Australian 10-year government bond yield fell another 5 basis points to 0.82%.

## Australia

The S&P/ASX 200 Accumulation Index commenced the new financial year marginally in the black, with a return of +0.5% in July. This was the fourth consecutive month of gains. The outbreak in Victoria and small pockets of COVID-19 in other states had investors on edge, especially towards month end.

The Materials sector was the best performer (led by Fortescue Metals), in terms of contribution to the index's performance, with a contribution of +1.1%. Consumer Staples (+0.2%) and Consumer Discretionary (+0.2%) were the next two best sectors, in terms of contribution to the Index. Conversely, the bottom three sectors, were Health Care (-0.5%), Financials (-0.3%) and Industrials (-0.3%).

The ASX 200 Resources Accumulation Index was the best performing sub-index, returning +4.3%, with commodities strongly bid up in anticipation of improving global growth. The Small Ordinaries Accumulation Index had a good month too, returning +1.4% while the ASX 200 Industrial Accumulation Index was the worst performer with a return of -0.5%.

The top five stocks that detracted from the performance of the S&P/ASX 200 Accumulation Index were: CSL (-46 points), followed by three of the big four major banks; Westpac Banking Corporation (-18 points), Australia and New Zealand Banking Group (-11 points) and National Australia Bank (-11 points) as investors were troubled by likely top-ups to provisions for loan losses and the likelihood of much lower dividends. The fifth was Insurance Australia Group which issued a surprise profit warning (-9 points).

The top five stocks that made a positive contribution to the index's return were Fortescue Metals Group, spurred on by the strong rise in Iron Ore prices (+36 points), Goodman Group (+20 points), Commonwealth Bank of Australia (+19 points), with investors expecting it to pay a bigger dividend relative to its peers, Newcrest Mining (+18 points) as the price of Gold kept rising and BHP Group (+17 points), another beneficiary from the strength in commodity prices.

The RBA 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.

## COMPANY SPECIFIC NEWS

### The Market Misses

#### AdBri (ABC -30.5%)

After decades of continuous supply, ABC's largest lime customer, Alumina Limited decided to source its future lime requirements from an importer. The contract is a material contributor to ABC's earnings and it will be very difficult to place that volume with other customers. The move by Alumina Limited also increases the risk that other ABC lime customers, such as South32, choose to buy from importers when their contracts expire, or re-contract at a lower price from ABC.

#### AMP (AMP -21.0%)

A shocking, almost 20% operating earnings miss from AMP, as it pre-released its results. The company blamed one-off COVID-19 related market weakness and costs, flagged delays to its cost-out program and was silent on any capital management. Earnings were cut significantly and uncertainty hangs over the merits of its relatively new strategy and credibility of its new CEO.

#### Monadelphous (MND -17.7%)

No company specific news during the month, however, the broader contracting space was weaker through July, as a number of mining operations have been slow to return to full capacity.

#### oOh!media (OML -17.6%)

The spike in COVID-19 cases in Victoria forced the State government to re-implement tighter restrictions around the movement of the population and hence the potential audience for outdoor advertising. Speculation that OML may be removed from the ASX 200 Index at the September rebalance, also weighed on the share price.

#### Webjet (WEB -14.8%)

All the travel names came under renewed pressure in July as the second wave of COVID-19 took hold on a global basis. Optimism about a return to travel was the first victim and with WEB exposed to both B2C and B2B sectors across ANZ and EMEA, there was little support for the stock.

#### Qantas Airways (QAN -17.0%)

QAN was also a casualty of the resurgent spike of COVID-19 cases in Victoria and New South Wales. Victoria was quarantined from the whole country and Queensland shut its borders to Sydneysiders. A return to domestic travel seems as far away today as it has ever been. That, combined with the digestion of QAN's capital raise at the end of June, saw the stock under pressure. The shares are now well below the issue price of $3.65, which at the time was a 12.9% discount to the $4.19 closing price.

#### IDP Education (IEL -14.1%)

There was no company specific news in July following the 5.1% sell down of the company by its largest shareholder in June. The share price underperformance was largely due to expectations of further supply issues, driven by a second wave of COVID-19 related disruptions.

#### Polynovo (PNV -13.8%)

The company issued a trading update in July that showed strong sales momentum in the US continued and acceptance of its product in Europe also continued to build off a low base. But the gloss was taken off the reiteration of sales guidance, by news that the US FDA needed more information before it will approve patient recruitment for a key trial in the US. The information request has delayed the start of the trial for a yet to be determined period.

### Insurance Australia Group (IAG -11.8%)

IAG disappointed the market with a headline earnings miss and an underlying margin decline of 180 basis points to 15.1%. Additionally, it warned that its reserve releases would cease and in a shock to investors, that it would not pay a final dividend. Some question marks remain on its surplus capital and business interruption exposure.

