ELLERSTON CAPITAL

Ellerston Low-Vol Income Strategy Fund

Performance Report | August 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year p.a.	Since Inception (p.a.)
Net^	2.60	6.45	-1.38	0.75	-	5.11
Benchmark*	2.83	6.04	-4.48	-5.08	-	0.48
Alpha	-0.24	0.41	3.10	5.83	-	4.64

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

The US market reached record levels as further hopes of a vaccine and better than expected corporate earnings fuelled investor demand for equities. US technology stocks were the clear standout with the NASDAQ Composite rising a staggering 9.7% for the month. Key sector performers across Developed Markets included Consumer Discretionary and Technology, whilst defensive sectors such as REITS and Utilities, underperformed. The Fund had a reasonable month, performing broadly in line with its benchmark. The Fund achieved a net, relative performance outcome of -24 basis points. The Fund's value rose 2.56% vs the benchmark increasing 2.80%. Positive relative sector performance for the Fund came from Consumer Discretionary (Super Retail Group, JB Hi-Fi & Breville Group) and our underweight position in Financials (not owning Commonwealth Bank). Portfolio performance detractors came from some of our stock holdings in Materials (Northern Star Resources) and Communication Services (Uniti Group, Spark New Zealand), along with our underweight position in Information Technology (not owning Afterpay). Over the past 12 months, the Fund has outperformed its benchmark by 5.83% on a net basis.

PORTFOLIO ACTIVITY – MAJOR TRANSACTIONS

During the month we added ALS Limited to the portfolio, a commercial services company involved in global analytical and testing services for the mining, hospitality and cleaning industries. Mining exposure is predominantly to the gold sector, where we expect to see a meaningful pickup in exploration activity leading to higher mineral testing rates. Strong dividend growth is anticipated as profit leverage rises due to higher levels of testing activity. We also added Credit Corporation back into the portfolio as we expect an acceleration in debt collection activity, along with much improved loan recovery rates as the economy begins to recover. To fund these purchases, we exited Fisher and Paykel Healthcare after delivering very strong relative performance primarily from their ventilator business benefiting from COVID-19. Valuation became too stretched and we disposed of our holding close to a record high share price. We also exited our position in Invocare following a disappointing and deteriorating outlook compared with our expectations as intense competition and customer movement down the product value chain continue to weigh on the profit turnaround trajectory.

MARKETS AND MACRO NEWS

Global markets continued their strong rally again in August, with the MSCI All Country World Index rising 6.3%, significantly outperforming the Australian share market, which rose 2.8%. The Japanese market was particularly strong on a regional basis, rallying 6.6% despite dealing with the resignation of long standing Prime Minister Abe for health reasons. Near the end of August, we saw the Federal Reserve announce a major shift in monetary policy, focusing on average inflation targeting whilst keeping cash rates at record low levels. This could be a trigger for a more sustained period of outperformance by value stocks over growth stocks going forward. Economic data continues to reveal a rapid recovery, especially when looking at global PMI recovery rates compared to the GFC. This can be seen clearly in the chart from Morgan Stanley below.

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	$1.0620
Net Asset Value	$1.0594
Redemption Price	$1.0568
Liquidity	Monthly
No Stocks	36
Management Fee	0.70%
Performance Fee	10%
Buy/Sell Spread	0.25%/0.25%

