

# Ellerston Global Equity Managers Fund (GEMS)

Performance Report | August 2020

## PERFORMANCE SUMMARY

Performance*	FYTD	CYTD	1 Year	3 Year (p.a.)	5 Yr (p.a.)	Since Inception** (p.a.)
GEMS C	11.05%	18.81%	28.87%	10.25%	11.10%	11.52%

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 Date** from July 1 to August 31, 2020, the Australian ASX 200 is up +3.3%, and the US S&P500 is up +13.2%. **The Fund is up net after fees +11.1%.**

**Calendar Year to Date** from January 1 to August 31, the Australian ASX 200 was down -7.4%, and the US S&P500 was up +9.7%. **The Fund is up net after fees +18.8%**

For the Month of **August 2020, the Fund was up net after fees +4.3%**

As of September 17, the portfolio has a net exposure of circa 48% plus an exposure to gold and silver of circa 14% and has minimal foreign currency exposure.

The Fund has declined marginally for the month to date in September.

### Portfolio:

We remain heavily hedged with portfolio protection through futures, put options, rotation hedges and individual stock shorts. The level of our hedging is the highest it has been in many years. However, this should not be interpreted as general market bearishness. We see opportunities in many sectors.

1. Stock specific ideas (incl. Celsius, Open Lending, Adairs)
2. Recovery plays (incl. Madison Square Garden, United Malt, SkyCity)
3. Thematic based investments (incl. Cameco - Uranium, BetMakers – US Sports betting)
4. Stocks that are simply too cheap relative to our view their bond floor valuation (GrainCorp)
5. Juggernauts (incl. Facebook, Next DC)
6. Hidden Gems (incl. Generation Development Group, Soitec)

### Market Commentary:

“Market is exhausted, but Powell has spoken”.

While July and August were strong months for global equity markets, we have seen materially elevated volatility during the month of September as a direct result of the extreme exhaustion from the epic run in the Nasdaq off its Post Covid lows. The bears are out in force with an expectation that the bull run has finished; The economy is tanking and/or about to tank, Biden will be bad for markets, SoftBank had pushed the market ahead of where it should have been through an epic NDX short squeeze.

All of the above may well be right, but the Fed has spoken. Rates will remain at Zero longer than necessary. Another interpretation is Zero for a long, long time. Many, many years! Is inflation coming? Highly unlikely any time soon.

An economic recovery may well push the cost of energy up. Do bear in mind that even at these levels, US shale comes into play again and keeps a lid on oil prices.

Food and housing inflation are not on the horizon. Rents are under pressure to go down, not up. Inflation's only hope is a further jump in money supply. Is that likely to lead to inflation? Possibly, but it is way more likely to lead to asset price inflation.

### 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

Co Portfolio Managers	Ashok Jacob & Arik Star
Application Price	\$ 1.6289
Net Asset Value	\$1.6249
Redemption Price	\$ 1.6208
Liquidity	Monthly
No Stocks	78
Gross Exposure	167%
Net Exposure	49%
Management Fee	1.50%
Performance Fee	16.50%
Buy/Sell Spread	0.25%/0.25%

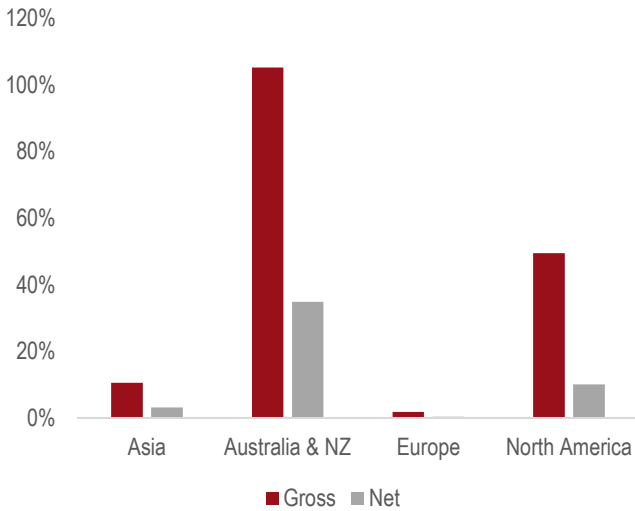
Vaccines are coming, interest rates will remain at negligible levels through 2021 and 2022. The S&P 500 and the Russell 3000 remain cheap relative to the 10 and 20 year bond rates in the US. We do expect volatility in US equity markets, from the coming elections and the market possibly rotating from the Growth sectors to cyclical and recovery plays. We do believe their underlying lift from the pandemic coming under control is not in our view fully priced in yet.

The “One Central Theme” which runs through our portfolio is the concept of a US Federal Reserve debasing the USD by expanding its balance sheet relentlessly. That thesis becomes more valid by the day. The expansion of the Fed Balance Sheet and the excessive deficits that the US is currently running are fast becoming problems that simply cannot be solved. The only viable solutions are inflation or debt monetisation. Such scenarios are probably far away but appear to be inevitable. Gold is not going to get the kick of the USD losing its lustre overnight. However, the probability of that happening at some point in the future goes up by the day.

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. 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.**

## PORTFOLIO CHARACTERISTICS

### Market Exposure as a % of NAV



Source: Ellerston Capital

### Top 10 Holdings (Alphabetical, Long Only)

- ADAIRS LTD
- ATOMO DIAGNOSTICS LTD
- BETMAKERS TECHNOLOGY GROUP
- CELSIUS HOLDINGS INC
- FACEBOOK.COM
- GRAINCORP LTD
- HEALIUS LTD
- NEXTDC LTD
- UNITED MALT GROUP LTD
- 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](mailto: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](mailto:info@ellerstoncapital.com)

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

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#### DISCLAIMER

<sup>^</sup> 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.

<sup>^^</sup> 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.

<sup>#</sup> 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<sup>^</sup>