## The Market Hits

### HUB24 (HUB +43.4%)

HUB saw stronger than expected 4Q net flows of $1.1 billion, up 11% year-on-year and substantially better than consensus expectations. With new advisors joining HUB and the market expecting an expansion of EBITDA margins, the stock saw earnings upgraded and was re-rated (along with other platform businesses).

### Pilbara Minerals/Orocobre - (PLS +40.0%, ORE +28.6%)

PLS and ORE are both lithium producers, the former is a hard rock producer and the latter a brine based producer. The market for their products has been very weak due to increased supply and weaker EV demand. Their stock prices, as well as other lithium producers, reacted positively to EV producer Tesla's 33% stock price rise in July, as potentially a lead indicator of a turn in the lithium market.

### Netwealth Group (NWL +33.9%)

Like HUB, NWL indicated that it was experiencing better net flows. It's evident that the newer platform (HUB and NWL) are gaining market share from the majors. NWL was swept up in the re-rating of the capital-light platforms and has seen its share price rise materially off its COVID-19 induced lows. While both NWL and HUB make money, they are not cheap, trading on a PER of 62 and 53 times expected FY21 earnings respectively, but promise substantial earnings growth.

### ALS Ltd (ALQ +29.4%)

ALS provided a positive trading update at its AGM towards the end of the month, with 1Q revenue down much less than expectations. The robust update and outlook has been underpinned by both resilient life sciences margins and a strong gold price.

### Pinnacle Investment (PNI +28.8%)

A strong set of results, boosted by a sharp increase in performance fees, helped drive PNI's share price higher.

### Fortescue Metals Group/Mineral Resources (FMG +25.7%, MIN +21.6%)

Iron ore prices, which were already elevated, rose a further 10% in the month to $111/t. This was as a result of the strong June Chinese steel consumption release of +7.9% YoY, continued supply constraints with Brazilian iron ore production and ongoing Chinese economic stimulus. Pure-play iron ore miner FMG and contractor/iron ore miner MIN both benefitted from the rise in iron ore prices, as well as strong production announcements for the June quarter.

### OZ Minerals (OZL +24.4%)

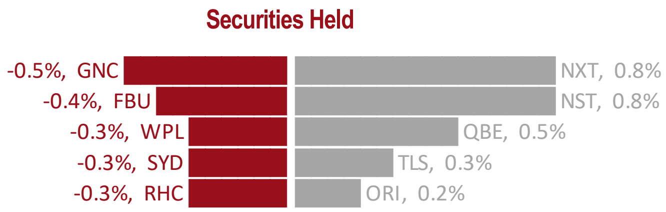
Copper producer OZL announced a strong June quarter production report and also upgraded guidance for CY2020. This announcement, together with a further 5% rise the copper price post the June quarter's 24% rise, contributed to OZL's performance.

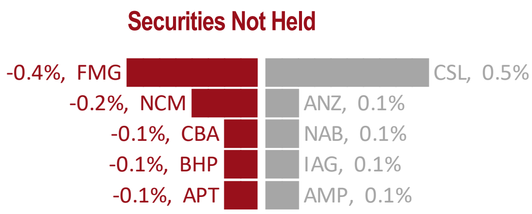
# FUND PERFORMANCE

Against the backdrop of a worsening COVID-19 situation in Victoria, which accounts for ~25% of Australia's GDP and the Australian market lagging its global peers, the Fund returned +0.21% during the month of July, slightly underperforming the benchmark return of +0.50%.

| RETURNS^ (%) | GROSS | BENCHMARK* | EXCESS | NET |
|---|---|---|---|---|
| 1 MONTH | 0.21 | 0.50 | -0.29 | 0.12 |
| 3 MONTHS | 2.49 | 7.62 | -5.13 | 2.23 |
| ROLLING 12 MONTHS | -9.61 | -9.87 | 0.26 | -10.52 |
| 5 YEARS (P.A) | 3.36 | 5.15 | -1.79 | 2.43 |
| SINCE INCEPTION (P.A) | 6.49 | 7.74 | -1.25 | 5.39 |

^The return figures are calculated using the redemption price for Class A Units and are and are net of fees and expenses. Returns are also calculated on the basis that distributions are reinvested. Returns of the Fund may include audited and un-audited results. Past performance is not a reliable indicator of future performance.
* The benchmark was changed from the S&P/ASX 200 Accumulation Ex REITS Index to the S&P/ASX 200 Accumulation Index on 1 July 2012.




Source: Ellerston Capital.

The main positive contributors to this month's relative performance were overweight positions in: NEXTDC (NXT +15.3%), Northern Star Resources (NST +15.7%), QBE Insurance Group (QBE +11.9%), Telstra (TLS +7.0%) and Orica (ORI +3.9%).

Zero weight positions that helped performance included CSL (CSL -5.9%), Australia and New Zealand Banking Group (ANZ -3.6%), National Australia Bank (NAB -3.1%), Insurance Australia Group (IAG -11.8%) and AMP (AMP -21.0%).