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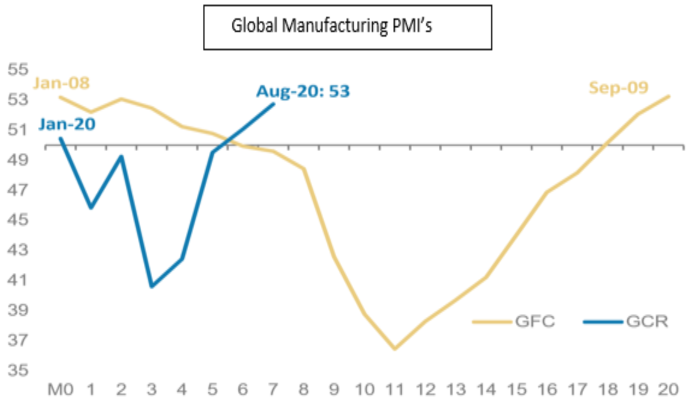
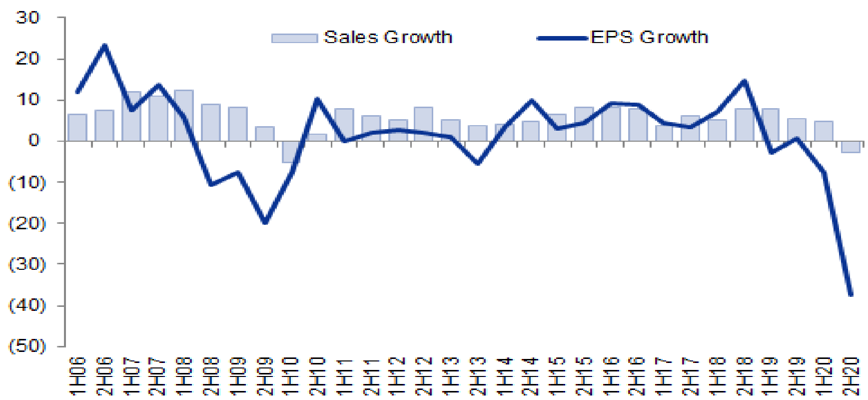


Commodities rallied in August on a weaker US dollar and signs that the global economy was recovering. Specifically, Iron Ore continued its upward price movement, rising 10% over August due to strong steel demand in China and supply side issues in Brazil. Oil prices also moved slightly higher, with WTI closing at US$43/bbl, a rise of 20% over 3 months. Recovering world economies was the key catalyst for this move. Gold sold off slightly from its recent record high to close at US$1,967/oz. We remain constructive on gold as a potential inflation hedge in our portfolio. Finally, global bond yields moved higher due to more robust inflation expectations and better economic data.

In Australia, the Reserve Bank left rates unchanged in August. The Australian dollar continued its upward trajectory since troughing in March, gaining another 3.3% against the US dollar to close at US$0.7376. We also experienced FY20 company earnings reporting season, which saw FY20 EPS growth of -16% for the ASX 200, broadly in line with consensus. The economy has reopened faster than expected, with many companies benefiting from fiscal stimulus (wage subsidies & increased consumption), whilst the downside risk from the second wave is yet to emerge.

On a half by half basis, 2H20 EPS growth fell 38% for the ASX 200, a larger fall than during the weakest point of the GFC (-20%). Against falling revenues, margins hit a lower level than during the GFC, with only 25% of companies able to grow earnings at all. Unsurprisingly, the COVID-19 crisis hit smaller firms harder, with the Small Industrials seeing EPS growth decline 33%. This was 10% worse than expected. Strong commodity prices drove Mining earnings beats while many retailers benefited from fiscal stimulus and COVID-19 related shifts in consumption patterns.

EPS and Sales Growth for the ASX 200



Source: Goldman Sachs

Dividends were cut at nearly twice the rate of earnings over FY20, (-30% vs -16%) and consensus now expects dividends to fall by a further 6% in FY21, driven largely by the banks. Companies raised a further A$4.0bn during reporting season, adding to the A$21bn raised since February. While gearing levels are not stretched, these capital raisings have only stabilised rather than reduced gearing ratios across the market.

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. With the US fiscal deficit likely to expand further following further stimulus announcements over the next few weeks, we anticipate the US dollar to continue to weaken over the next 6 months. This backdrop continues to be constructive for resources and cyclical stocks, many who are now generating significant free cash flow generation and dividend growth.

