Ellerston Low-Vol Income Strategy Fund

Performance Report | September 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	2 Year p.a.	Since Inception (p.a.)
Net^	-2.41%	2.10%	18.19%	-2.38%	-	3.02%
Benchmark*	-3.66%	-0.44%	15.97%	-10.21%	-	-2.17%
Alpha	1.26%	2.54%	2.22%	7.83%	-	5.19%

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

In Australia, our market underperformed the MSCI World Index, falling 4.0%, driven by weaker energy, technology and resources performance. Commodity prices fell in September as global growth expectations declined. Iron ore declined to $123/t, as Chinese iron ore inventories rose in line with supply increases. Despite this, the Fund had a strong relative performance month. The Fund achieved a gross, relative performance outcome of 1.46%. The Fund's value fell 2.21% vs the benchmark declining 3.67%. Positive relative sector performance for the Fund came from Materials (James Hardie Industries), Consumer Discretionary (Aristocrat Leisure, Super Retail) & Communication Services (Nine Entertainment, Uniti Group). Portfolio performance detractors came from Financials (QBE Insurance Group, Steadfast Group) and owning no Commonwealth Bank. Over the past 12 months, the Fund has outperformed its benchmark by 7.83% on a net basis.

PORTFOLIO ACTIVITY – MAJOR TRANSACTIONS

During the month we added Corporate Travel Management to the portfolio via participation in an accelerated non-renounceable entitlement offer at $13.85 per share. The company raised A$375m to help fund the A$275m acquisition of US based Travel & Transport. The acquisition will result in Corporate Travel becoming the 5th largest travel management company in the world and be earnings per share accretive by 30% on a post synergies basis. We also added Dexus Property Group to the portfolio given its cheap valuation. The stock was trading at a 20% discount to net asset value, with the implied office portfolio valuation reflecting a 30% discount to net asset value. The company has the best quality office portfolio in Australia and views that the office market is doomed in a post COVID -19 world seems too pessimistic. We also added Carsales.com to the portfolio due to a continued improvement in fundamentals as the international division continues to drive revenue growth and further buyer/seller migration to online advertising domestically provides another structural earnings tailwind.

To fund these purchases, we exited Atlas Arteria over concerns that rising COVID -19 cases from the second wave in Europe will force further business shutdowns, leading to a meaningful fall in traffic on their toll roads. We also reduced our position in Rio Tinto as iron ore prices rose through $120/ton. We expect some seasonal normalisation in the iron ore price, especially as Brazil begins to increase production in a post COVID -19 world.

MARKETS AND MACRO NEWS

Global markets slid in September, with the MSCI World Index falling 3.4%, the largest decline since March. Concerns over the plateauing of the global recovery, uncertainty over the US election result, a lack of agreement from the US Congress on the magnitude of the next stimulus package and a hard Brexit all weighed on the market. In Europe, the impact of surging COVID-19 cases and a widening of lockdowns was evident in disappointing PMI numbers (Sept).

US markets retraced after a stellar run, falling close to 4.0% The Federal Reserve left rates unchanged at near zero and indicated that it would hold rates at these levels until at least 2023. Importantly, the Federal Reserve stated that rates will remain accommodative until it achieves inflation averaging 2% over time. This has been a catalyst for a steepening US 5yr – 30yr yield curve, which should be more supportive for cyclical stocks at this stage of the economic cycle. Economic data in the US continues to improve, highlighted by a strong August jobs report, with unemployment falling to 8.4%, and better manufacturing ISM data.

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	$1.0365
Net Asset Value	$1.0339
Redemption Price	$1.0313
Liquidity	Monthly
No Stocks	36
Management Fee	0.70%
Performance Fee	10%
Buy/Sell Spread	0.25%/0.25%

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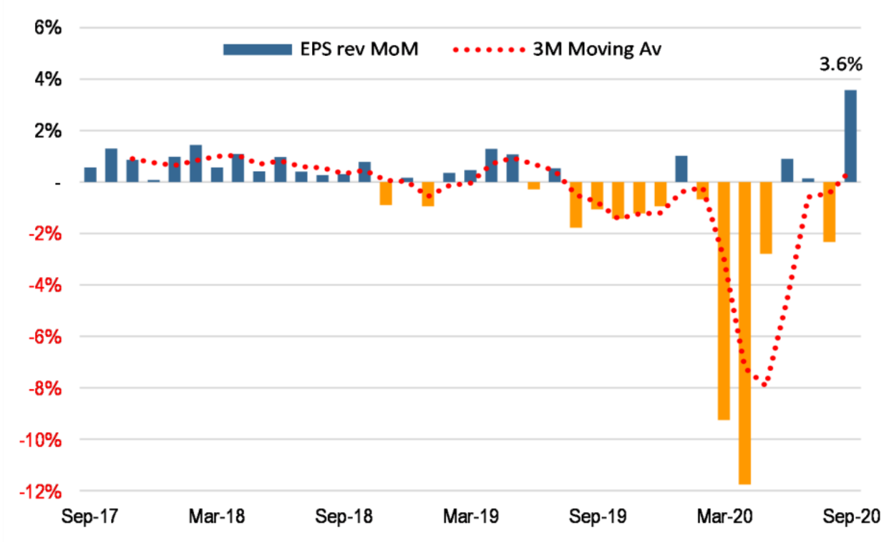
Economic activity indicators in Europe were more mixed, with a stronger than expected manufacturing PMI outcome but weaker than expected composite PMI due to declining services activity. The strongest signs of broader economic recovery came from China, highlighted by solid September PMI's and August trade numbers, especially from exports.