The main detractors to relative performance for the month were overweight holdings in: Graincorp (GNC -9.5%), Fletcher Building (FBU -9.3%), Woodside Petroleum (WPL -7.6%), Sydney Airport (SYD -7.8%) and Ramsay Health Care (RHC -6.8%).

Not holding any shares that also constrained returns included: Fortescue Metals Group (FMG +25.7%), Newcrest Mining (NCM +11.6%), Commonwealth Bank of Australia (CBA +2.6%), BHP Group (BHP +2.6%) and Afterpay (APT +12.4%).

## FUND ACTIVITY

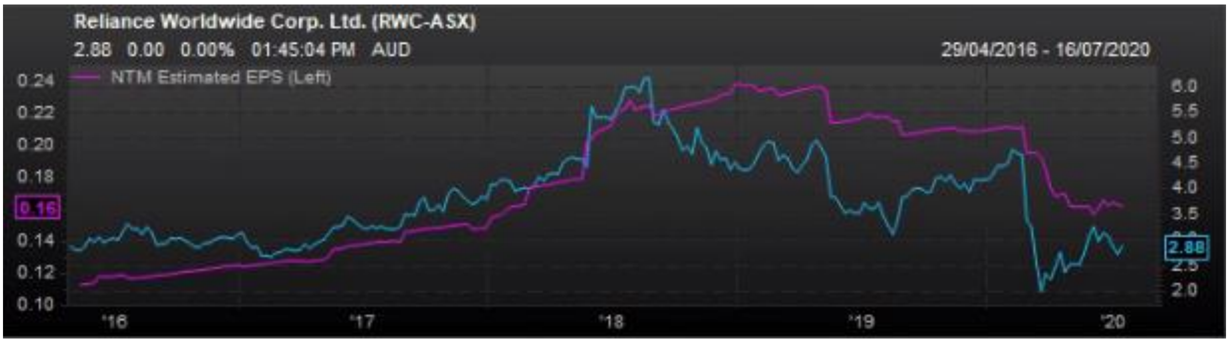
In July, the market consolidated its post COVID-19 gains, and following on from last month, we continued to progressively right-size certain portfolio positions and strengthen other core holdings.

| NEW STOCKS ADDED | STOCKS EXITED |
|---|---|
| • Reliance Worldwide | |
| **INCREASED** | **DECREASED** |
| • Northern Star Resources | • Telstra Corporation |
| • Treasury Wines Estates | • QBE Insurance Group |
| • Downer EDI (via Capital Raise) | |

### Reliance Worldwide Corporation (RWC)

The COVID-19 related dislocation in markets continues to create opportunities to acquire former market darlings and quality businesses at prices well below our valuations. This month, we added Reliance Worldwide(RWC) to the portfolio for the first time.

RWC is a manufacturer of 'behind-the-wall' fixtures and fittings for plumbing and water heating. RWC's stock price has fallen 50% from its 2018 high and has also underperformed the market by the same amount. The company was a darling for the first two years after listing in 2016, but a series of earnings downgrades, the exit of the founding Munz family from the share register (selling the last of their holding at $4.65 in February 2019) and the revenue impact from COVID-19 have all contributed to its de-rating.




Source: Factset, Ellerston Capital

**So, other than price, why does it look attractive now?**

The downgrades and de-rating pre-COVID-19 were largely a function of RWC disappointing on revenue growth. The easy wins from expanding the distribution network, especially in the US, came to an end in FY2018 with the addition of Lowe's as a major distributor. Their focus had shifted from 'product push' to 'product pull', but commercial execution had been found wanting, so RWC has been investing to address this. Investment over the last 12-18 months has added costs, without immediate additional revenue and was another driver of earnings disappointment. **We believe their investment will result in improvements to revenue, margins and earnings over the medium term.**

**SharkBite**, has been the key to the company's historic success, but 30% penetration of this product in the US repair and maintenance market is well below the 50% share the same product enjoys in the UK. The recent launch of the new SharkBite stop valve shows how **RWC can take its existing products into close and previously untapped product segments, growing revenue with minimal risk or added cost**.

**One of the attractive features of RWC is the largely non-discretionary nature of the demand for its core products**. Repair and maintenance plumbing and heating work accounts for 68% of global sales. Broken and leaky pipes, fittings and faulty water heating systems need to be fixed quickly, or risk significantly more damage, so with **70% of the 135m houses in the US being over 30 years old, the outlook for plumbing repair work will continue to improve**.