The portfolio has reweighted to its highest cyclical yield level since inception as continued government stimulus programs are extended whist global economic data continues to improve. The portfolio has also been positioned to benefit from higher inflation rates over the next few years. The beta of the Fund (a measure of volatility) has moved marginally higher as a result of this but still sits comfortably at 0.97 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 4.5% vs -5.2% respectively. The expected dividend yield of investee companies held within the portfolio is currently 3.2%, 80% franked.

Regards,

Chris Hall - Portfolio Manager, CIO

PORTFOLIO CHARACTERISTICS

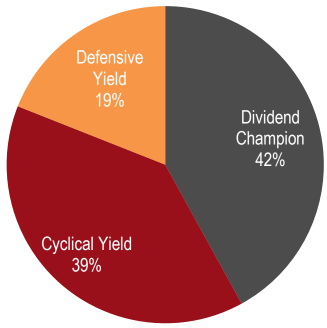
HOLDINGS

Top 10 holdings	Sector	%
Westpac Banking Corporation	Financials	6.1
Goodman Group	Real Estate	5.4
Rio Tinto Limited	Materials	5.1
CSL Limited	Health Care	5.0
James Hardie Industries	Materials	4.9
Macquarie Group Limited	Financials	4.1
ASX Limited	Financials	3.9
Sonic Healthcare Limited	Health Care	3.7
Ramsay Health Care Limited	Health Care	3.2
Super Retail Group Limited	Consumer Discretionary	3.2

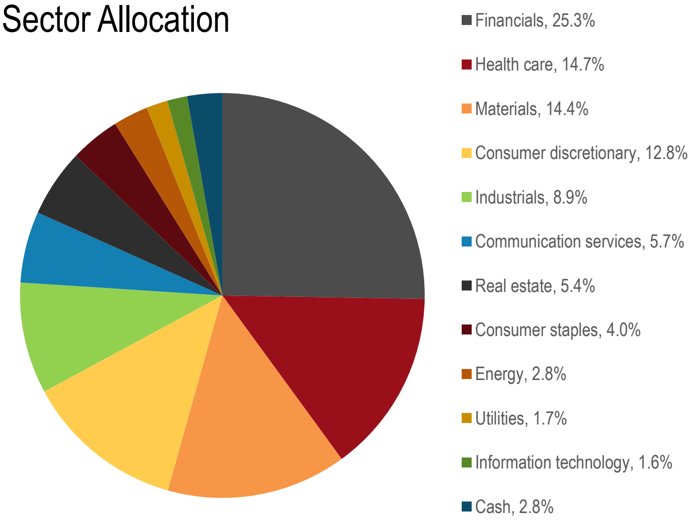
KEY PORTFOLIO METRICS

FY21(e)	Fund	Benchmark
Price/Earnings (x)	20.8	19.9
Dividend Yield (%)	3.0	3.2
Dividend Growth rate (%)	4.5	-5.2
Beta*	0.97	1.00

PORTFOLIO YIELD EXPOSURE

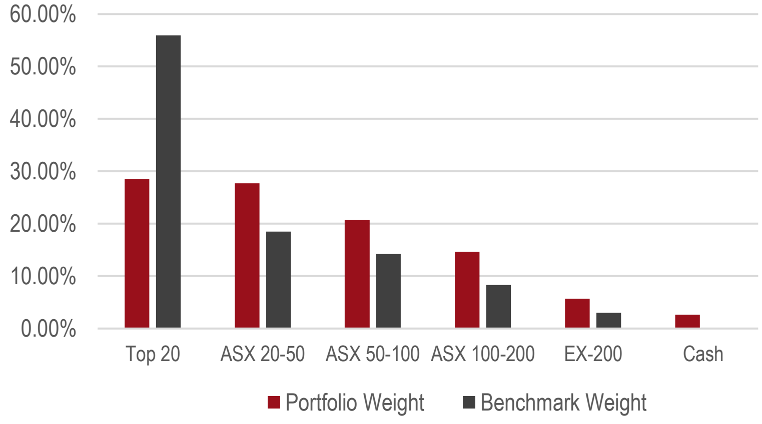


Sector Allocation



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

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