

Ellerston Global Equity Managers Fund (GEMS)

Performance Report | July 2020

PERFORMANCE SUMMARY

Performance*	FYTD	CYTD	3 Year (p.a.)	5 Yr (p.a.)	Since Inception** (p.a.)
GEMS C	6.51%	13.94%	9.46%	9.97%	11.18%

Source: Ellerston Capital

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

PORTFOLIO COMMENTARY & MARKET OUTLOOK

Performance:

Fiscal Year to July 31, 2020, the Australian ASX 200 was up +0.50%, and the US S&P500 was up +5.64% **The Fund is up net after fees +6.51%**.

Calendar Year to Date from January 1 to July 31, the Australian ASX 200 was down -9.97%, and the US S&P500 was up +2.38%. **The Fund is up net after fees +13.94%**

For the Month of **July 2020**, the Fund was up net after fees **+6.51%**

As of August 28, the portfolio has a net exposure of circa 46% plus an exposure to gold and silver of circa 12% and has minimal foreign currency exposure.

The Fund has had a strong performance for the month to date in August.

Portfolio:

We have an eclectic portfolio, with current exposure including precious metals, uranium, growth stocks such as FANG and Celsius, and recovery stocks such as Madison Square Garden, Sky City and United Malt. Most importantly our beta is low, and we have a higher degree of protection through put options, equity shorts and index shorts than we normally would. Optionality with our portfolio is currently high.

Market Commentary:

Gold reached the levels we expected in the short term of circa \$2,000 an ounce. However, there are no animal spirits in gold or gold equity markets. There is a healthy cynical disbelief in the price level and a high level of confidence that there is no inflation on the horizon. The arguments about the Fed printing money relentlessly are not meaningful until the USD actually loses its reserve status. 13 Carrier fleets stand in the way of that.

All those arguments are valid until they are not.

Additionally, there are COVID-19 vaccines on the way, and COVID-19 cures on the way. COVID-19 antibody tests are ready and in production. The global economy should recover steadily and normalise over the next 18 months. All this is possible and likely. There is however a problem. The world was overtrading for many years and globalisation was in full swing. Now we have a reversal on the cards. Globalisation won't be back under either American presidential scenario, and the first world economy is over indebted at the sovereign level and the consumer level.

After March 2020, Central Banks and Governments have pressed the PAUSE button for the economy. Consequently, at the economic level we are squarely in the eye of the hurricane. But here's the rub. This eye we live in currently can be stretched out indefinitely. All it needs is for Central Banks to increase their balance sheets and Governments to run larger deficits.

No one knows what is the Federal Reserve balance sheet size that is too large, nor the US deficit that is too big. Can they run their balance sheets and deficits up for ever? Unlikely. Can they get their deficits down and repay their obligations one day? Again unlikely. There will be a day of reckoning and the one Dollar of debt that broke the Camel's back.

The only way to hedge against this is through gold.

Can gold fall 15% upon news of the vaccine's arrival? That's possible but it will also be the last chance to get on board. The years of easing required to hold the economy together may make the USD a piece of paper that can't be trusted to hold true value or real purchasing power. A weak economy, low consumer

Investment Objective

The investment objective is to generate superior returns for Unitholders with a focus on risk and capital preservation.

Investment Strategy

The Fund provides investors with exposure to global markets through a long short equity strategy. The strategy overlays fundamental bottom-up stock selection with global macroeconomic and market outlook.

Key Information

**Class Inception Date 1 December 2009

Portfolio Manager	Ashok Jacob
Application Price	\$ 1.5623
Net Asset Value	\$ 1.5584
Redemption Price	\$ 1.5545
Liquidity	Monthly
No Stocks	87
Gross Exposure	183%
Net Exposure	48%
Management Fee	1.50%
Performance Fee	16.50%
Buy/Sell Spread	0.25%/0.25%

confidence, low business confidence and rising unemployment were all bad news in the last century. This time it's no problem. As the USD becomes a voucher, we will all be as good as gold.

We are long gold, gold equities and silver.

Growth At Any Price (GAAP) or Growth At A Ridiculous Price (GARP), is the only equity class to be in today. This is the post COVID-19 club where the music is loudest. In America, around the EV space and Australia in the BNPL space the valuations are at nosebleed levels. It is important to put this in some kind of context.

If a company has revenue of \$1, growing at 30% a year, why should it be valued at 10x revenue or \$10? In five years, the revenue will be \$3.7 and pre-tax profit could be \$1. At 10x that is \$10. If rates remain at circa zero and the company has enough cash to cover its losses over the journey, then 10x today's revenue makes sense. All this is predicated by zero rates. The math does not work with high discount rates. Henceforth, a growth rate of 40% can even lead to a 20x revenue multiple. The sensitivity of these stocks to rates rising is extreme but a Fed determined to keep rates at zero is a powerful and even unstoppable tailwind for these stocks. How long this continues for is anybody's guess.

Although the Fund has performed extremely well against all relevant benchmarks, we believe that there is an extraordinary opportunity set in front of us from the perspective of a Global Long Short Fund. The ability to pivot quickly and change our net exposures radically, gave us flexibility in a very uncertain world. Flexibility in portfolio structuring allows us to not only move quickly to protect capital but also capitalise on emerging opportunities in stocks and more obscure asset classes. Investors should rest assured that despite good performance we remain committed first and foremost to preserving capital. Absolute risk adjusted positive returns remain our driver.