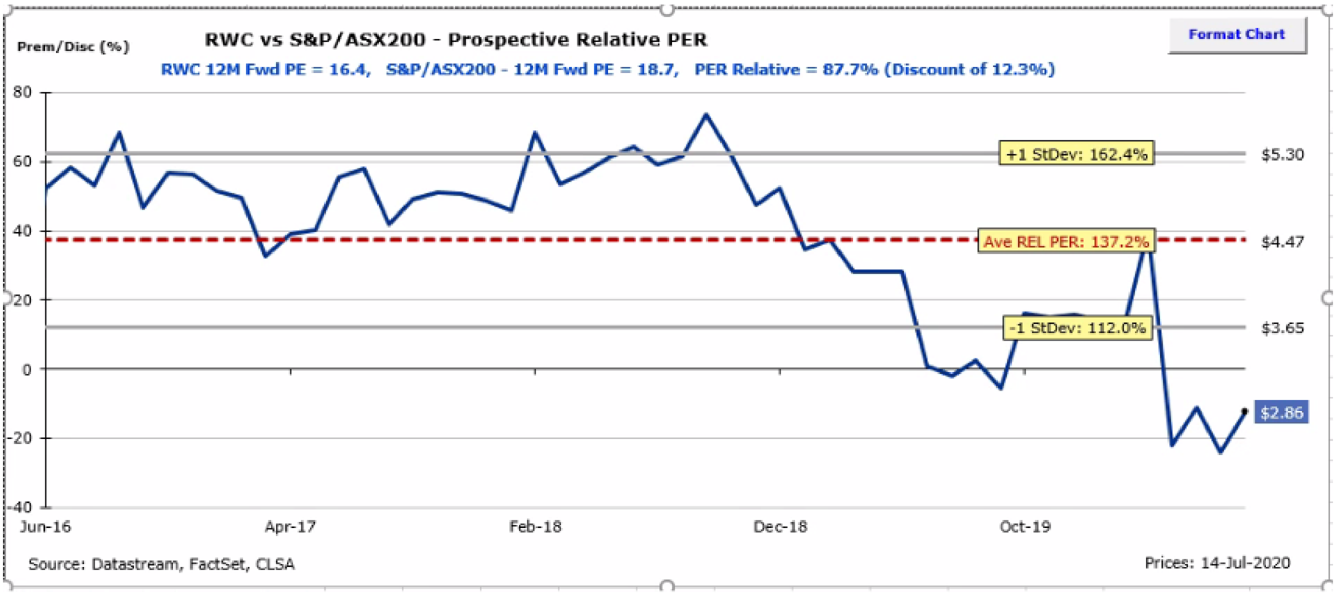
Investors have been concerned at the risk of RWC's distribution relationship with Home Depot (HD) in the US falling over. HD is RWC's single largest distributor, so when RWC started selling products in 2017 through Lowe's, HD's largest competitor, RWC had its products removed from HD's stores in the north-west region of the US. There was a risk that the substitute product would be successful and encourage HD to remove RWC's products from stores in other regions as well.

That risk still exists, but is largely priced in. Lowe's called out RWC's SharkBite as a key driver of its better revenue growth in its last quarterly earnings result. HD would seemingly be "shooting itself in the foot" if it removed the SharkBite product. **Improvement in the RWC/HD relationship since then is reinforced by HD's decision to allocate shelf-space to some of RWC's new products such as the SharkBite stop valve**.

RWC's strategy continues to incorporate the acquisition of manufacturers of other 'behind-the-wall' products, where it can acquire small businesses and use its distribution relationships to accelerate revenue growth. **Going forward, acquisitions will be smaller and given its strong balance sheet (ND/EBITDA ~1.6x) with the ability to debt fund them, they should be EPS accretive.**

While there is still obvious risk to short-term earnings associated with the uncertainty around COVID -19 impacts, our channel checks with RWC's distributors and competitors in recent months suggest that the sales environment has been better than when RWC last provided a trading update. **The relatively defensive demand profile for its products is supportive, but RWC is also exposed to cyclical factors** (e.g. new construction activity in the EU and beer consumption through its FluidTech division in the EU).

The readjustment of growth expectations and fears around near-term earnings have presented an opportunity to establish a portfolio position, at an attractive price, in **RWC – a stock that remains a high quality, relatively defensive earnings exposure with good underlying medium term growth prospects supplemented by bolt-on acquisitions.**