In addition to iron ore, broader commodity prices also declined in September, with Brent Oil declining 8% to US$42/bbl and gold falling to 4% to US$1,887/oz on the back of a stronger US dollar and higher real interest rates.

In Australia, the Reserve Bank left rates unchanged in September, with 2Q GDP falling 7.0% quarter on quarter and the Australian dollar moving lower to $0.72 cents. We saw the Federal Government also announce their intention to repeal responsible lending obligations from March 2021, which should result in a boost for credit growth.

On the earnings front, eight out of the eleven GICS sectors saw upgrades, with the Australian market seeing a monthly uplift of 3.6%, the largest monthly increase since May 2010. Having said this, earnings still sit 23% below expectations projected a year ago.

EPS and Sales Growth for the ASX 200



Source: JP Morgan

CONCLUSION

Looking ahead, we are reaching a period of peak policy stimulus from Central Governments and a trough in monetary policy by Central Banks. Cash levels among asset managers in the US has fallen to 4.2%, a reading below 4.0% indicates maximum bullishness from investors. Once we receive a vaccine that may signal a top in equity markets for a period, given where valuations currently sit. A steepening yield curve in the U.S needs to be watched closely as any meaningful move will place pressure on share price valuations.

The recent portfolio reweighting towards cyclical yield still remains elevated. The latest data on the OECD Leading Indicators shows the US progressed to the expansion phase of the cycle in September. This tends to auger well for cyclical stocks in Australia, especially given the Federal Government spend announced on infrastructure and construction. The beta of the Fund (a measure of volatility) 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 5.7% vs -2.6% respectively. The expected dividend yield of investee companies held within the portfolio is currently 2.8%, 76% franked vs the market dividend yield of 3.1%, 77% franked.

Regards,

Chris Hall - Portfolio Manager, CIO

PORTFOLIO CHARACTERISTICS

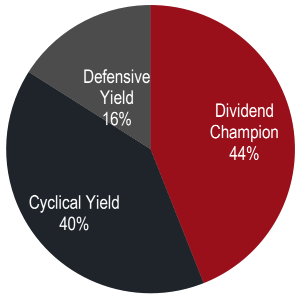
HOLDINGS

Top 10 holdings	Sector	%
Westpac Banking Corporation	Financials	6.7
CSL Limited	Health Care	6.5
Goodman Group	Real Estate	5.1
Macquarie Group Limited	Financials	4.0
ASX Limited	Financials	3.7
Aristocrat Leisure Limited	Consumer Discretionary	3.6
Ramsay Health Care Limited	Health Care	3.4
Coles Group Ltd	Consumer Staples	3.3
Super Retail Group Limited	Consumer Discretionary	3.3
James Hardie Industries	Materials	3.2

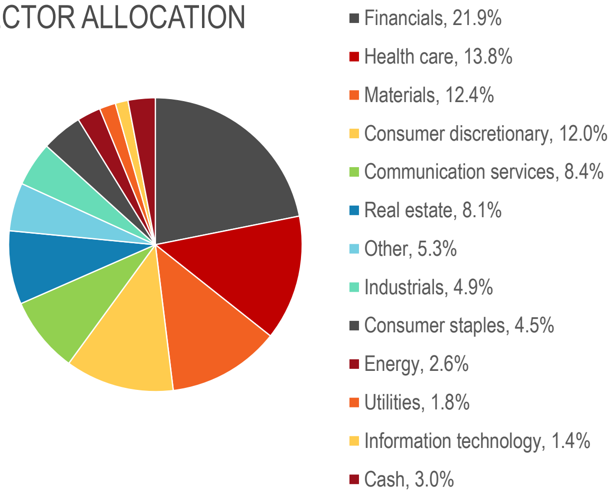
KEY PORTFOLIO METRICS

FY21(e)	Fund	Benchmark
Price/Earnings (x)	22.3	20.9
Dividend Yield (%)	2.8	3.1
Dividend Growth rate (%)	5.7	-2.6
Beta*	0.95	1.00

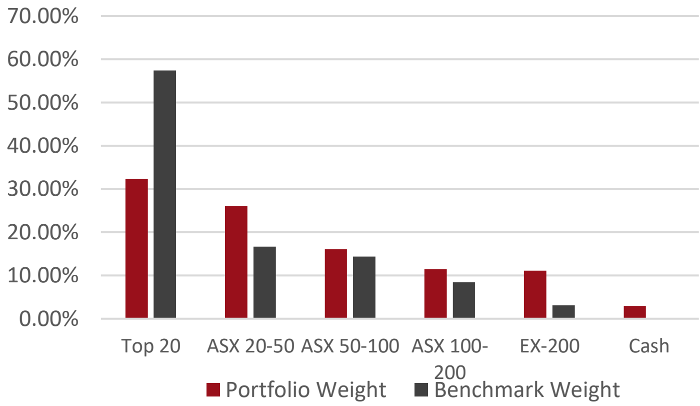
PORTFOLIO YIELD EXPOSURE



SECTOR ALLOCATION



MARKET CAPITALISATION



Source: Ellerston Capital

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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