Distribution Payment – 30 June 2020:

For the Financial Year ending 30 June 2020, investors holding units in the Fund will have received their distributions (either as cash, or reinvested additional units). The distribution amount reflects the income earned by the Fund during the year.

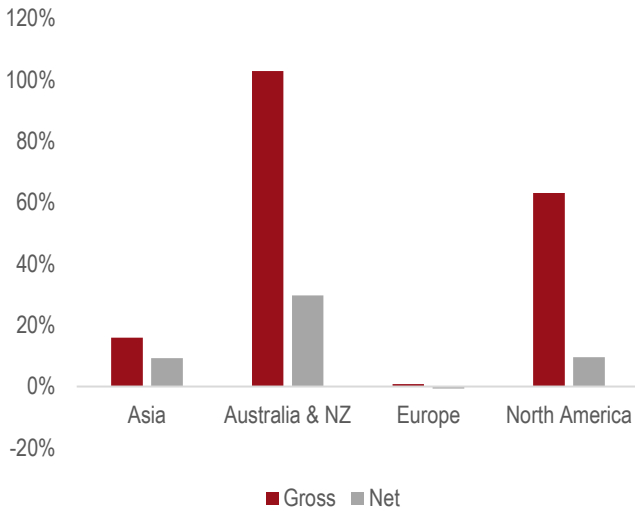
When a distribution is paid to investors, the unit price of the Fund is reduced by the amount of the distribution, Investors will receive either a cash payment, or for those investors who elect to have their distributions reinvested, their total number of units will have increased, accordingly.

The Class C distribution was \$0.2639 cents per unit, the pre-distribution price was \$1.7271 and the ex-distribution price was \$1.4632. Investors who have elected to reinvest their distribution will have received 0.18035 additional units, per unit held in the Fund.

For example if you held 1,000 units in the Fund (and you elected to have your distributions reinvested) you would have received an additional 180.35 units.

PORTFOLIO CHARACTERISTICS

Market Exposure as a % of NAV



Source: Ellerston Capital

Top 10 Holdings (Alphabetical, Long Only)

- BETMAKERS TECHNOLOGY GROUP
- FACEBOOK.COM
- GRAINCORP LTD
- HEALIUS LTD
- ISHARES SILVER TRUST
- NEXTDC LTD
- RELIANCE INDUSTRIES LIMITED
- UNITED MALT GROUP LTD
- VANECK GOLD MINERS
- VANECK JR GOLD MINERS

All holding enquiries should be directed to our registrar, [Link Market Services](http://linkmarketservices.com.au) on 1800 992 149 or ellerston@linkmarketservices.com.au

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Should investors have any questions or queries regarding the Fund,

please contact our [Investor Relations team](mailto:investorrelations@ellerstoncapital.com) on 02 9021 7701 or info@ellerstoncapital.com

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

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DISCLAIMER

[^] Actual performance for your account may vary from that set out in this newsletter and will vary for investments made in different classes, or at different times throughout the year. Some performance data is estimated and preliminary and subject to change.

^{^^} For the period 1 January 2002 to 30 April 2006, the CPH Group GEMS Portfolio was not operated within a separate fund structure. The underlying investment assets of the CPH Group GEMS Portfolio were owned during that time within corporate entities of the CPH Group for which audited accounts were prepared on an annual basis. Accordingly, in order to provide relevant historical performance information for the period 1 January 2002 to 30 April 2006 (Historical Returns) net returns were calculated on the basis of the actual dollar returns of the CPH Group GEMS Portfolio adjusted to reflect a fund structure similar to the Fund and including all fees. For GEMS B, GEMS A returns have been used between 1 May 2006 and 2 November 2009. The returns of the Fund and the relevant Indices are net of fees, expenses and taxes and assuming distributions are reinvested.

[#] The standard deviation is often used by investors to measure the risk of an asset. The standard deviation is a measure of volatility; the more an asset's returns vary from the average return, the more volatile the asset. A higher standard deviation means a greater potential for deviation of return from the average return of the asset.

The returns and risk of the Fund and the relevant Indices are net of taxes, fees and expenses and assuming distributions are reinvested. The performance figures presented are for the Ellerston Global Equity Managers Fund GEMS C Units. The one month return figure may be an estimate and not the final return. This estimate also impacts other performance information provided. Estimated performance figures are preliminary and subject to change. Returns for other classes may differ slightly. Past performance is not indicative of future performance. Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000 is the responsible entity of the Ellerston Global Equity Managers Fund ARSN 118 887 095 (Fund). This newsletter has been prepared by Ellerston Capital Limited without taking account of the objectives, financial situation or needs of investors. Before making an investment decision you should consider your own individual circumstances and obtain a copy of the Product Disclosure Statement for the Fund which is available by contacting Ellerston Capital. This material has been prepared based on information believed to be accurate at the time of publication. Assumptions and estimates may have been made which may prove not to be accurate. Ellerston Capital undertakes no responsibility to correct any such inaccuracy. Subsequent changes in circumstances may occur at any time and may impact the accuracy of the information. To the full extent permitted by law, none of Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, or any member of the Ellerston Capital Limited Group of companies makes any warranty as to the accuracy or completeness of the information in this newsletter and disclaims all liability that may arise due to any information contained in this newsletter being inaccurate, unreliable or incomplete.

GEMS Strategy Performance & Volatility[^]