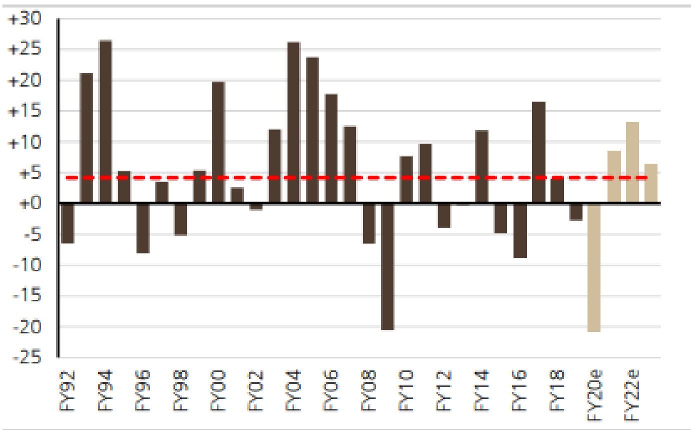


# FUND STRATEGY AND OUTLOOK

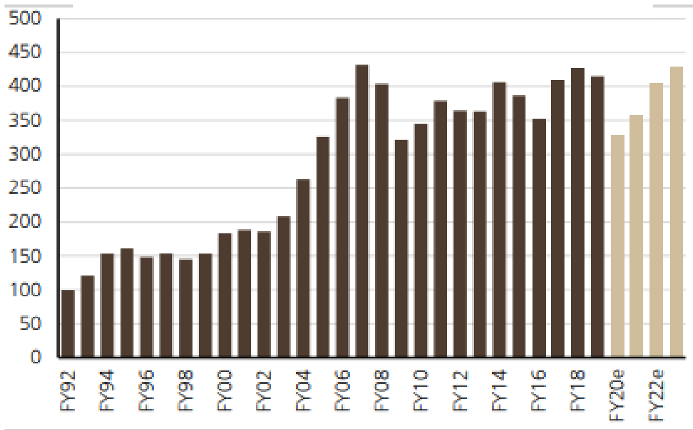
In July, the government updated the structure of its various support packages, with JobKeeper payments to be extended to March next year. However, the payment will reduce from $1,500 to $1,200 a fortnight. Despite tapering and the fact that the 3 million individuals receiving JobKeeper would fall to 1.4 million by 4Q, there was relief that the so-called "cliff edge" of September would be avoided. APRA's latest update on temporary loan repayment deferrals highlighted that the 20 largest banks have allowed deferrals on ~A$274bn of loans, up from ~A$266bn at end of May and that there have been deferrals on ~A$195bn, or ~11%, of housing loans (May: ~A$192bn; ~11%). But investor sentiment is being negatively impacted as the number of COVID-19 cases rises, especially in Victoria. The alarming spike in Victoria's infections causing the shutdown announced in early August is expected to put additional pressure on the government's budget and further constrain GDP growth (as Victoria accounts for almost ~25% of national GDP). Against this backdrop, we look to the upcoming earnings season.

The reporting season will be intriguing. Not only will companies be presenting results that reflect an "unprecedented period" that has pressured earnings, but will be doing so in a virtual setting, where the outlook is extremely unclear. Outlook statements if provided at all, will be very closely scrutinized. Currently, consensus expects Australian market earnings for FY20 to fall 21%, equalling the worst year since the GFC (see chart on the left below). If the fall is realised, it will likely take until FY23 to recover (see chart below on the right).

**Earnings are expected to fall a record 21% in FY20**

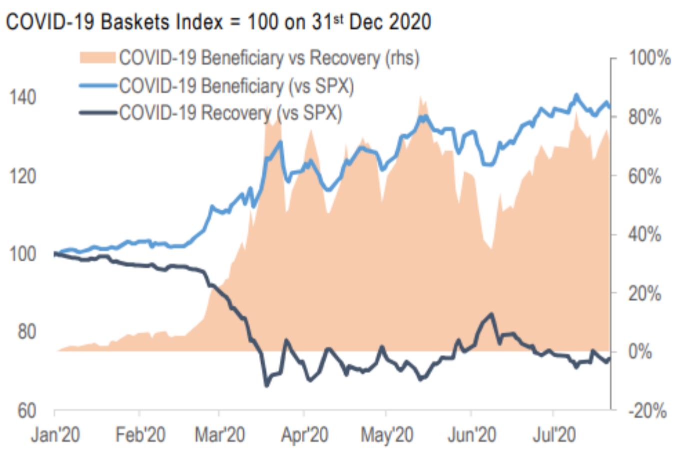


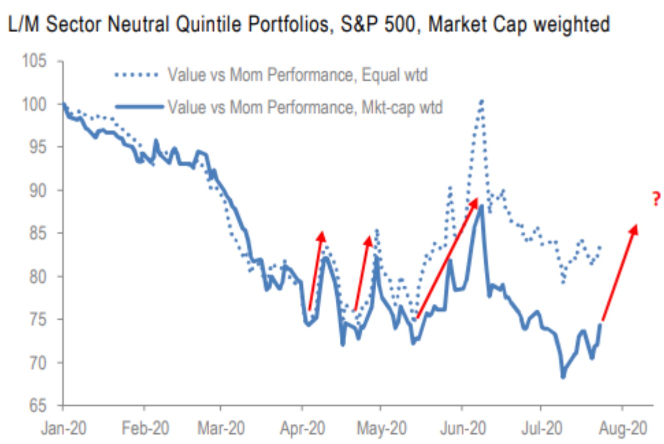

**Which sees EPS fall to the lowest level since FY04 and will take until well past FY23 to recover to FY19 levels**




Source: Factset, UBS

We have previously commented in this newsletter about Growth outperforming Value, and the fact that this has accelerated over the past five years. However, the sheer duration and magnitude of the outperformance of Growth, particularly in the last six months, has blown out to even more extreme levels. Central bank accommodation and COVID-19 stimulus have significantly benefitted 'stay-at-home' stocks. Our expectation is that when global economies come out of lockdown and a vaccine is widely available, there will be a rotation out of 'growth at any price' stocks and back into cyclicals and more traditional value names. Despite multiple short squeezes (see chart below on the right), value still remains at year-to-date lows, with COVID-19 beneficiary stocks outperforming recovery stocks (see chart below on the left) by a large margin.

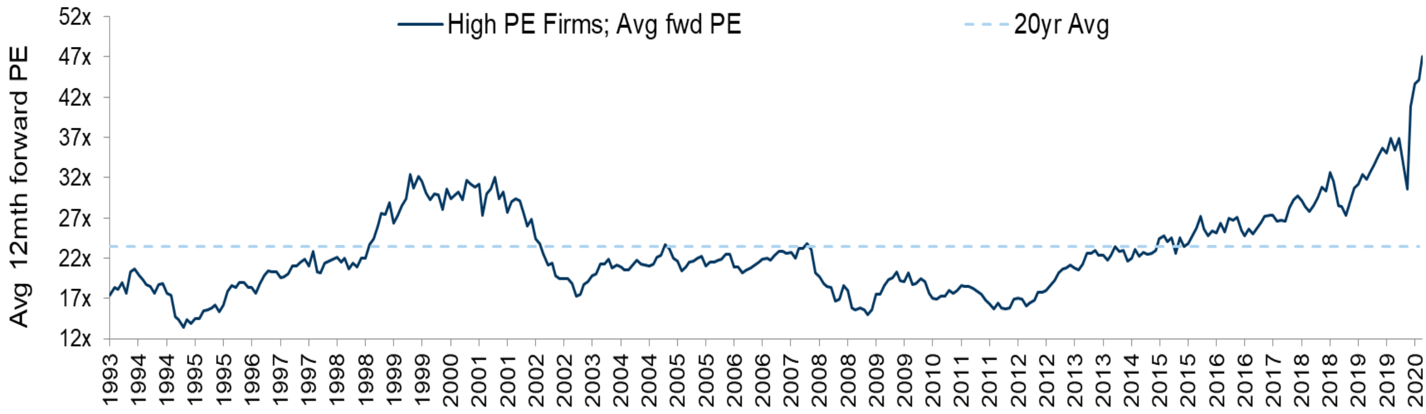



Source: JP Morgan Strategy

We have also highlighted, the extreme valuation multiples that investors appear prepared to justify when buying so-called secular growth stocks – including technology and health care stocks – under the guise of a zero interest rate world. The chart below, above again demonstrates the extreme re-rating of the growth basket, heavily weighted towards US dollar revenue generators that have historically benefitted from a strong US dollar.

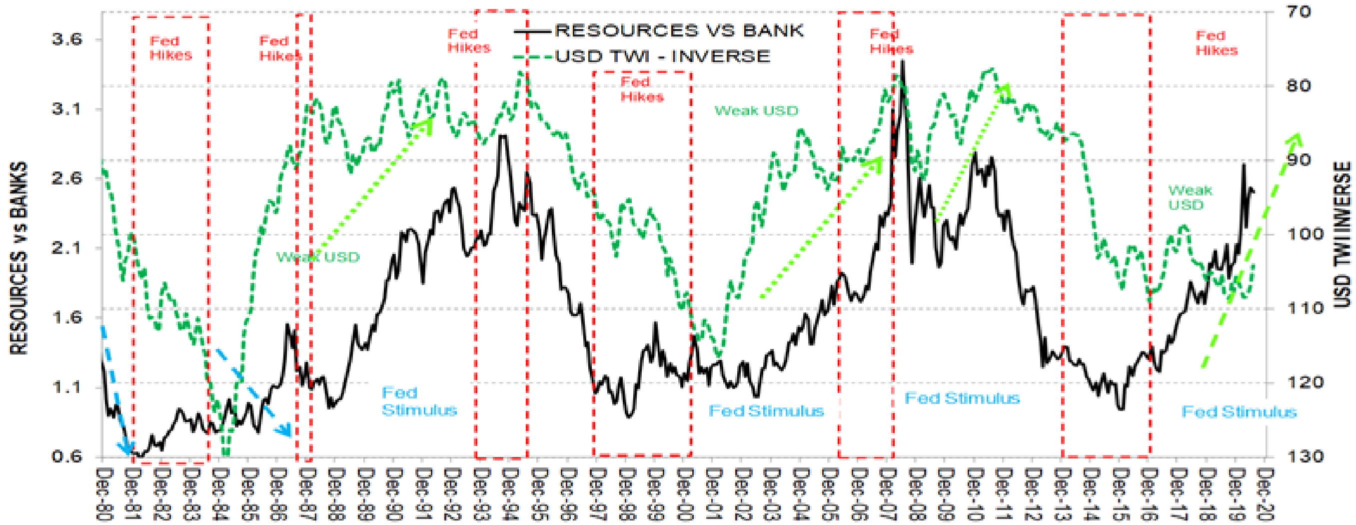
**Top quintile P/E Australian stocks now trade on 47x, twice the 20 year average**




Source: FactSet, Goldman Sachs Investment Research

On the macro-front, any hint of inflationary pressures creeping into the system, or of interest rates backing up from these historically low levels (given unprecedented massive fiscal and monetary stimulus from Governments and Central Banks) will reverse the trend above in and the portfolio should benefit in that environment.

**Resources outperform Banks during “inflationary Booms”**




Source: Endeavour Equities

By the end of this calendar year, investors will be looking at a substantially different landscape on a number of key fronts. There is a good chance that we will be on the verge of approval of a COVID vaccine from the FDA by that time (with 6 vaccines already now in the final phase of efficacy and safety tests) and the US election will already be behind us. Market reaction to the issues - the virus evolution with reopenings; the prospects of an earlier vaccine; and the ramifications of the US election are going to be the drivers of markets between now and then. Whilst the range of outcomes will be wide, we are seeing ongoing US Dollar weakness, which is obviously good for gold. Shifts around vaccine news and the election may also challenge the market’s assumptions about global growth, inflationary expectations (given the printing presses have been at work 24/7) and persistently negative real rates.

Once again, this could prompt renewed rotation towards traditional cyclicals as the curve steepens, which would suit our book.

We are not sure what the future holds and strategy commentary full of clichés like "these unprecedented times" are starting to wear thin, but the downside risk scenarios that many observers had painted have not come to fruition (yet). Hopefully policy makers have got it right and the doomsayers are wrong, for all our sakes! What COVID-19 has taught us is to expect the unexpected.

In terms of strategy, we continue to refresh and improve the quality of the portfolio. We remain cautious on the medium-term prospects for the market and continue to focus on picking stocks that look attractive relative to our assessment of value and appear to be mispriced by the market.

We believe the Fund is reasonably well placed to navigate current developments and expect our stocks to deliver solid returns in the years to come.

**To summarise your portfolio's positioning:**

### 1. Quality Franchises

Solid companies with strong/leading market positions and credible management with good balance sheets

*James Hardie Industries, NextDC, Ramsay Health, Telstra, Sydney Airport, Goodman Group, United Malt, Reliance Worldwide and Treasury Wines*

### 2. Businesses that are highly cyclical or seasonal in nature, facing headwinds

Heavily discounted companies with strong market positions and strategic assets, but very sensitive to economic conditions/seasonality/weather

*Graincorp, Nufarm, Downer EDI and Flight Centre*

### 3. Turnarounds

Sound businesses that have historically generated poor returns, have been poorly managed, under-earned versus their potential, are in transition and where we think earnings/returns will improve over the medium term. Out of favour with the market, somewhat contrarian positions

*Orica, QBE, Fletcher Building and Janus Henderson*

### 4. Deep Value Resource Plays

Stocks trading at discounts to NPVs, where much of the heavy lifting has been done (cost out, self help deleveraging)

*South32, Woodside Petroleum, Origin Energy and Northern Star Resources*

## Underweight Financials, especially Banks where we own 1 of the Big 4

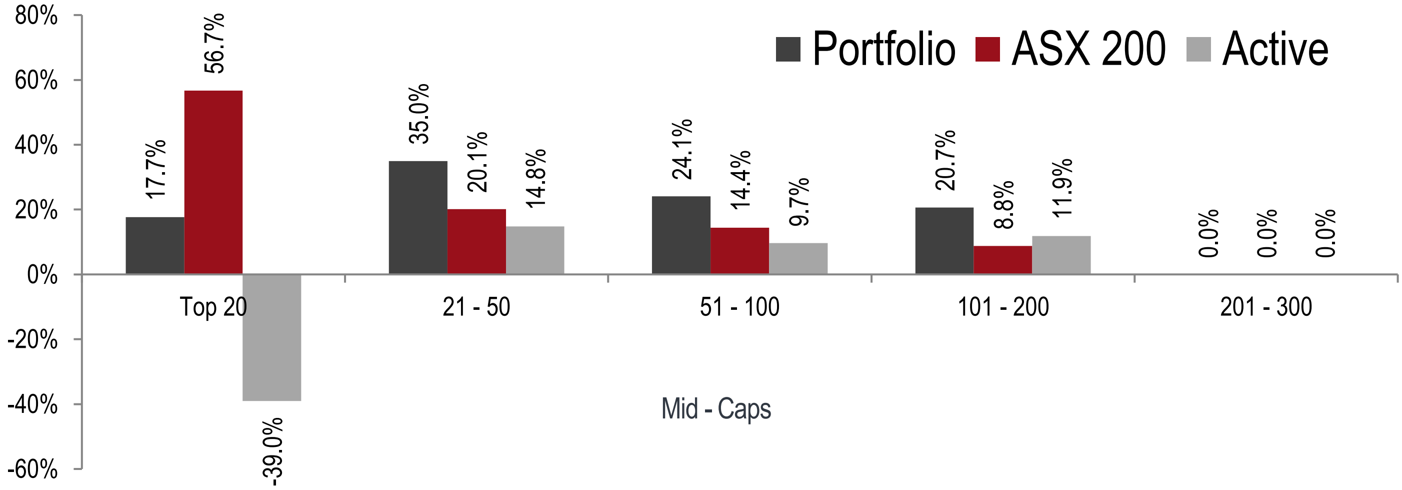
Warm Regards,

Chris Kourtis

Portfolio Manager

# PORTFOLIO FEATURES

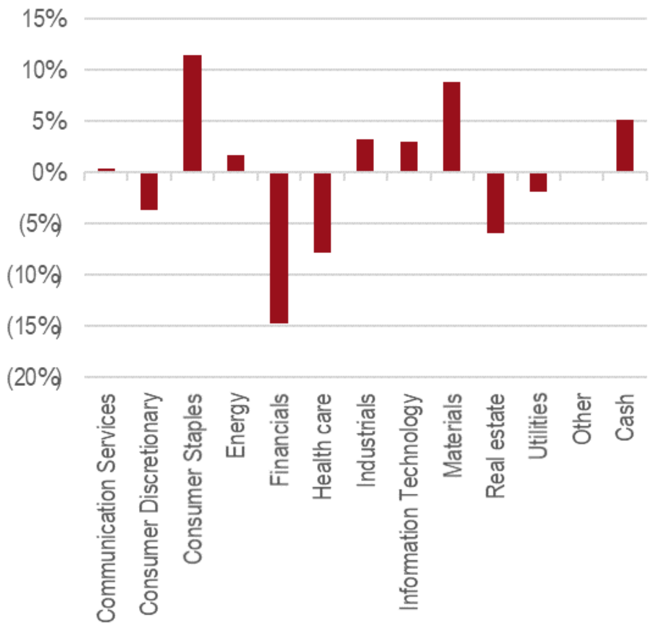
### Size comparison Chart vs ASX 200^




Source: Bloomberg, Ellerston Capital Limited

^Size Comparison Data as at 24 July 2020

### Active Sector Exposures*




Source: Ellerston Capital Limited

| TOP 10 HOLDINGS** |
|---|
| DOWNER EDI |
| GRAINCORP |
| NEXTDC |
| NORTHERN STAR RESOURCES |
| NUFARM |
| ORICA |
| SOUTH32 |
| TREASURY WINE ESTATES |
| UNITED MALT GROUP |
| WESTPAC BANKING CO |

| ASSET CLASS EXPOSURES | |
|---|---|
| EXPOSURE (% OF NAV) | Net |
| EQUITY | 95.38 |
| LONG OPTION | 0.00 |
| SHORT OPTION | -4.81 |
| EFFECTIVE CASH | 9.43 |
| GRAND TOTAL | 100.00 |

* Active sector exposures are determined by subtracting fund sector weights from benchmark weights. Positive percentages represent over-weight sector exposures relative to benchmark and negative percentages represent under-weight sector exposures relative to the benchmark.

** Top 10 Holdings are listed in alphabetical order.

## ABOUT THE ELLERSTON OVERLAY ASF

The Fund aims to achieve its performance objectives by adopting a fundamental "bottom-up" investment approach to stock selection whilst delivering additional income where possible, through option strategies.

Because of the nature of the strategy, at least 75% of the Fund's exposure is aligned to the portfolio of the Ellerston Australian Share Fund.

The Investment opportunities for the Fund are identified by analysing and understanding the factors affecting (amongst other things): business model, industry structure, management team and overall valuation.

Ellerston Capital typically favours businesses that can sustain high returns or improve their return on capital and looks to invest in businesses with a market value below the value we attribute to them.

Benchmark weightings do not drive our stock decisions; our approach is totally benchmark independent.

## FUND FACTS

| | |
|---|---|
| STRATEGY FUNDS UNDER MANAGEMENT | $135.7 Million |
| FUNDS UNDER MANAGEMENT – OASF UNIT TRUST | $7.56 Million |
| APPLICATION PRICE | $0.9957 |
| REDEMPTION PRICE | $0.9907 |
| NUMBER OF STOCKS | 22 |
| FUND INCEPTION DATE | 1 July 2011 |

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/

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